ERSTE GROUP

CEE Real Estate – 24 September 2010
Outlook is brightening

NAV valuation gap to narrow further

Corporate action remains in fashion. Financially sound companies remain interesting targets, others are being taken over for liquidation.

Market development: We are entering a phase of yield convergence and rising property values. Real estate investors should benefit more than developers, as vacancies are still high.

Top picks: Immofinanz and Sparkassen Immo both offer an attractive cash flow valuation. We confirm our Buy recommendations for both.

Stock price triggers: We focus on share buybacks, dividends, a news flow turnaround, expected positive revaluations and further strategic share transactions.

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Executive summary

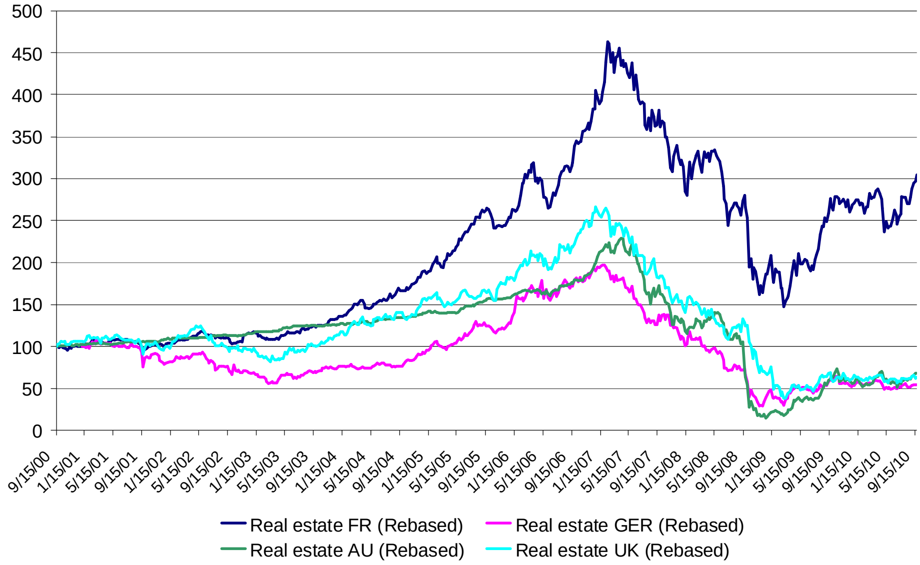
Corporate action

CEE real estate stocks are currently in a phase of brisk corporate action. Financially sound companies with attractive assets are interesting takeover targets (e.g. CA Immo Int., conwert), while other companies are being taken over in order to use the rather low stock valuation to liquidate assets and take profit (ECO Business-Immo). Companies with stretched balance sheets are still struggling (Orco Property Group).

Subdued valuation levels in long term

The long-term picture still shows subdued valuation levels. The stock prices of the major Austrian, German and UK property stocks are still clearly below the levels where they traded 10 years ago (see chart below), which puts last year's increase into a somewhat different perspective. The upside potential is certainly dependent on a recovery of property prices, as, on the way down, the fall in property prices was multiplied by the leverage being used.

Long-term development of real estate stocks



Real estate FR: Unibail-Rodamco, Gecina, Fonciere des Regions, ICADE
Real estate GER: Deutsche Euroshop, IVG Immobilien, Deutsche Wohnen, Gagfah
Real estate AU: conwert, Sparkassen Immo, Immofinanz, CA Immo
Real estate UK: Land Securities Group, British Land, Hammerson, Capital Shopping Center Group, Segro
Stocks weighted by market capitalization.

Source: Factset

Market development marked by yield compression

Analysis of CEE real estate markets shows that we will very likely enter a period of continuously rising property values. The development will clearly be led by yield compression. Given the pretty high vacancy rates across the region and the finalization of a number of development projects, a substantial property value increase due to rising rent levels is still unrealistic for the next 4-6 quarters ahead.

20-25% upside for Austrian real estate stocks until year-end 2011

Given the economic outlook in Austria, Germany and the CEE region, P/BV ratios of around 0.6x for plenty of property stocks are still rather cheap levels in a long-term comparison, especially given the record-low level of interest rates. Based on the historical relationship, we regard an aggregate forward P/BV 2011e multiple of around 0.63x as realistic as of year-end 2010 (based on 4.9% average ROE in 2011e) and a forward P/BV 2012e of around 0.72x as of year-end 2011 (based on 6.4% ROE in 2012e). This means that there would theoretically be only minor upside potential for the rest of 2010, but around 20-25% upside until year-end 2011 – both figures just for the main Austrian real estate companies not involved in a takeover process; thus, CA Immo, conwert, Immofinanz and Sparkassen Immo.

Stock price triggers

Based on this kind of market environment and valuation levels, we tend to focus our top picks on companies that can benefit from one or more of the triggers listed below:

- **Share buybacks**: **conwert** is the only real estate company in our universe that has been buying back own shares in a meaningful manner.
- **Revaluation potential:** **CA Immo**, **Immofinanz** and **Sparkassen Immo** have all written down portfolio valuations so that the average rental yield is now pretty generous. This offers huge upside in an improving market with yield convergence for those companies.
- **Development risk:** Given the situation of still pretty high vacancy rates on the one side and a yield convergence process on the other side, we believe that the current situation is much more favorable for real estate investors (**conwert, S Immo, Immofinanz**) than for developers (**CA Immo, GTC, Orco**)
- **Dividend payments**: **conwert** was the only company that started with dividend payments already for fiscal year 2009 (and will probably remain the only one for 2010).
- **Cash flow valuation**: After the finalization of the major development projects, **Sparkassen Immo** and **Immofinanz** show the most attractive valuation level (based on P/CE and EV/EBITDA).
- **News flow**: The best news flow should come from **Sparkassen Immo**, with an ongoing improvement in results both in 2010 and 2011.
- **Strategic transactions**: **conwert** is the only company with a strategic shareholder potentially willing to increase its participation (Petrus Advisers – 17% of voting rights). **Immofinanz** still has to fix the refinancing of the two convertible bonds repayable in 2012. **Sparkassen Immo** is struggling to find a solution for its outstanding participation certificates.

Summary recommendations and target prices

9/21/2010		Mcap	Price (lc)				Recommendation		Performance (EUR terms)			
	Curr.		Current	Target		Upside	NEW	OLD				
Company		(EURmn)		NEW	OLD	potent.			1M	3M	6M	12M
CA IMMO	EUR	920	10.54	12.00	10.20	13.9%	Accumulate	Accumulate	14.49	14.32	32.58	6.36
CA IMMO Int.	EUR	256	5.88	5.70	6.50	-3.1%	Reduce	Hold	5.00	-9.12	8.09	0.51
conwert	EUR	878	10.36	11.50	10.70	11.0%	Accumulate	Buy	14.73	17.73	23.33	12.36
ECO Business-Immo	EUR	244	7.15	7.10	7.15	-0.7%	Reduce	Hold	0.00	11.02	64.75	43.86
GTC	PLN	1,260	22.66	23.10	23.70	1.9%	Hold	Hold	1.21	-5.58	0.27	-5.58
Immofinanz	EUR	2,984	2.86	3.60	3.00	26.0%	Buy	Buy	5.42	18.59	14.32	14.32
Orco	EUR	101	7.20	8.20	7.20	13.9%	Accumulate	Under review	26.98	34.83	-7.10	-18.00
Sparkassen Immo	EUR	378	5.55	6.90	6.50	24.3%	Buy	Buy	6.22	16.11	14.67	3.35

Source: Erste Group estimates

CA Immo. Based on clearly better than expected gains from the disposal of properties and a revaluation result coming in above estimates in 1H10, we increased our full-year forecast for 2010 considerably and made moderate adjustments to our mid-term estimates. Taking into account slight adjustments in our valuation parameters, we **derive a 12-month target price of EUR 12.0 (previously EUR 10.2)** and **stick to our Accumulate recommendation** for the stock.

CA Immo Int. We **downgrade our recommendation to Reduce**, with a **target price of EUR 5.7 (previously EUR 6.5)**. Following a successful takeover bid for the free float shares of CA Immo Int. by its holding company CA Immo, the next planned step in the coming weeks is the merger of the two companies.

conwert. After fully including the successfully taken over ECO Business-Immo in our forecasts, we **increase the target price from EUR 10.7 to EUR 11.5**. Given the strong share price appreciation since our last report in June, we **lower our recommendation from Buy to Accumulate**.

ECO Business-Immo. Following the successful takeover bid of conwert for ECO, we **cut our recommendation to Reduce**. ECO's **new target price amounts to EUR 7.10** and is based on the latest BVPS ratio of conwert and ECO (0.69x) and an assumed conwert stock price of EUR 10.3. The target price is set under the assumption that there will finally be a merger of conwert and ECO.

GTC. We slightly **lower our target price to PLN 23.1** per share (based on a DCF valuation), following the weaker 2Q10 results, and **maintain our Hold recommendation**. We still see the anticipated household weakness in SEE (37% of the portfolio) as a drag on GTC's results, while the market in Warsaw is the engine for positive news flow and revaluation in 2010-12.

Immofinanz. Based on the increased estimates and taking some changes in our valuation parameters into account, we derive a **12-month target price of EUR 3.6 (previously EUR 3.0)** and therefore **stick to our Buy recommendation**. Our positive stance on Immofinanz is also backed by different market valuation yardsticks. At 0.60x BV11e, 0.55x NAV11e and 15.6x EBITDA11e (incl. full conversion of CB2011), the stock is currently traded at a discount of 5-19% to its closest peers.

Orco. Our DCF model yields a EUR 8.2 per diluted share 12M target price. We thus **have an Accumulate recommendation** on Orco shares, as its risk profile calmed significantly after the bond restructuring. Orco's valuation is relatively high on near-term EV/EBITDA (23.3x 2011e). However, we believe it is worth taking into account its low P/NAV (0.24x 2011e), given Orco's good progress in restructuring and recent disposals above book values.

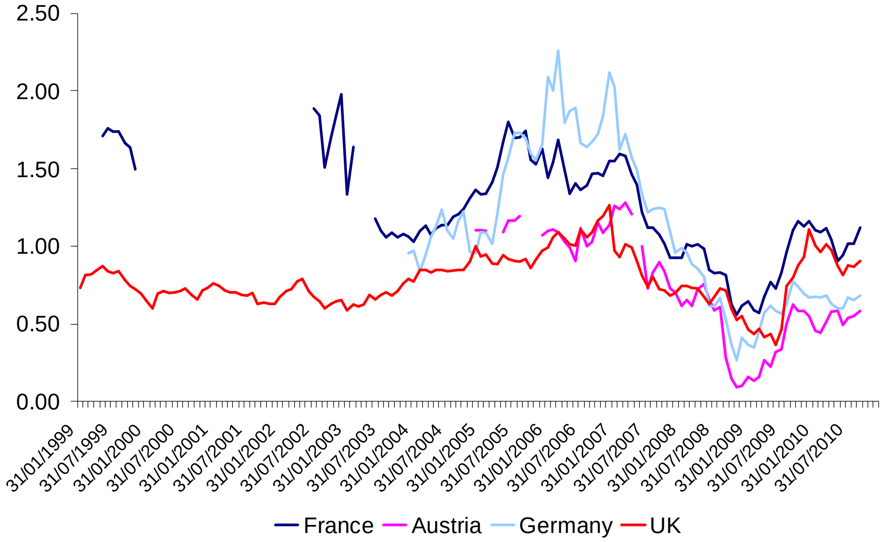
Sparkassen Immo. Despite our somewhat reduced estimates, we **keep our Buy recommendation** for Sparkassen Immo and **increase our target price to EUR 6.9** (from EUR 6.5). The lowered estimates mainly stem from the non-cash revaluation result. The mid-term forecast for operating cash flow was confirmed by the company and the compounding factor and the again lowered risk-free rate led to the higher target price.

Valuation comparison

P/BV most important long-term ratio

The most important ratio for comparison among real estate companies is probably the P/BV ratio. We have summarized the development of this multiple in various important countries (based on the most important and liquid stocks in each country) in the chart below. The detailed companies under consideration are indicated below the chart.

Long-term development of P/BV ratio



France: Unibail-Rodamco, Gecina, Fonciere des Regions, ICADE
Germany: Deutsche Euroshop, IVG Immobilien, Deutsche Wohnen, Gagfah
Austria: conwert, Sparkassen Immo, Immofinanz, CA Immo
UK: Land Securities Group, British Land, Hammerson, Capital Shopping Center Group, Segro
P/BV ratios weighted by market capitalization.

Source: Factset

The main conclusions that we can draw from this analysis are:

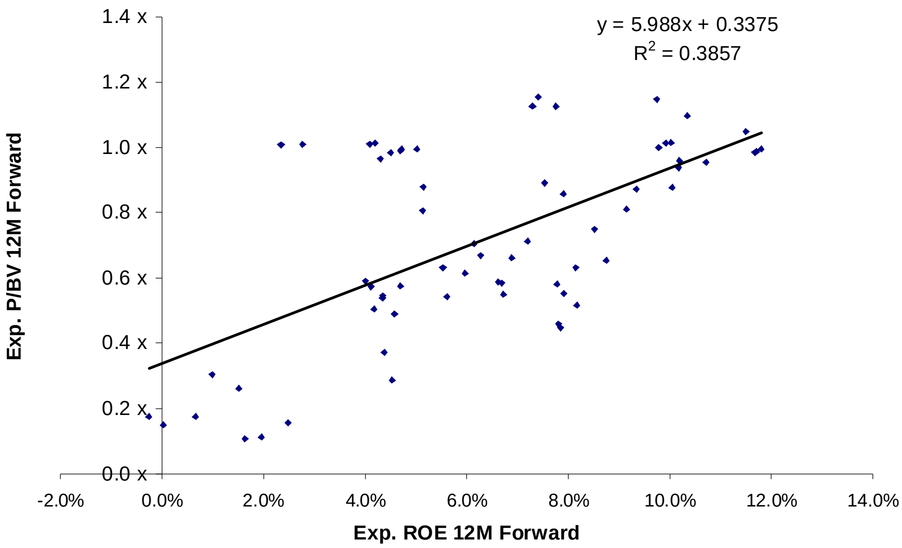
- UK and French property stocks have seen a much faster recovery to multiple levels of close to or even above 1.0x P/BV; Austrian and German stocks are still clearly lagging behind.
- Given the economic outlook in Austria, Germany and the CEE region, P/BV ratios of around 0.6x for plenty of property stocks are still rather cheap levels in a long-term comparison, especially given the record-low level of interest rates.

Around 20-25% upside for Austrian real estate stocks until year-end 2011

In order to analyze the potential increase in the P/BV multiple of the Austrian real estate sector in particular, we ran a regression analysis of monthly estimated ROE vs. P/BV data. Based on the historical relationship, we regard an aggregate forward P/BV 2011e multiple of around 0.63x as realistic as of year-end 2010 (based on 4.9% average ROE in 2011e) and a forward P/BV 2012e of around 0.72x as of year-end 2011 (based on 6.4% ROE in 2012e). This means that there would theoretically be only minor upside potential for the rest of 2010, but around 20-25% upside until year-end 2011 – both figures just for the main Austrian real estate companies not involved in a takeover process; thus, CA Immo, conwert, Immofinanz and Sparkassen Immo.

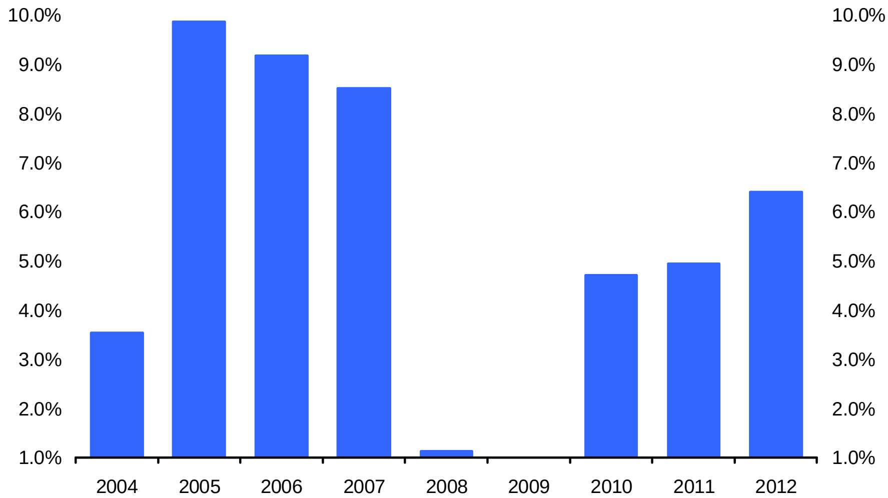
However, given the anticipated profitability improvement in 2011 and beyond, investors look at the realistic mid-term upside potential and when and by how much the gap to the book values can be reduced. Based on today's P/BV multiples of around 0.6x, in our opinion, the mid-term movement will be clearly upwards.

P/BV vs. ROE regression analysis Austrian real estate stocks*



*Source: Factset, * CA Immo, conwert, Immofinanz, Sparkassen Immo*

ROE development Austrian real estate stocks*



*Source: Factset, Erste Group estimates, * CA Immo, conwert, Immofinanz, Sparkassen Immo*

Peer group comparison

Going from the aggregate level to the more detailed company-specific level, we have shown the main valuation ratios for both our coverage universe and for the main Western European real estate companies. For the mean calculation in Austria, we just used the companies not in a takeover process - CA Immo, conwert, Immofinanz and Sparkassen Immo. The multiples of ECO Business-Immo and CA Immo Int. are mainly based on the offer values or merger terms and are no longer linked to the pure business performance.

The main conclusions from the peer group comparison details are the following:

- The business model of the main Austrian listed real estate stocks is more development-focused than that of the main European real estate stocks, i.e. the business model is more dependent on future revaluation gains, but currently also more cash-cost-intensive (interest and preparation costs).
- This first conclusion means that the valuation based on cash-based multiples 2010e (P/CE and EV/EBITDA) does not show a clear discount compared to the Western European companies, despite the steep NAV and BVPS discounts. However, all cash-based multiples for 2012e show clear discounts for the Austrian universe, where most of the developments will already be finalized.

- As a result of this increased focus on developments (i.e. growth), the dividend yields of Austrian property stocks are generally lower. Actually, with the exception of conwert, most of the stocks are only expected to start paying out dividends from 2011 onwards. This is the trade-off between high dividend yields and growth in NAV.
- The pure asset-based multiples (P/BV, P/NAV) show the steepest discounts of the Austrian real estate stocks. The catch-up is dependent on the expected profitability and cash flow improvements, as well as based on a generally improved sentiment towards CEE. With the exception of conwert, all major listed Austrian real estate stocks generate a major share of their profits in CEE. We expect a clear closing of this gap of asset-based multiples in the next 6-12 months.

Peer group comparison

	P/E				P/CE				P/BV			
	2009	2010e	2011e	2012e	2009	2010e	2011e	2012e	2009	2010e	2011e	2012e
CA Immo	nm	31.8	12.4	7.7	25.3	60.7	18.4	14.4	0.44	0.56	0.54	0.51
CA Immo Int.	nm	26.6	19.0	6.5	32.5	36.7	25.0	12.6	0.56	0.61	0.59	0.55
conwert	29.1	13.4	15.6	15.7	14.9	21.0	16.7	17.0	0.54	0.64	0.62	0.61
ECO Business-Immo	nm	20.9	38.1	33.6	-16.4	33.9	37.8	33.4	0.41	0.68	0.66	0.64
GTC	nm	27.9	9.0	8.6	32.8	114.2	-80.7	-224.5	1.42	1.25	1.10	0.97
Immofinanz	18.7	11.2	10.7	9.9	3.9	12.0	10.1	10.1	0.70	0.59	0.60	0.57
Orco Property	nm	0.4	4.2	3.7	-1.0	0.4	-2.0	-2.3	1.24	0.32	0.30	0.28
Sparkassen Immo	nm	17.2	8.0	6.8	15.5	14.6	9.6	8.7	0.71	0.78	0.70	0.63
Mean CEE	**nm**	**19.1**	**11.5**	**8.1**	**15.2**	**27.4**	**13.4**	**11.3**	**0.63**	**0.62**	**0.61**	**0.59**
Mean Austria*	**23.9**	**15.3**	**11.5**	**8.8**	**15.2**	**17.8**	**13.4**	**12.2**	**0.62**	**0.61**	**0.61**	**0.59**
Fonciere des Regions	13.0	13.4	13.3	12.5	11.9	13.0	12.6	12.4	1.10	1.19	1.13	1.06
Gecina	16.9	15.9	16.0	16.0	15.9	15.7	15.8	15.8	1.02	0.92	0.91	0.85
ICADE	68.4	41.2	49.1	35.2	21.4	21.9	21.5	19.5	0.96	0.96	0.97	0.95
Klepierre	14.6	14.8	14.6	14.4	13.0	14.2	13.7	13.3	1.05	0.97	0.92	0.87
Unibail-Rodamco	18.9	17.8	17.6	16.6	18.6	17.5	17.1	16.5	1.36	1.31	1.21	1.23
Mean France	**18.3**	**17.4**	**17.5**	**16.4**	**16.2**	**16.3**	**16.0**	**15.5**	**1.15**	**1.11**	**1.06**	**1.03**
Deutsche Euroshop	26.8	19.7	16.5	15.0	16.7	17.7	16.4	14.5	0.98	0.97	0.95	0.94
Deutsche Wohnen		29.6	22.2	17.8	28.2	25.6	23.3	20.5	0.75	0.74	0.73	0.71
Gagfah		14.3	10.9	10.3	11.5	12.4	11.0	10.4	0.52	0.56	0.56	0.56
IVG Immobilien		42.1	15.0	10.7		20.9	26.8	12.2	0.55	0.56	0.57	0.54
Mean Germany		**20.1**	**14.3**	**12.4**	**22.8**	**16.6**	**15.7**	**13.0**	**0.65**	**0.69**	**0.67**	**0.66**
British Land	16.6	16.8	16.4	15.4	16.9	16.5	16.2	15.5	0.94	0.87	0.86	0.84
Capital Shopping Centres	22.2	24.6	23.1	22.0	23.4	26.7	21.9	18.9	1.08	1.19	1.17	1.07
Land Securities	18.6	19.1	17.2	16.8	18.0	19.1	17.9	17.4	0.92	0.86	0.84	0.80
Segro	14.7	16.1	16.2	15.5	14.7	16.3	16.2	14.6	0.75	0.73	0.73	0.70
Mean UK	**16.0**	**18.4**	**17.8**	**16.9**	**17.2**	**18.5**	**17.7**	**16.6**	**0.94**	**0.89**	**0.87**	**0.84**

*Source: Factset, Erste Group estimates, * Austria: CA Immo, conwert, Immofinanz and Sparkassen Immo only*

	P/NAV				EV/EBITDA				Dividend yield			
	2009	2010e	2011e	2012e	2009	2010e	2011e	2012e	2009	2010e	2011e	2012e
CA Immo	0.43	0.54	0.53	0.50	16.5	19.2	19.2	18.0	0.0%	0.0%	1.8%	2.8%
CA Immo Int.	0.55	0.58	0.56	0.52	19.5	21.8	18.5	13.5	0.0%	0.0%	3.3%	3.5%
conwert	0.62	0.69	0.66	0.64	21.1	23.4	18.6	18.5	2.9%	2.9%	3.4%	3.4%
ECO Business-Immo	0.42	0.69	0.67	0.65	20.2	21.1	19.6	15.8	0.0%	0.0%	0.0%	0.0%
GTC	n.a.	1.03	0.90	0.80	49.4	29.4	25.7	21.3	0.0%	0.0%	0.0%	0.0%
Immofinanz	0.64	0.54	0.55	0.53	21.0	17.0	15.6	14.5	0.0%	3.3%	3.5%	3.4%
Orco Property	0.79	0.28	0.24	0.21	126.4	28.2	23.3	19.3	0.0%	0.0%	0.0%	0.0%
Sparkassen Immo	0.68	0.74	0.65	0.59	32.2	21.1	17.0	16.3	0.0%	0.0%	2.7%	3.6%
Mean CEE	**0.62**	**0.63**	**0.61**	**0.56**	**21.1**	**21.5**	**18.9**	**17.1**	**0.0%**	**0.0%**	**2.2%**	**3.1%**
Mean Austria*	**0.63**	**0.62**	**0.60**	**0.56**	**21.1**	**20.2**	**17.8**	**17.1**	**0.0%**	**1.4%**	**3.0%**	**3.4%**
Fonciere des Regions	1.10	1.19	1.13	1.06	21.5	20.7	20.4	17.9	8.5%	5.8%	6.1%	6.6%
Gecina	1.02	0.92	0.91	0.85	19.1	20.8	20.6	19.4	4.9%	5.2%	5.2%	5.4%
ICADE	0.96	0.96	0.97	0.95	17.9	20.9	20.5	18.6	4.1%	8.0%	4.4%	4.5%
Klepierre	1.05	0.97	0.92	0.87	16.4	16.1	15.7	15.3	4.5%	4.5%	4.7%	4.7%
Unibail-Rodamco	1.36	1.31	1.21	1.23	18.2	20.0	19.5	18.5	4.6%	4.9%	5.0%	5.2%
Mean France	**1.05**	**0.97**	**0.97**	**0.95**	**18.2**	**20.7**	**20.4**	**18.5**	**4.6%**	**5.2%**	**5.0%**	**5.2%**
Deutsche Euroshop	0.98	0.97	0.95	0.94	15.9	18.0	17.1	16.9	4.2%	4.4%	4.4%	4.5%
Deutsche Wohnen	0.75	0.74	0.73	0.71	19.1	17.4	17.4	17.6	0.0%	1.3%	2.5%	3.1%
Gagfah	0.52	0.56	0.56	0.56	28.6	17.4	16.9	16.5	13.7%	8.5%	6.8%	6.8%
IVG Immobilien	0.55	0.56	0.57	0.54	77.1	22.4	21.6	19.9	0.0%	0.0%	1.8%	2.7%
Mean Germany	**0.65**	**0.65**	**0.65**	**0.63**	**23.8**	**17.7**	**17.2**	**17.3**	**2.1%**	**2.8%**	**3.4%**	**3.8%**
British Land	0.94	0.87	0.86	0.84	22.9	18.0	17.7	19.3	5.5%	5.5%	5.6%	5.8%
Capital Shopping Centres	1.08	1.19	1.17	1.07	21.4	19.8	19.1	18.7	4.5%	4.1%	4.1%	4.1%
Land Securities	0.92	0.86	0.84	0.80	19.7	19.4	18.5	17.8	4.4%	4.4%	4.6%	4.7%
Segro	0.75	0.73	0.73	0.70	21.4	17.3	17.2	16.7	5.2%	5.3%	5.5%	5.6%
Mean UK	**0.93**	**0.86**	**0.85**	**0.82**	**21.4**	**18.7**	**18.1**	**18.3**	**4.8%**	**4.9%**	**5.1%**	**5.2%**

Source: Factset, Erste Group estimates, in case of French, German and UK companies P/BV was assumed to equal P/NAV.
** Austria: CA Immo, conwert, Immofinanz and Sparkassen Immo only*

	EBITDA margin				Net margin				ROE			
	2009	2010e	2011e	2012e	2009	2010e	2011e	2012e	2009	2010e	2011e	2012e
CA Immo	67%	75%	66%	66%	-64%	16%	26%	40%	-4.8%	1.8%	4.5%	6.9%
CA Immo Int.	51%	52%	55%	59%	-258%	17%	19%	47%	-25.9%	2.3%	3.2%	8.8%
conwert	53%	54%	54%	53%	12%	30%	21%	22%	1.9%	4.9%	4.0%	3.9%
ECO Business-Immo	49%	51%	42%	42%	-11%	23%	14%	21%	-1.9%	3.3%	1.8%	1.9%
GTC	32%	48%	49%	43%	-89%	29%	76%	56%	-12.4%	4.6%	13.0%	12.0%
Immofinanz	55%	58%	61%	63%	27%	36%	37%	41%	2.3%	5.4%	5.4%	5.9%
Orco Property	5%	16%	12%	26%	-125%	83%	8%	16%	nm	nm	7.4%	7.7%
Sparkassen Immo	35%	47%	51%	51%	-51%	13%	24%	28%	-14.9%	4.6%	9.2%	9.8%
Mean CEE	**50%**	**51%**	**53%**	**52%**	**-58%**	**26%**	**23%**	**34%**	**-4.8%**	**4.6%**	**4.9%**	**7.3%**
Mean Austria*	**54%**	**56%**	**57%**	**58%**	**-20%**	**23%**	**25%**	**34%**	**-1.5%**	**4.7%**	**4.9%**	**6.4%**
Fonciere des Regions	51%	91%	96%	94%	-14%	50%	63%	61%	8.5%	8.9%	8.5%	8.5%
Gecina	78%	78%	80%	80%	-60%	55%	55%	72%	6.0%	5.8%	5.7%	5.3%
ICADE	20%	75%	86%	91%	35%	23%	27%	29%	1.4%	2.3%	2.0%	2.7%
Klepierre	79%	86%	85%	85%	17%	26%	26%	31%	7.2%	6.5%	6.3%	6.0%
Unibail-Rodamco	96%	83%	82%	84%	-117%	72%	71%	74%	7.2%	7.3%	6.9%	7.4%
Mean France	**78%**	**83%**	**85%**	**85%**	**-14%**	**50%**	**55%**	**61%**	**7.2%**	**6.5%**	**6.3%**	**6.0%**
Deutsche Euroshop	87%	86%	86%	85%	27%	42%	48%	49%	3.6%	4.9%	5.7%	6.3%
Deutsche Wohnen	41%	47%	49%	51%	-4%	9%	12%	13%	-1.5%	2.5%	3.3%	4.0%
Gagfah	28%	54%	65%	48%	-7%	13%	17%	15%	-2.8%	3.9%	5.1%	5.4%
IVG Immobilien	9%	28%	30%	41%	-23%	2%	9%	12%	-15.2%	1.3%	3.8%	5.0%
Mean Germany	**35%**	**51%**	**57%**	**50%**	**-6%**	**11%**	**15%**	**14%**	**-2.1%**	**3.2%**	**4.5%**	**5.2%**
British Land	91%	87%	87%	79%	153%	48%	50%	78%	5.6%	5.2%	5.3%	5.5%
Capital Shopping Centres	81%	62%	63%	63%	-62%	63%	24%	34%	4.9%	4.8%	5.1%	4.9%
Land Securities	54%	77%	78%	80%	36%	60%	52%	62%	4.9%	4.5%	4.9%	4.7%
Segro	86%	77%	79%	75%	38%	40%	39%	48%	5.1%	4.5%	4.5%	4.5%
Mean UK	**83%**	**77%**	**78%**	**77%**	**37%**	**54%**	**44%**	**55%**	**5.0%**	**4.7%**	**5.0%**	**4.8%**

*Source: Factset, Erste Group estimates, * Austria: CA Immo, conwert, Immofinanz and Sparkassen Immo only*

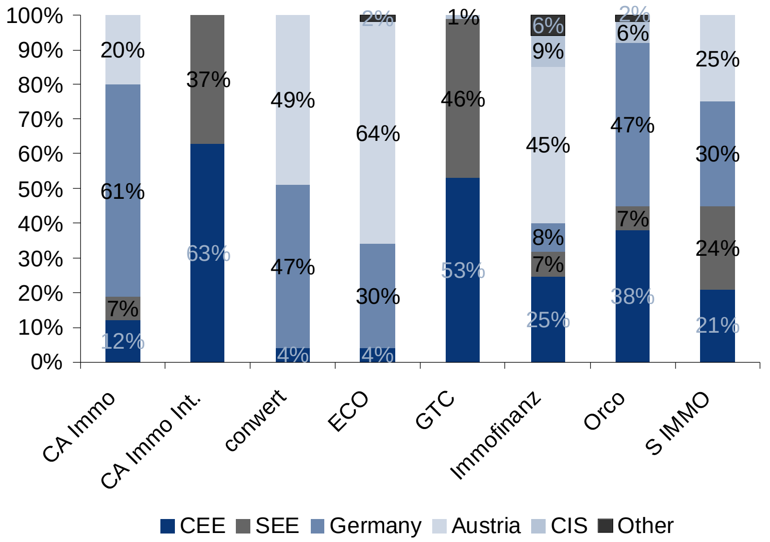
Sector overview

Exposure to Germany, low shares of development

CA Immo and Orco with high exposure to Germany

Two companies, CA Immo and Orco, have high exposure to the nicely recovering office market in Germany. conwert also has high exposure to Germany, but mostly in the slower residential segment. ECO, conwert and CA Immo have the highest combined share of Western European markets (Austria and Germany). GTC and CA Immo Int. are the companies with the highest share of the CEE region in our coverage universe, followed by Orco, Immofinanz and S Immo. The worst-performing SEE region has the highest weight in the portfolios of GTC and CA Immo Int. Unfortunately, no company in our universe has a reasonable share of the quickly recovering CIS market.

Portfolio breakdown by region (1H10, fair value)

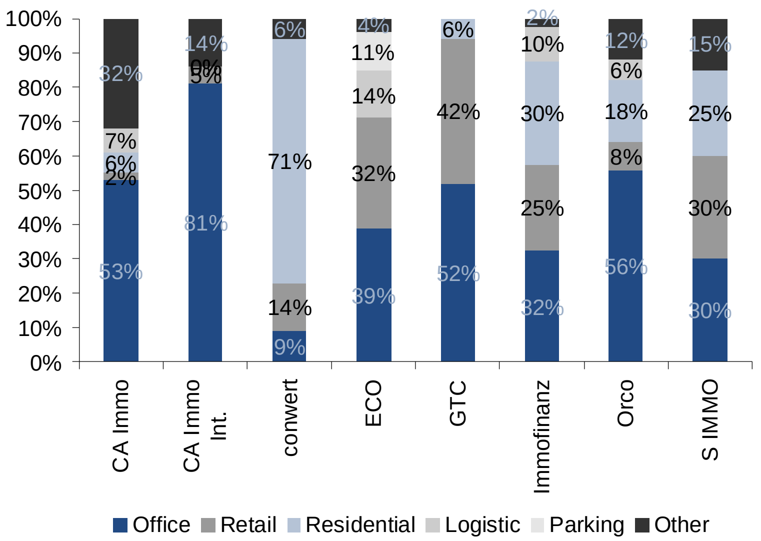


Source: Company data

Attractive office segment present in CA Immos and Orco

The CA Immos, Orco and GTC have the strongest focus on the office segment, where rents are already bottoming out or growing in some markets. ECO is in the middle, with a balanced portfolio of office, retail and other segments. On the opposite side of the spectrum, we have conwert and Immofinanz, with a high share of stable residential properties.

Portfolio breakdown by segment (1H10)

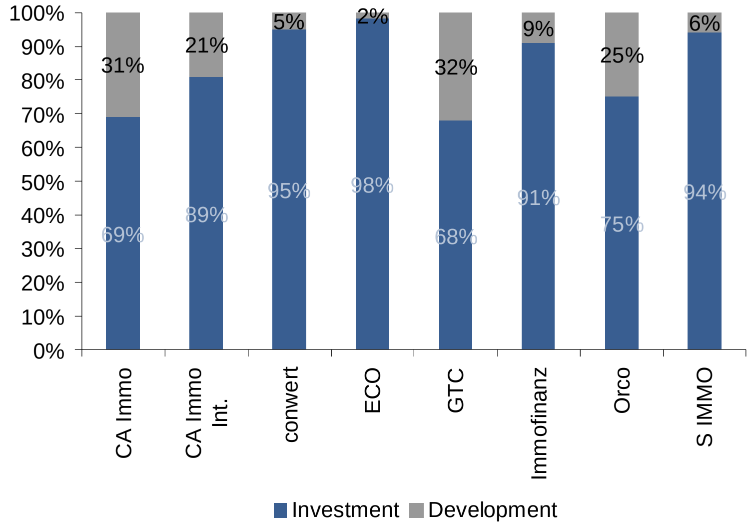


Source: Company data

Development pipelines significantly reduced

We have four almost pure investors (conwert, ECO, S Immo, Immofinanz) in our coverage universe, after the continuous cut in development pipelines in the last two years. Also, the companies with the traditionally highest development focus, like Orco and GTC, have cut their development portfolios substantially. We already see selective opportunities for development in markets with drying up pipelines (e.g. Warsaw, Prague), but the time for companies with high shares of development will come only in about one year, in our view. We see a substantial advantage for companies like S Immo, which has extensive experience with property development, a strong footing in CEE and can act quickly in case the market recovers faster than assumed. Others like Orco still need to improve their balance sheets and will not be able to tap the possible opportunities.

Portfolio breakdown by investment/development (1H10)

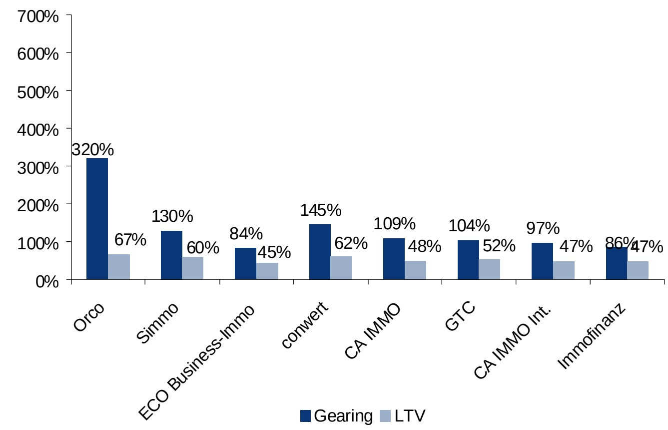


Source: Company data

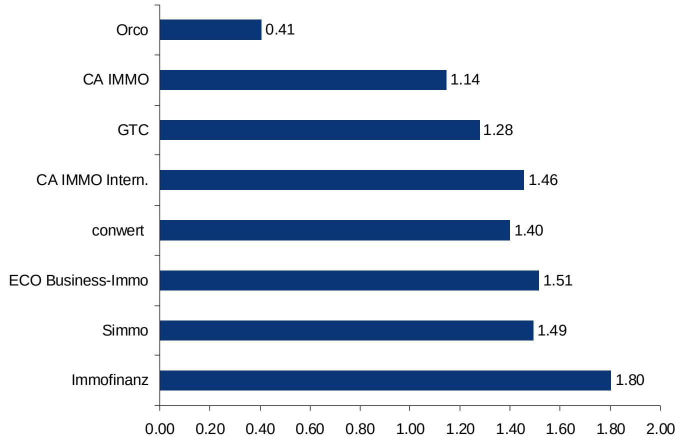
Manageable leverage ratios

Looking at leverage ratios, we have no excessively indebted company in our coverage universe, apart from Orco, which is in restructuring. Orco has cut its gearing from 600% to 320% through bond restructuring, but is still the only company with an interest coverage ratio below 1. S Immo, CA Immo, conwert and GTC all have gearing ratios above 100%, but only CA Immo is close to 1.0x interest coverage. GTC's ratio has worsened markedly from last year, due to continued debt-funded investments, but is still in safe territory. Immofinanz has very comfortable interest coverage as well as LTV; we thus see no big reason to expect difficulty in refinancing of its convertibles.

Gearing and LTV comparison 2010e



Interest coverage ratio 2010e (EBITDA/interest expenses)

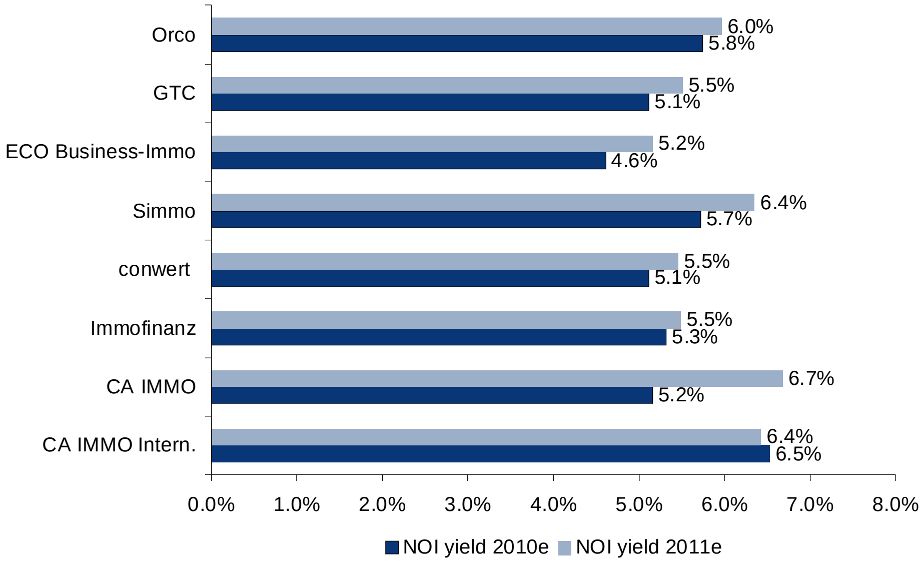


Source: Erste Group estimates

Higher CEE portfolios seem to support better NOI yields

NOI yields are higher in companies with CEE exposure, as the region offers higher absolute yield levels. The NOI yield at GTC and Orco is reduced by the residential housing business, which has characteristics different from the letting business. In 2010, CA Immo Int. is posting the highest NOI yield at 6.5%, while the highest yield for 2011 is forecasted for S Immo, CA Immo and Orco.

NOI Yield (Net operating income / avg. income-gen. properties)



Source: Erste Group estimates

Real estate market – recent developments

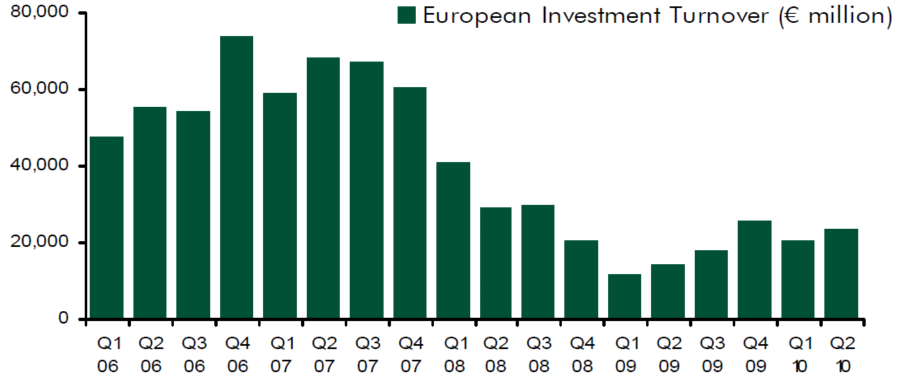
Investment market

Europe

Slight upward trend in investment volume across Europe

The European investment market saw an increase in transaction volume in 2Q10 by 15% q/q to EUR 23.5bn, which makes a total volume of EUR 43.8bn for 1H10. This represents growth of nearly 70% compared to the same period of last year. Besides the uptake in volume, lot sizes were also on the rise. This trend already started in 2H09 and was driven by the improving availability of financing as well as by more creative deal structuring (e.g. club deals and joint ventures).

European property investment transaction volume



Source: CB Richard Ellis, European Investment Quarterly, 2Q10

Main focus lies on high-quality properties

The focus on quality assets seems to be prevailing due to concerns over a sovereign debt crisis in the region. Hence, investment activity was mainly concentrated in the UK, German and French markets, which made up 62% of the total transaction volume. In these countries as well, the large-size deals (above EUR 100mn) increased, with 13 transactions in Germany and 25 in the UK.

The strongest q/q growth in investment activity could be observed in countries like Austria, Italy (+85%), Ireland and the Czech Republic. Also, the Nordic region and Poland experienced increasing interest from investors, due to their solid fiscal policies and healthy government budgets.

Investment turnover in Europe 1Q10 vs. 2Q10 - per region

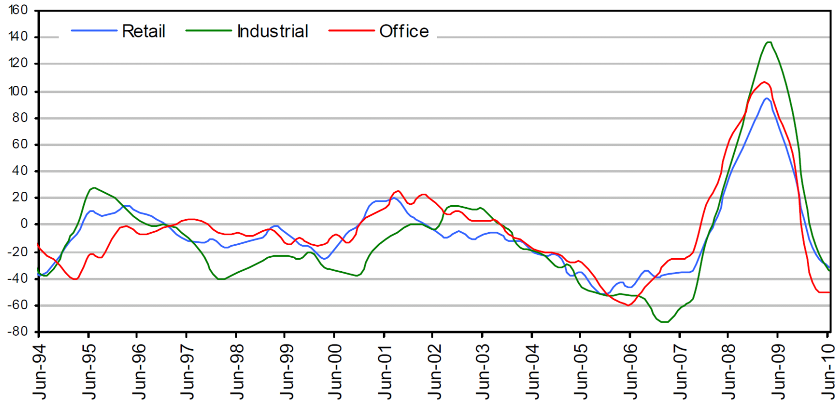
Investment turnover (EUR mln)	Q2 2010	Q1 2010	Change
UK	8,338	6,715	+24%
Germany	4,004	4,646	-14%
France	2,150	1,470	+46%
Scandinavia	3,661	3,208	+14%
Benelux-Countries	1,365	1,276	+7%
Italy/Spain/Portugal	1,998	1,878	+6%
CEE	953	721	+32%
Austria	**820**	**200**	**+310%**
Europe	23,454	20,327	+15%

Source: CB Richard Ellis, Vienna Offices, 1H10

Prime yield compression …

In the EU-15 countries, annual prime yield growth already decelerated in mid-2009 and turned negative in 1Q10. At the segment level, the office yield index registered the steepest decrease with 50bp y/y in 2Q10, arriving at 5.7%, followed by the industrial and retail yield indices, with -34bp (to 7.8%) and -31bp (to 5.2%), respectively. This reduction was driven by investors' increasing demand for high-quality assets and the overall uptake in transaction volume. Levels of prime yields are comparable to those in early 2005 and suggest that expectations of surging rents are being priced in.

EU15 yield index – annual change in bp



Source: CB Richard Ellis, EMEA Rents and Yields, 2Q10

… and stabilization in rental levels…

In terms of rental levels, we can see further stabilization in the European markets. The EU15 Office Rent Index went up 0.5% q/q, while retail and industrial rent indices reported only minor declines of 0.4% and 0.3%, respectively. Also, if looking at the broader EMEA region, office rents grew slightly, by 0.4% q/q. Countries like Norway, the UK, Russia, Sweden and the Netherlands, in particular, recorded strong upswings in this segment. On an annual basis, however, property rents in all commercial segments in the EMEA region are still in negative growth territory.

… led to improved capital values

With regards to capital value, the yield compression in several property markets in Europe, combined with rents approaching a bottom, resulted in an upward movement of the properties' values.

EU27 capital values per segment 4Q07 – 2Q10

Source: CB Richard Ellis, European Valuation Monitor, 2Q10

Austria

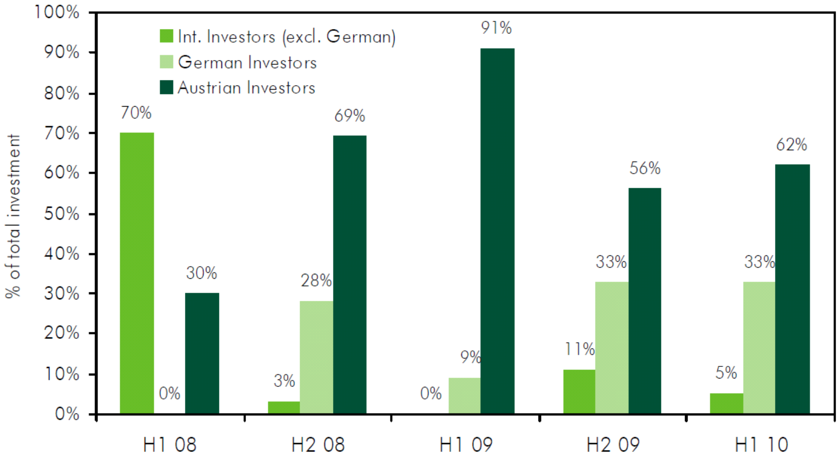
Investment volume grew by 300% q/q, from a low 1Q level though

In 2010, investment volume in the Austrian market quadrupled, from EUR 200mn in 1Q to EUR 820mn in 2Q. For the whole first half, this translates into a total volume of EUR 1,020mn, representing an increase of 28% compared to 1H09. Over EUR 200mn in total turnover is accounted for by one transaction, the sale of the IZD Tower to Signa and R&V Versicherung in 2Q10.

The sector that attracted most of the transaction volume was office buildings, making up 55% of total turnover. Another 12% constituted residential buildings and some 5% were invested in retail assets. The remainder of 22% comprised other types of property (e.g. hotels and nursing or retirement homes).

In terms of capital flows, Austrian investors have accounted for the majority (62%) of investment volume since 2H08. The second biggest group are German investors, with 33%, while international capital inflows account for the remaining 5% of total volume. Historically, the share of international investors has been much higher.

Investment in Austria per investor group 1H08 – 1H10



Source: CB Richard Ellis, Vienna Offices, 1H10

Uptake in capital value

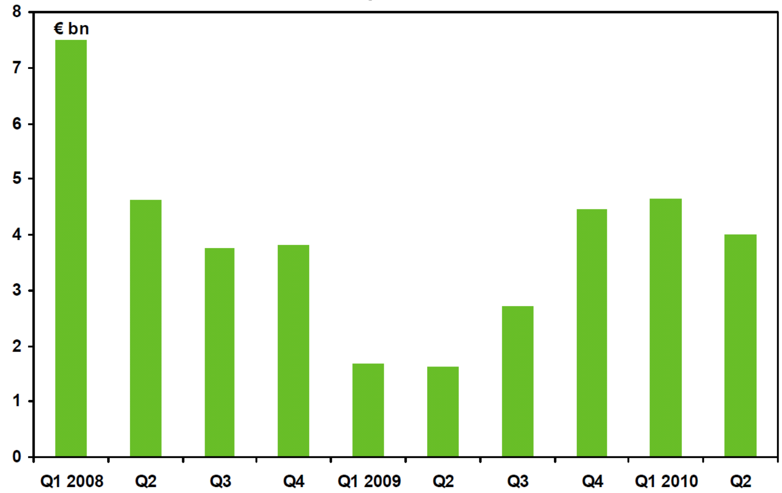
In 2Q10, prime yields went down in the retail and office segment by 5bp q/q each. With regards to the rental level, office rents remained stable, while retail rents increased by 1% compared to the previous quarter. Both trends imply an uptake in capital value of the properties.

Concerning project development, many planned projects were put on hold, due to the difficulties in getting bank financing for deals larger than EUR 20mn. Also, banks are more willing to grant financing to existing customers, rather than to new market participants. As a consequence, new production, particularly in office and retail buildings, is low in 2010.

Germany

Transaction volume in Germany amounted to EUR 8.65bn in 1H10, which represents growth of 162% compared to 1H09.

Investment turnover Germany



Source CB Richard Ellis, Germany Investment Quarterly, 1H10

Major property markets in Germany see strong increase in volume

Germany's major investment markets, Berlin, Düsseldorf, Hamburg, Munich and Stuttgart, recorded strong growth in volume on a y/y basis. In particular, the capital city saw an outstanding increase of 336% to EUR 2.09bn and hence accounted for a fourth of German investment turnover. This substantial uptake in volume is primarily due to the sale of the Sony Centre and a number of other shopping center transactions. The slight decline (-9% y/y) in transaction volume in Frankfurt is a consequence of lacking investment opportunities in high-quality assets.

In terms of asset segments, 48% of the investment activity was concentrated on retail. Office properties accounted for 31% and the remaining 8% was invested in industrial assets.

German investment in major markets

INVESTMENT

	BERLIN	DÜSSELDORF	FRANKFURT	HAMBURG	MUNICH	STUTTGART
TRANSACTION VOLUME 1–6/2010 in million €	2,090.9	458.0	308.0	505.0	869.3	245.0
TRANSACTION VOLUME 1–6/2009 in million €	480.0	265.0	337.9	225.0	502.0	160.0
FORECAST TO END OF YEAR	↘	→	↗	↗	→	→
FOREIGN INVESTORS in %	58.7	2.0	21.4	31.0	14.0	5.0
LARGEST GROUP OF INVESTORS in %	Open End Real Estate Funds/ Special Funds 41.0	Open End Real Estate Funds/ Special Funds 35.0	Closed Real Estate Funds 30.0	Project developers/ builders 25.0	Open End Real Estate Funds/ Special Funds 54.0	Open End Real Estate Funds/ Special Funds 29.0
LARGEST GROUP OF SELLERS in %	Project developers/ builders 64.0	Opportunity/ Equity Funds 39.0	Real Estate Companies 29.0	Project developers/ builders 40.0	Retirement Funds/ Pension Funds 40.0	Owner occu-piers/Nonpro-perty companies 30.0
MOST IMPORTANT TYPE OF REAL ESTATE in %	Retail 52.0	Office 81.0	Office 88.0	Office 50.0	Office 74.0	Office 66.0
PREMIUM YIELD, OFFICES in %	5.50	5.50	5.30	4.80	4.50	5.50
PREMIUM YIELD, RETAIL in %	5.00	4.75	4.75	4.80	4.25	4.90
PREMIUM YIELD, INDUSTRY/LOGISTICS in %	8.00	7.50	6.50	7.20	7.20	7.30

Source: Colliers Property Partners, City Survey Germany, 1H10

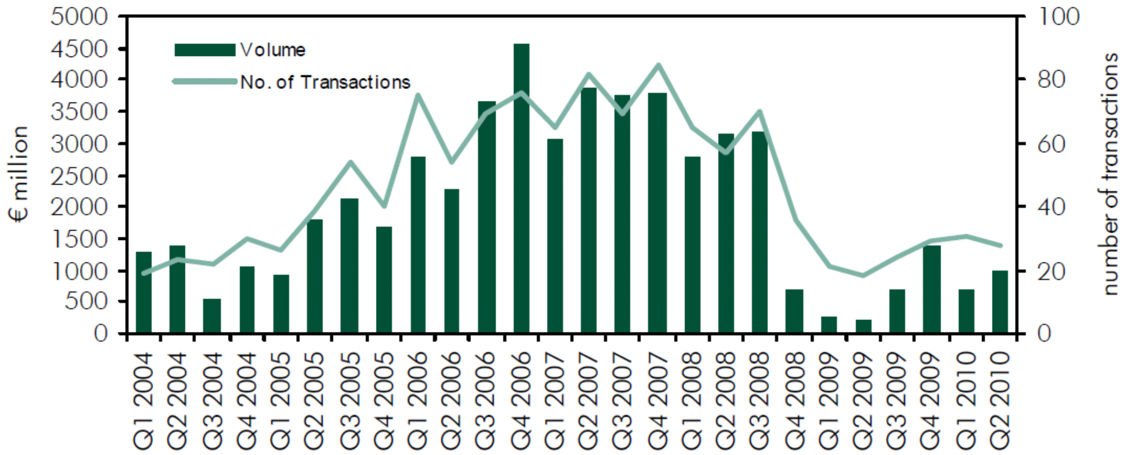
CEE

Upward trend in investment volume, but still far below pre-crisis levels

The property investment market in the CEE region reported volume growth of 32% q/q to EUR 953mn in 2Q10, accounted for by 28 transactions. For 1H10, the total volume reached EUR 1.7bn, which equals y/y growth of 190%. In spite of this significant increase, the investment turnover is still far below the levels seen prior to 4Q08.

Within the different CEE markets, investment activity remains highly concentrated. In the office segment, nearly 97% of the volume was placed in Poland, Russia and the Czech Republic. The next most important markets are Bulgaria and Romania, while the remaining countries are lagging far behind in terms of investment turnover.
Concerning asset classes, office buildings made up the biggest portion of investment volume (45%), with EUR 760mn in 1H10. This represents four times the turnover registered in 1H09.

CEE property investment transaction turnover and number of transactions



Source: CB Richard Ellis, Market View, CEE Property Investment, 1H10

Yield compression and rent uptake led to increasing capital values in CEE

The prime yield compression in the major Western European countries spilled over to the CEE region. While shopping center yields tightened already in 1Q, office yields followed in 2Q. Combined with increasing prime rents, this effect boosted capital values in Core Central and Eastern European markets. In SEE, on the other hand, some cities showed a decrease in prime rents at stable prime yields, which led to a reduction in capital values for this segment.

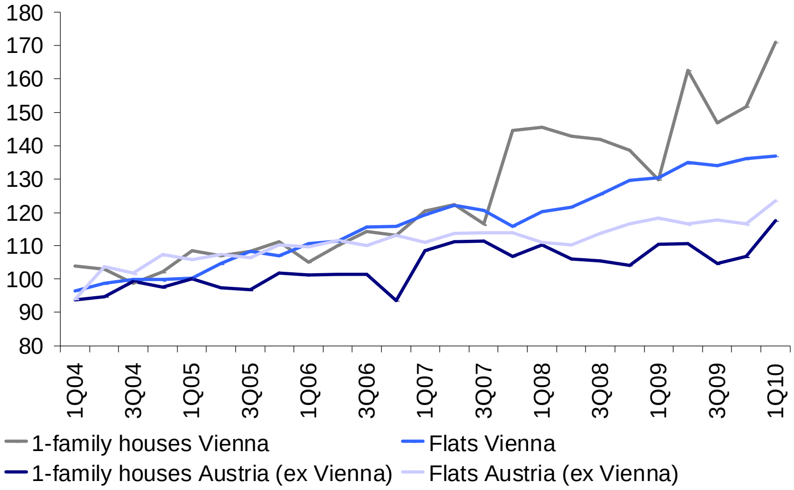
Residential market

Austria

Austrian residential market in better shape than other European countries

The prices for residential property in Austria remained fairly stable during the crisis and were not as badly hit as prices in other European markets. Due to the comparably good economic situation of the country, property prices even increased by a remarkable 6.1% q/q or 4.8% y/y in 1Q10. In Vienna, the residential property index went up by 2.8% q/q or 8.7% on an annual basis.

Property price index for existing dwellings 1Q04 – 1Q10

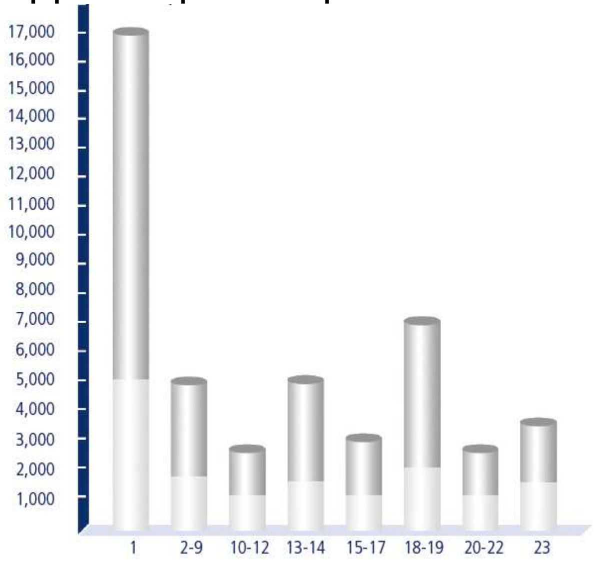


Source: BIS, Property Price Statistics, June 2010

Vienna residential property prices surged in 2009

The average price of owner-occupied apartments in Vienna increased 6% in 2009 to EUR 2,446 per sqm. The first district shows the highest price levels, with EUR 6,520 per sqm, on average. For property in good and very good locations, demand was particularly strong. With regards to the top segment, property demand was slightly weaker. This was partly due to the weakened purchasing power from Eastern Europe and from big companies and embassies, which had cut their budgets. Due to the low supply in this top segment, however, rental levels were not affected.

Top purchase prices for apartments in Vienna by district, May 2010 (EUR per sqm)

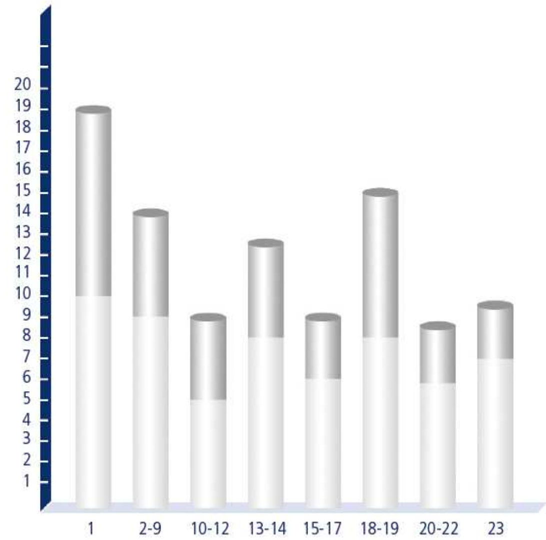


Source: Colliers Real Estate Market Report Austria, 2010

Tenants pay more per sqm, but look for less living space

As tenants in Vienna are accepting higher net rents, rental levels are experiencing an upward movement. Already, 20% of tenants were looking for apartments, with monthly rents between EUR 10 and EUR 15 per sqm. In terms of living space, small properties witnessed especially strong demand in Vienna. Apartments between 50 and 100 sqm experienced the highest interest, while flats below 50 sqm accounted for 30% of total demand.

Top monthly net rents in Vienna by district, May 2010 (EUR per sqm)

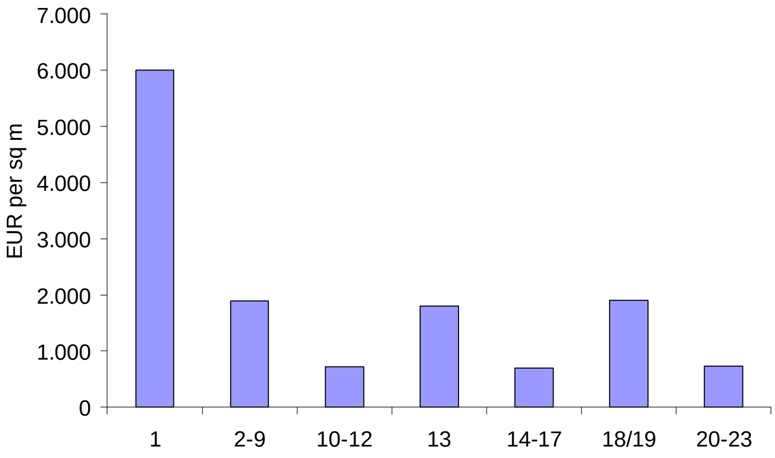


Source: Colliers Real Estate Market Report Austria, 2010

Multi-family apartment buildings are heating up

Multi-family apartments ("Zinshäuser") witnessed the biggest gain in investments, with an increase of 17% y/y in 2009. Investors were mainly private buyers and trusts, which primarily use equity investment and hence are not affected by difficulties in getting financing. In terms of location, residential houses in the area within the Gürtel are ten times more sought after than outside, apart from a few exceptions (13th, 18th and 19th districts).

Average prices for multi-family apartments in Vienna by district, May 2010



Source: Colliers Real Estate Market Report Austria, 2010

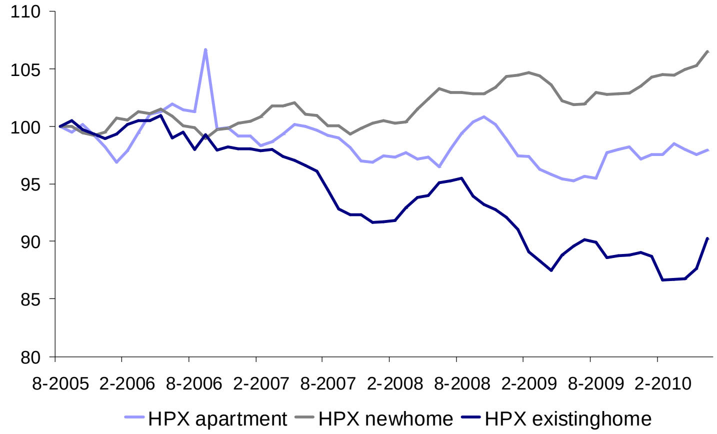
Germany

German residential prices grow by 2.8% y/y

In June 2010, German residential prices rose by 2.8% compared to June 2009. The highest growth was recorded in the new home segment, where prices increased by 4.5% y/y, followed by apartments, with 2.8% y/y, and existing homes, with 0.8%. Prices remain far below pre-crisis levels. In terms of absolute numbers, this translates into average square meter prices of EUR 1,847 for newly built homes, EUR 1,627 for apartments and EUR 1,439 for existing homes.

The IPD German residential index, based on approx. 2,300 properties, showed a return of 5.3% for 2009, which consists of 4.2% income return and 1% capital growth.

German house price index 3Q05 – 2Q10 (August 2005=100)

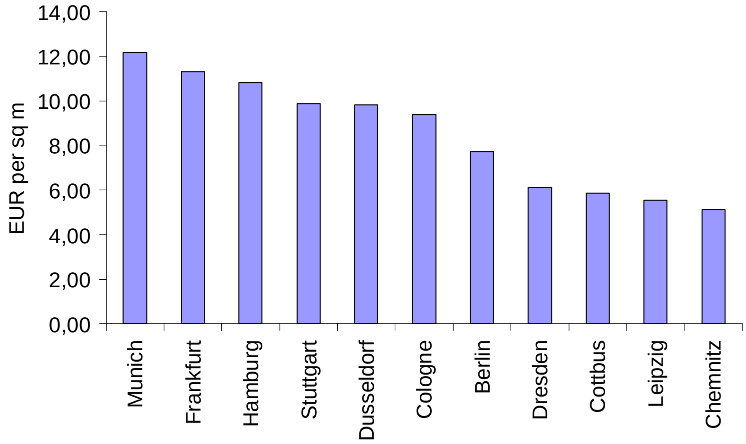


Source: Hypoport AG, House Price Index (HPX) hedonic, June 2010

German rents are increasing, but levels are different across country

Rents in Germany are highly differentiated across the country. While rents for high-quality properties in Munich amount to EUR 12.18 per sqm, they are EUR 5.11 in Chemnitz. On average, the German rental growth was 2.1% in the first quarter of 2010, compared to the same period one year earlier.

Rents in Western and Eastern German markets

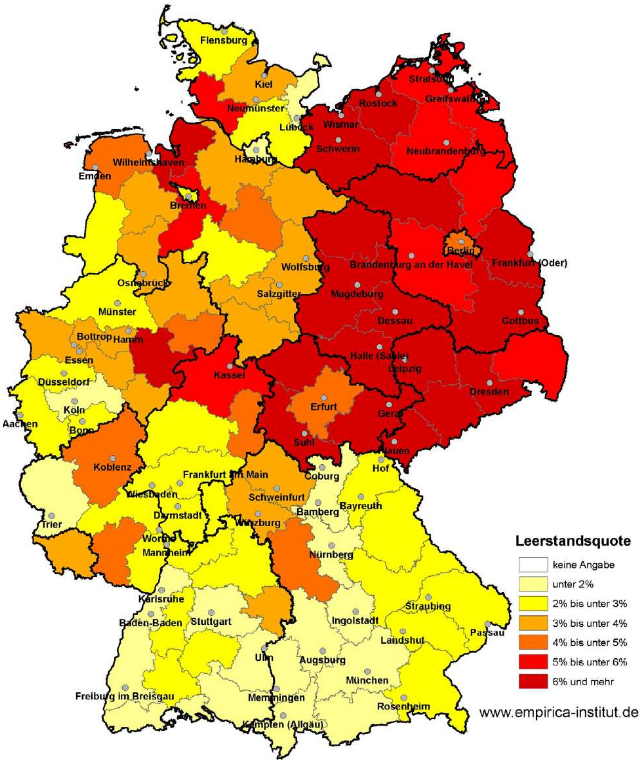


Source: Empirica AG, 1Q10

Building boom still affects vacancy rates

After the house building boom in the mid-1990s in Germany, there has been a substantial oversupply in dwellings. In Eastern Germany, this resulted in decreasing numbers of home ownership, declining house prices and high vacancy rates. While the German average rate for unoccupied properties stood at 3.7% at end-2008, the New Länder showed rates between 6% and 9%, which have not recovered significantly since then.

German vacancy rates per region



Source: Empirica AG, July 2010

Office market

Europe

Positive net absorption due to increased demand

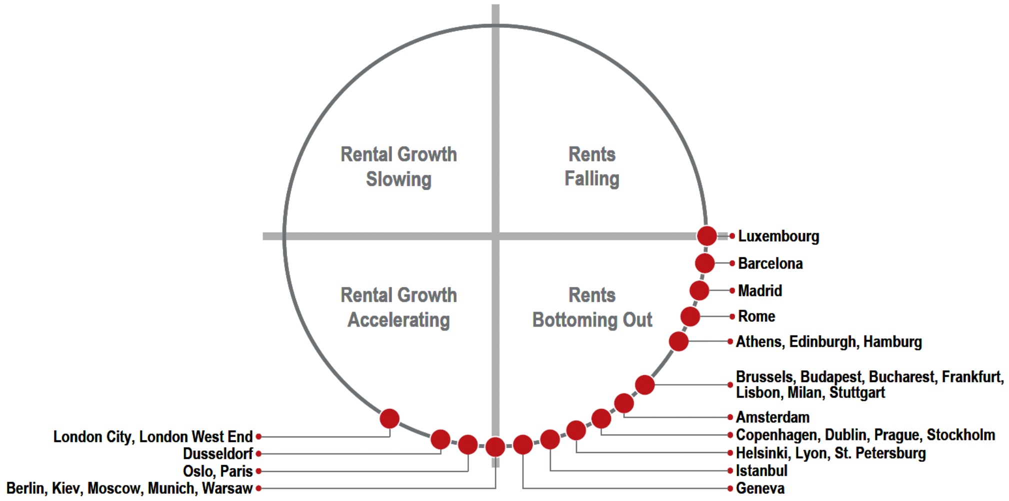
The economic recovery is starting to positively affect office take-up, leading to an increase of 34% y/y to 2.6mn sqm in 2Q10. For the first half of 2010, this means a step-up of 38% y/y, which is due to improved demand in both Western and Central-Eastern Europe. Net absorption was positive for the fourth consecutive quarter, even after some 1.4mn sqm of new space (+25%) was added on the supply side.

The vacancy rate remained at its pre-quarter level of 10.2%. However, the divergence in vacancy rates across Europe remains high, ranging from as low as 6.8% in Paris to levels above 15% in cities like Amsterdam, Dublin, Budapest and Moscow.

Rental growth starts to accelerate

The office segment recorded a further stabilization in rent levels, with some major cities even recording acceleration in rental growth on a quarterly basis. Prime rental levels stabilized in the majority of locations in 2Q and the Jones Lang LaSalle Office Index, based on the weighted performance of 24 European markets, increased by 2.6% q/q, building upon the growth seen during 1Q and showing the first positive growth (+2.1%) on an annual level since 3Q08. London West End (+13.3%), Paris (+7.1%) and London City (5.3%) saw the strongest increase in office rents. Quarterly rental falls were recorded in Dublin (-5.3%), Frankfurt (-2.9%), Madrid (-2.6%), Barcelona (-2.4%) and Hamburg (-2.2%).

European prime office rents clock

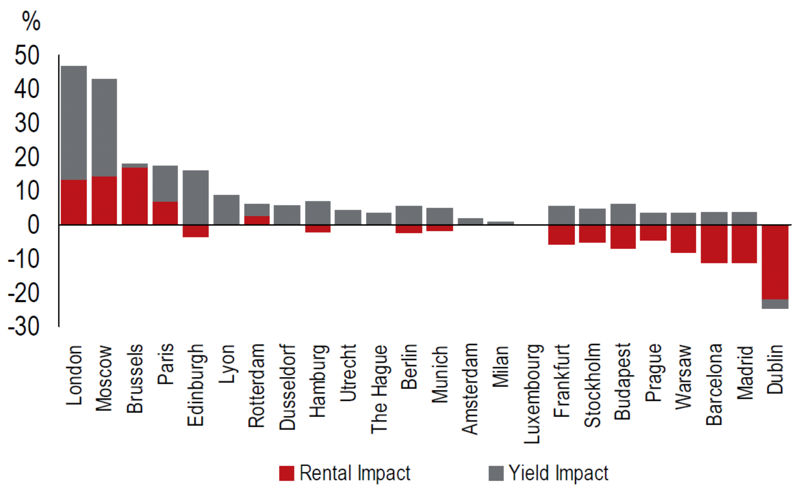


Source: The Jones Lang LaSalle office property clock, 2Q10

Stable yields and rising rents push up European office capital values

Stable prime office yields, combined with the positive development in rents, led to a weighted average increase of 4.3% q/q in European prime office capital values. The strongest improvement was recorded in London (+13.3%), where rental growth boosted capital values. Closely behind was Paris, with a rise in values of 12.2% q/q, due to a drop in yields, combined with rental growth of 7%. The biggest decline in capital value was witnessed in Dublin, primarily caused by slumping rental levels, which went down 5.3% q/q.

Prime office capital value drivers: 12 months to 2Q10



Source: The Jones Lang LaSalle office property clock, 2Q10

Prime office capital values and changes

	EUR / sqm	% Q-o-Q		% Y-o-Y	
Europe		4.3	▲	11.7	▲
Amsterdam	5,877	0.0	►	1.8	▲
Barcelona	4,000	1.6	▲	-7.4	▼
Berlin	4,615	1.0	▲	3.2	▲
Brussels	5,000	0.0	►	17.9	▲
Budapest	3,200	0.0	►	-0.8	▼
Dublin	5,200	-5.3	▼	-24.9	▼
Dusseldorf	5,192	4.2	▲	5.8	▲
Edinburgh	6,135	0.0	►	12.7	▲
Frankfurt	7,615	-2.0	▼	-0.3	▼
Hamburg	5,400	-2.2	▼	4.7	▲
London	26,294	13.3	▲	46.7	▲
Luxembourg	7,600	0.0	►	0.0	►
Lyon	3,680	2.4	▲	8.8	▲
Madrid	5,600	-0.2	▼	-7.4	▼
Milan	9,804	0.0	►	1.0	▲
Moscow	6,531	5.0	▲	42.9	▲
Munich	6,840	0.0	►	3.2	▲
Paris	14,286	12.2	▲	17.3	▲
Prague	3,600	0.0	►	-1.1	▼
Rotterdam	3,250	0.0	►	6.1	▲
Stockholm	7,394	0.0	►	-0.6	▼
The Hague	3,500	0.0	►	3.3	▲
Utrecht	3,719	0.0	►	4.1	▲
Warsaw	3,771	0.0	►	-5.1	▼

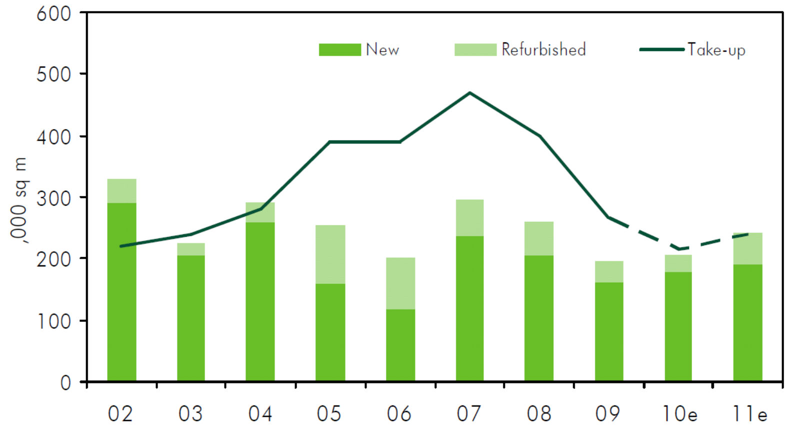
Source: The Jones Lang LaSalle office property clock, 2Q10

Austria

Office space supply is on rise, but demand is lagging behind

In the first half of 2010, Vienna witnessed an increased supply of 339% y/y to 145,000 sqm of new and refurbished office space, after new construction of office buildings had been reduced substantially during the past two years. This relatively strong growth can be explained by a few major projects completed in 1H10 (e.g. Rivergate and Siemens City). Take-up for 1H10 stayed the same as in the preceding half-year at 120,000 sqm, mainly caused by two major deals. In combination with the increased supply, this drove up the vacancy rate by 80bp y/y to its current level of 4.8%

Office supply, office take-up 2002-2011e

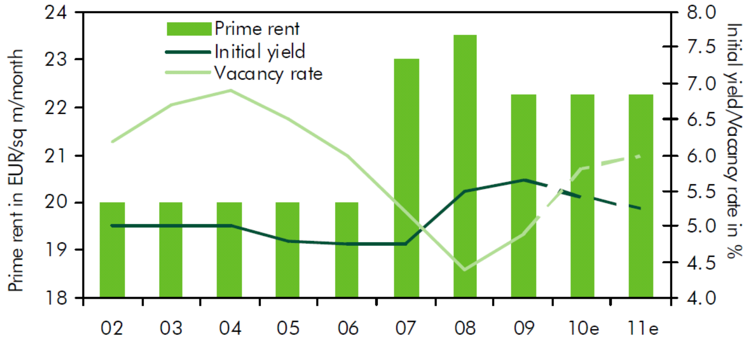


Source: CB Richard Ellis, Vienna Offices, 1H10

Prime rents and yields went down y/y

Prime rents in Vienna remained stable q/q at EUR 267 per sqm p.a. On an annual basis, rents are down 1.1%. Yields for prime office properties also decreased by 20bp y/y and by 5bp on a quarterly basis, reaching 5.55% in 1H10.

Prime rent, initial yield, vacancy rate in Vienna 2002-2011e



Source: CB Richard Ellis, Vienna Offices, 1H10

Germany

Development in German office markets is highly differentiated

Office take-up increased by 11% y/y in 1H10 to 1.2mn sqm. This, however, was mainly due to a few larger deals in Düsseldorf and Frankfurt, while take-up in Hamburg and Munich even slightly declined. Demand in Düsseldorf increased by a remarkable144%, driven by the Vodafone deal, and a high number of small transactions. The relatively high vacancy rate of 11.5% can be partly explained by the moving of Thyssen-Krupp's administrative offices from Düsseldorf to Essen. Frankfurt's take-up increased 6.6%, of which 43% is attributable to the construction of the European Central Bank. The city not only has the highest premium rent, but also the highest vacancy level among the major markets. While office letting in Berlin was up 12% y/y at stable rental levels, Hamburg witnessed a decrease of 8% in take-up. This low demand, combined with the continued growth in office supply, pushed down rents and caused the highest vacancy rate in 10 years in the city. Munich and Stuttgart also witnessed drops in demand, by 5% and 18%, respectively.

Office letting in Germany per major market

	BERLIN	DÜSSELDORF	FRANKFURT	HAMBURG	MUNICH	STUTTGART
STOCK OF OFFICE SPACE in mio. m²	17.9	7.6	11.7	12.9	22.1	7.4
OFFICE SPACE TAKE-UP 1–6/2010 approx. in m²	230,100	210,000	243,300	185,000	255,900	66,000
OFFICE SPACE TAKE-UP 1–6/2009 approx. in m²	205,100	86,000	228,200	200,000	269,900	80,800
FORECAST TO END OF YEAR	→	→	→	→	→	↗
TAKE-UP BY SIZE in m²						
up to 500 m²	54,200	49,400	28,300	41,000	56,600	20,500
501 – 1,000 m²	38,600	20,800	22,900	46,500	56,800	14,500
1,001 – 2,000 m²	34,400	10,500	35,900	39,000	57,900	8,800
2,001 – 5,000 m²	48,200	12,300	17,700	38,500	35,900	22,200
over 5,000 m²	54,700	117,000	138,500	20,000	48,700	0
Total	230,100	210,000	243,300	185,000	255,900	66,000
PREMIUM RENT in €/m² sustainable level	20.00	25.00	35.00	23.00	28.00	17.00
FORECAST TO END OF YEAR	→	→	→	↘	→	→
AVERAGE RENT in €/m²	11.90	14.50	18.00	13.20	14.19	11.56
FORECAST TO END OF YEAR	↗	→	↘	↘	→	→
VACANT OFFICE SPACE* in m² available space < 3 months	1,553,000	873,100	2,027,800	1,161,700	1,742,100	484,000
FORECAST TO END OF YEAR	→	↗	↗	↗	↗	↗
VACANCY RATE in %	8.7	11.5	17.3	9.0	7.9	6.5
PROPERTY INDEX	3.3	3.0	4.7	3.4	4.3	4.3
SECTORS WITH HIGHEST TAKE-UP in %	Information and tele-communication 25.9	Information and tele-communication 51.5	Banks and financial 50.8	Consulting companies 20.0	Consulting companies 27.7	Consulting companies 23.5

Source: Colliers Property Partners, City Survey Germany, 1H10

CEE

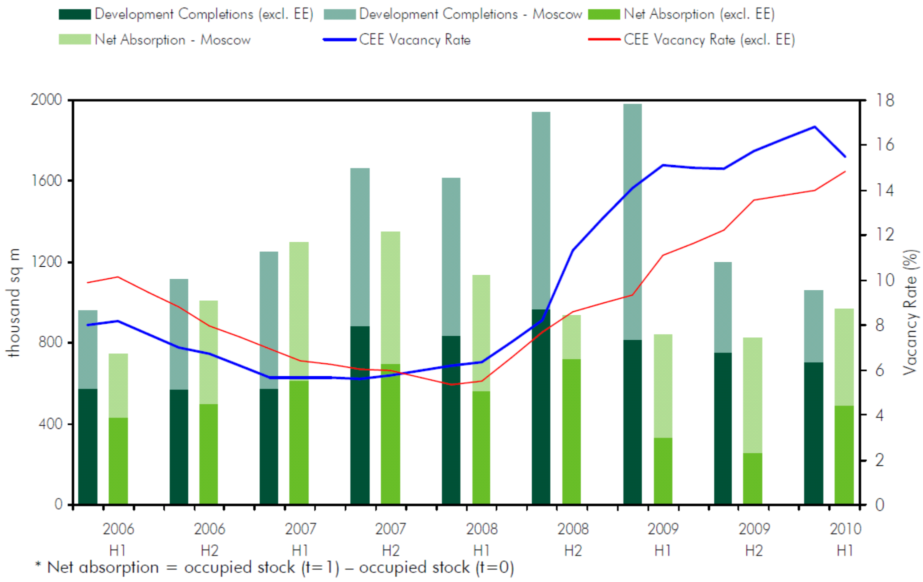
Office supply suffers from tough credit conditions, but take-up is rising strongly

Office supply registered a downward movement in the last year, reaching only nearly one million sqm in 1H10. This trend is, among other factors, due to the low level of pre-leases and the limited availability of development financing. Demand for office space, on the other hand, witnessed an increase by 36% y/y to 1.38mn sqm. By far the strongest growth was registered in Moscow, where take-up in 1H10 nearly reached pre-2008 levels.

CEE vacancy levels are finally coming down

Lower office supply, in combination with increasing take-up levels, led to improved net absorption in 1H10 by 90% y/y in the CEE region (ex Moscow). Even though net absorption in Moscow was below 2H09 levels, it was sufficient to pull down vacancy rates in that country. For CEE as a whole, office vacancy saw a first decline by 30bp to 15.5% in 2Q, after a period of hiking rates since 2H07. Looking at the three sub-regions, however, different trends were recorded. While rates in CE and SEE were slightly increasing, EE vacancy rates have been declining by nearly 200bp to 16.3% compared to 2H09, which is even below the SEE level of 17.1%.

CEE development completion, net absorption, vacancy rate

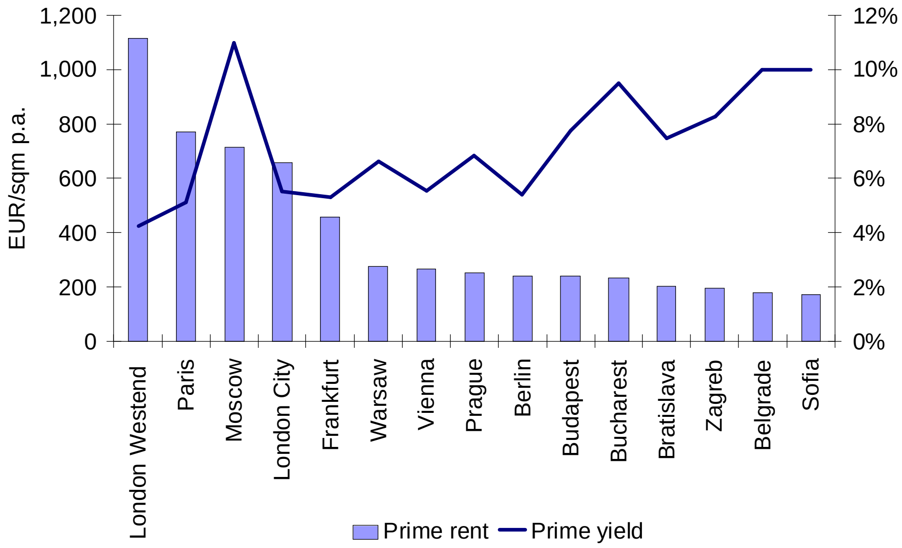


Source: CB Richard Ellis, CEE Office Investment, July 2010

Office rents remain stable

Prime office rents were mostly flat across CEE markets. Only Sofia, Zagreb and Athens saw slight downward corrections of 1-2% q/q in 2Q10. Rising rents were witnessed just in Moscow (+3% q/q), which already has by far the highest rental level in the region.

CEE prime office rents and yields in 2Q10

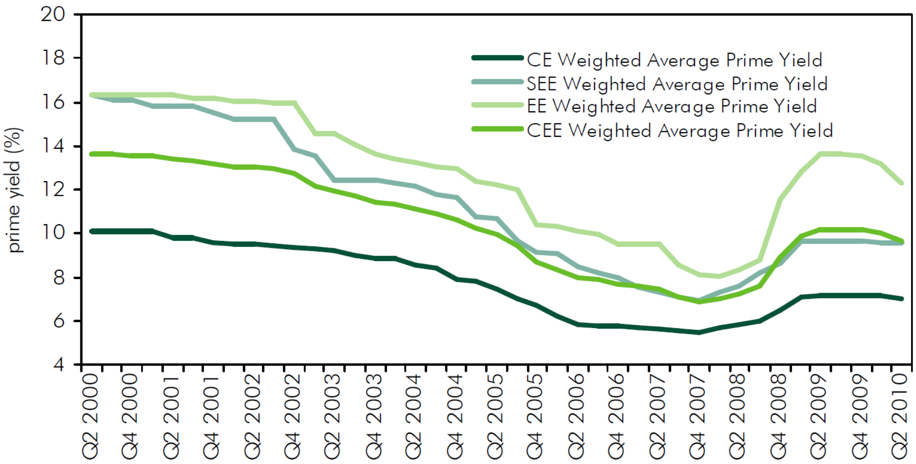


Source: Own chart based on data from CB Richard Ellis, EMEA rents and yields, 2Q10

Slight yield compression reflects growing confidence in region

CEE prime office yields registered a moderate yield compression of 36bp, arriving at a weighted average rate of 9.65% in 2Q10. This was mainly driven by declining yields in Prague (-15bp), Budapest (-25bp) and Warsaw (-15bp), as well as the strong decrease in EE yields, due to a 100bp drop in office yields in Moscow. This downward shift in yields reflects improving confidence in this geographical sector.

CEE average weighted prime office yields



Source: CB Richard Ellis, CEE Office Investment, July 2010

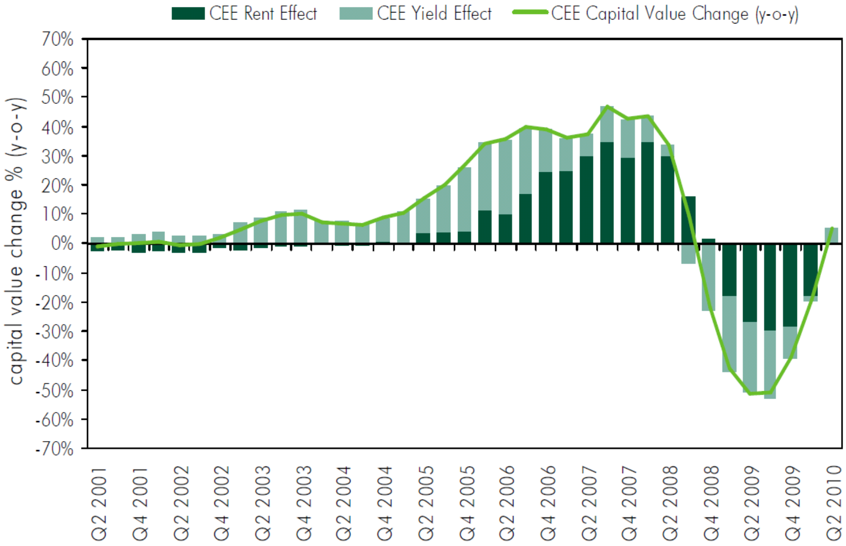
Capital value turns positive

Yield compression and stable rents led to an uptake in capital values in the CEE region. The prime capital value index turned into positive territory for the first time since 3Q08, primarily due to strong value growth of the EE region.

Series of quarters with positive capital value changes expected

Given the relatively low rent level overall and the high yield level, we expect a series of quarters with positive capital value changes overall. The positive impact will, in our view, come from yield compression in the first place. An overall significant rise in rent level is not expected in the next quarters ahead, given the still pretty high vacancy rates. These expected positive capital value changes will help to support profitability of real estate investors.

CEE office prime capital value movement



Source: CB Richard Ellis, CEE Office Investment, July 2010

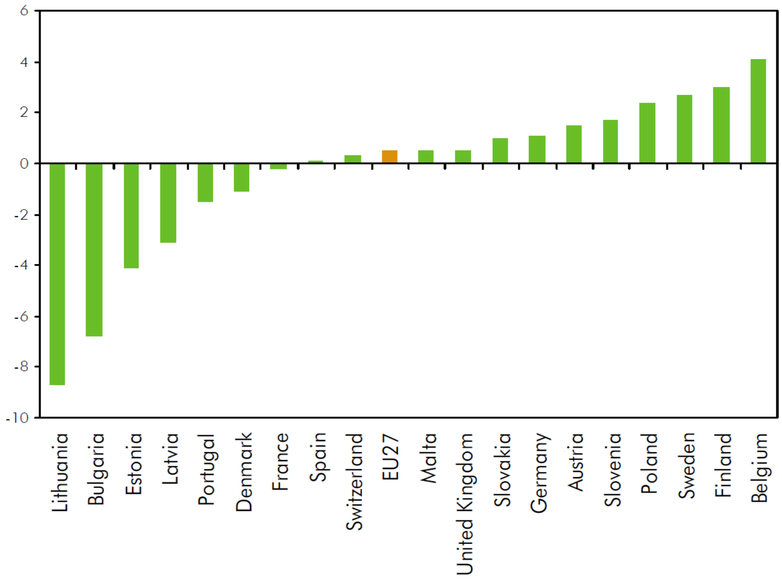
Retail market

Europe

Retail sales remain subdued in face of uncertain outlook

The investment volume in the European retail property market more than doubled y/y in 1H10, reaching EUR 10.6bn, reinforcing the increasing confidence. On the consumer level, potential tax hikes and uncertainty about the effects of governmental austerity measures dampen expenditure. Hence, retail sales for the EU27 were nearly at the same level y/y in 1H10. Across individual markets, however, sales growth shows strong divergence. In the current environment, strong competitors are more likely to invest in new retail space, possibly buying out weaker market participants. Therefore, prime locations and highly frequented shopping areas remain the main focus of interest.

EU27 retail trade growth y/y 2Q10

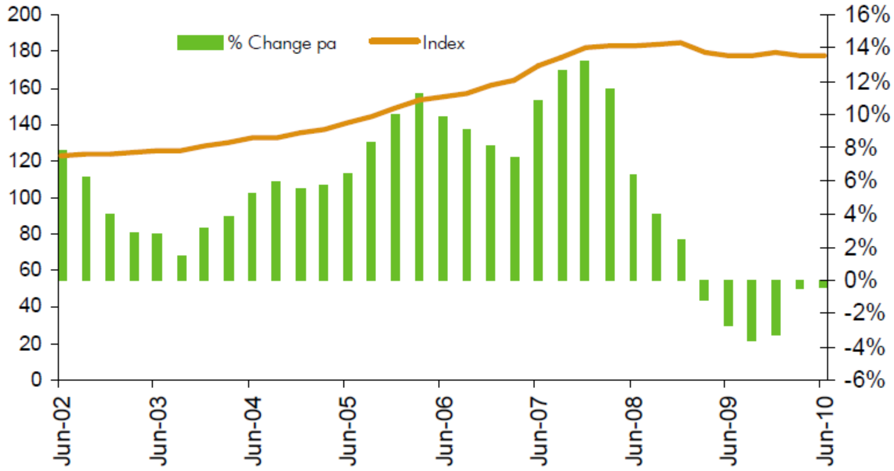


Source: CB Richard Ellis, EMEA Retail, 2Q10

Retail rents are levelling out

EU 27 premium rents remained at roughly the same level, with only a minor decline of 0.5% q/q in 2Q10. Movement in rents took place only in a few markets. Manchester (+4.6%) and The Hague (+16%) saw increases, while Dublin (-19%), Sofia (-11%), Athens (-10%) and Belgrade (-6%) posted falling rents.

EU27 retail rent index 2Q02 - 2Q10



Source: CB Richard Ellis, EMEA Retail, 2Q10

Yield compression in major retail markets

In 2Q10, retail yields in EU27 fell for the fourth consecutive quarter, losing 9bp q/q, or 32bp y/y, reaching a level of 5.5%. This yield compression was driven by a few major markets, which saw contractions of 25bp and 50bp. Among them are Edinburgh, Stockholm, Budapest and Bucharest.

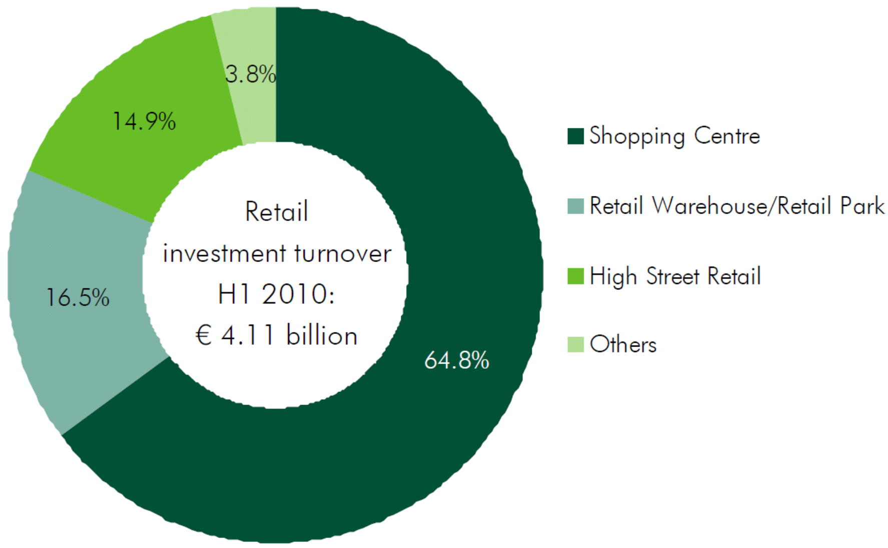
Austria

Retail space demand in Austria recovered in the second half of 2009, but remained focused on the top locations in the capital cities Vienna, Linz, Graz, Innsbruck and Salzburg. In Vienna, especially the so-called 'Golden U', which comprises Kärntnerstraße, Graben and Kohlmarkt, as well as the Mariahilferstraße, experienced strong interest in retail space. The continued demand helped to keep up the rents in these premium locations. Secondary high street and shopping center areas, on the other hand, have suffered falling demand; hence, rents in these locations decreased nearly to retail warehouse levels.

Germany

Retail investment accounted for the majority of investment volume in Germany; with turnover of EUR 4.11bn, the segment was able to grow by a remarkable 222% y/y in 1H10. With nearly two-thirds, shopping centers made up the biggest share of total retail investment.

Retail investment turnover by type of use 1H10

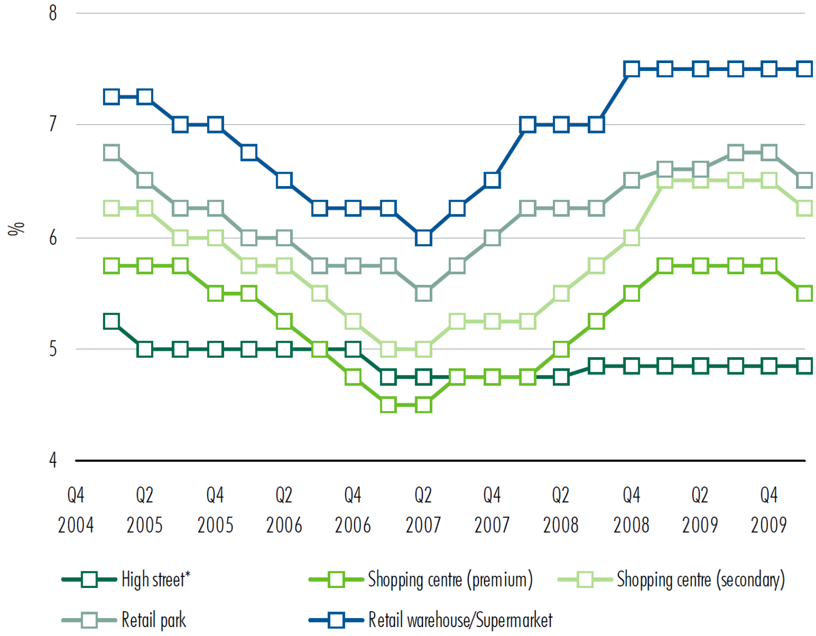


Source: CB Richard Ellis, Germany Investment, 1H10

Retail yields remain mostly stable

The low supply of premium properties, combined with growing demand for these assets, has led to stable or slightly decreasing yields. Shopping centers and retail parks witnessed downward corrections of 25bp q/q in 1Q10, after an upward trend since mid-2008. High street real estate, which comprises properties in prime city center locations, on the other hand, seems to have been unaffected by debt or confidence crises. They posted a stable average prime yield of 4.85% for the seventh quarter in a row.

German prime retail yields 4Q04 – 1Q10



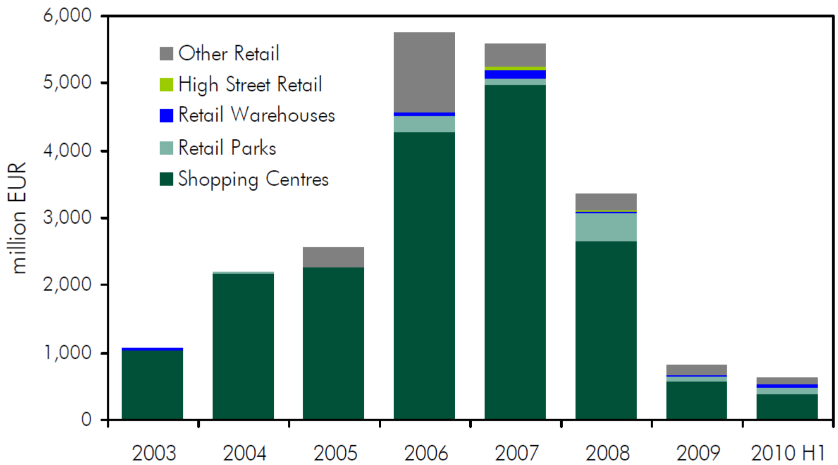
Source: CB Richard Ellis, German Retail Investment, 1Q10

CEE

Retail investment activity shows signs of recovery

In 1H10, retail investments amounted to EUR 633mn, representing growth of 5% relative to the previous half-year and a remarkable 190% compared to the low levels of 1H09. In terms of geographical markets, Hungary, Poland, Romania and Russia accounted for the majority of investment activity. Regarding the fields of investment, shopping centers remained the most attractive segment.

CEE retail investment turnover 2003 – 1H10

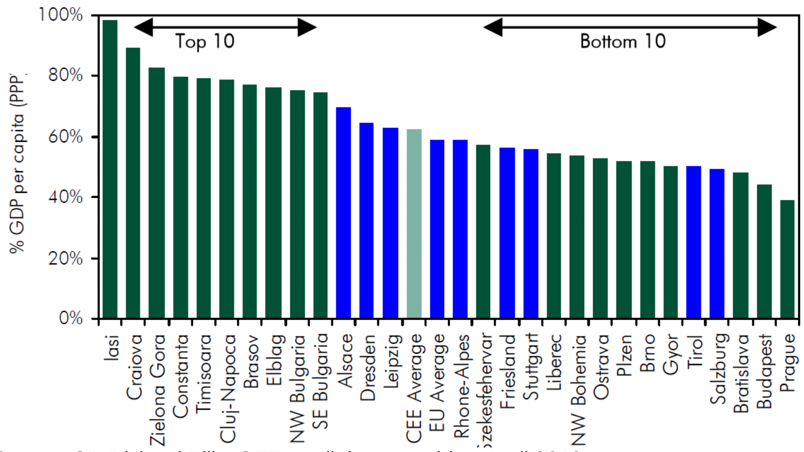


Source: CB Richard Ellis, CEE Retail Investment, 1H10

Consumer expenditure remains low

Rising unemployment and weak currencies are depressing consumer spending in the CEE market as a whole. On a regional level, consumption patterns vary substantially. Central European markets are characterized by higher disposable income per capita compared to Southern-Eastern European countries. Interestingly, SEE countries experienced consumer expenditure levels above those of CE markets.

Consumer spending as % of GDP (PPP) – 2009



Source: CB Richard Ellis, CEE retail demographics, April 2010

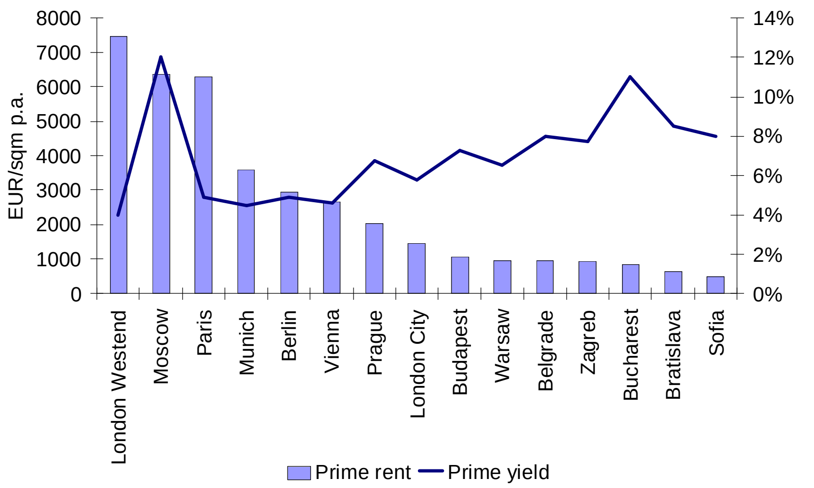
Falling rents in some markets…

Retail rents in CEE markets have seen some significant declines in 2Q10 of 3.4% q/q and 10% y/y. Especially in Sofia (-11%), Athens (-10%) and Belgrade (-6%), prime retail rents were falling compared to the previous quarter.

…and falling yields in others

Considering CEE as a whole, the prime retail yields experienced a decrease of 10bp y/y, driven by yield contractions of 50-100bp in Hungary, Poland and Romania.

Prime rents and yields in CEE markets



Source: Own chart based on data from CB Richard Ellis, EMEA rents and yields, 2Q10

CEE office market

Country	City	Prime rent EUR per sqm pa	Percentage change			Prime yield	Basis point change			Capital value change		
			q/q	y/y	from peak		q/q	y/y	from peak	1Q10	2Q09	peak
Austria	**Vienna**	**267**	**0.0%**	**-1.1%**	**-5.3%**	**5.55%**	**-5**	**0**	**85**	**0.9%**	**-1.1%**	**-19.6%**
Germany	Berlin	240	0.0%	0.0%	-11.1%	5.40%	-10	-10	50	1.9%	1.9%	-18.3%
Germany	Düsseldorf	270	2.2%	0.0%	0.0%	5.20%	0	-10	20	2.3%	1.9%	-3.8%
Germany	Frankfurt	456	0.0%	0.0%	-2.6%	5.30%	0	-10	30	0.0%	1.9%	-8.0%
Germany	Hamburg	276	0.0%	-4.2%	-4.2%	5.00%	0	-10	10	0.0%	-2.1%	-5.9%
Germany	Munich	354	0.0%	-4.8%	-6.4%	4.90%	0	-10	10	0.0%	-2.7%	-7.9%
Germany		**319**	**0.4%**	**-1.8%**	**-4.8%**	**5.16%**	**-2**	**-10**	**24**	**0.8%**	**0.1%**	**-9.1%**
Czech Republic	Prague	252	0.0%	-4.6%	-8.7%	6.85%	-15	-15	167	2.2%	-2.3%	-30.4%
Hungary	Budapest	240	0.0%	0.0%	-11.1%	7.75%	-25	-25	200	3.2%	3.2%	-33.2%
Poland	Warsaw	276	0.0%	-4.2%	-34.3%	6.60%	-15	-15	125	2.3%	-1.8%	-39.6%
Slovakia	Bratislava	204	0.0%	0.0%	-5.6%	7.50%	0	25	190	0.0%	-3.3%	-29.3%
CE4 average		**243**	**0.0%**	**-2.2%**	**-14.9%**	**7.18%**	**-14**	**-8**	**171**	**1.9%**	**-1.1%**	**-33.7%**
Bulgaria	Sofia	174	-1.7%	-14.7%	-20.6%	10.00%	0	0	250	-1.7%	-12.8%	-37.8%
Croatia	Zagreb	198	-1.2%	-2.9%	-5.7%	8.30%	0	-20	160	-1.2%	-0.5%	-23.6%
Romania	Bucharest	234	0.0%	-2.5%	-11.4%	9.50%	0	0	325	0.0%	-2.4%	-40.9%
Serbia	Belgrade	180	0.0%	-6.3%	-28.6%	10.00%	0	0	100	0.0%	-5.9%	-30.0%
SEE average		**197**	**-0.7%**	**-6.6%**	**-16.5%**	**9.45%**	**0**	**-5**	**209**	**-0.7%**	**-5.7%**	**-33.2%**
Russia [1)]	Moscow	715	2.9%	-12.5%	-48.5%	11.00%	-100	-100	350	12.4%	-3.0%	-54.1%
Ukraine [1)]	Kiev	275	0.0%	-6.7%	-67.1%	14.00%	0	-100	550	0.0%	0.4%	-63.7%
CIS average		**495**	**1.5%**	**-9.6%**	**-57.8%**	**12.50%**	**-50**	**-100**	**450**	**5.6%**	**-1.4%**	**-59.4%**
CEE average		**311**	**0.2%**	**-6.1%**	**-29.8%**	**9.71%**	**-21**	**-38**	**276**	**2.4%**	**-2.1%**	**-44.9%**
EU-15 average			**0.4%**	**-0.9%**		**5.69%**	**-4**	**-50**		**n.a.**	**n.a.**	**n.a.**

Source: CB Richard Ellis

Comment: 1) Prime rent change in USD

CEE retail market

Country	City	Prime rent EUR per sqm pa	Percentage change			Prime yield	Basis point change			Capital value change		
			q/q	y/y	from peak		q/q	y/y	from peak	1Q10	2Q09	peak
Austria	**Vienna**	**2,664**	**0.9%**	**0.9%**	**0.9%**	**4.60%**	**-5**	**-10**	**60**	**2.0%**	**3.1%**	**-12.2%**
Germany	Berlin	2,940	0.0%	4.3%	4.3%	4.90%	0	0	40	0.0%	4.4%	-4.1%
Germany	Düsseldorf	2,640	0.0%	0.0%	0.0%	4.60%	0	0	10	0.0%	0.0%	-2.2%
Germany	Frankfurt	3,240	0.0%	0.0%	0.0%	4.60%	0	0	35	0.0%	0.0%	-7.6%
Germany	Hamburg	2,640	0.0%	0.0%	0.0%	4.50%	0	0	0	0.0%	0.0%	0.0%
Germany	Munich	3,600	0.0%	0.0%	0.0%	4.50%	0	0	50	0.0%	0.0%	-11.1%
Germany		**3,012**	**0.0%**	**0.9%**	**0.9%**	**4.62%**	**0**	**0**	**27**	**0.0%**	**0.9%**	**-5.0%**
Czech Republic	Prague	2,040	0.0%	-5.6%	-5.6%	6.75%	0	0	175	0.0%	-5.3%	-29.8%
Hungary	Budapest	1,080	0.0%	0.0%	-10.0%	7.25%	-50	-50	150	6.9%	6.9%	-27.9%
Poland	Warsaw	960	0.0%	0.0%	-33.3%	6.50%	-25	-50	80	3.8%	7.7%	-34.2%
Slovakia	Bratislava	648	0.0%	-10.0%	-10.0%	8.50%	0	0	200	0.0%	-9.1%	-30.5%
CE4 average		**1,182**	**0.0%**	**-3.9%**	**-14.7%**	**7.25%**	**-19**	**-25**	**151**	**2.6%**	**-0.4%**	**-31.0%**
Bulgaria	Sofia	480	-11.1%	-27.3%	-38.5%	8.0%	0.0	0	100	-10.0%	-21.4%	-36.8%
Croatia	Zagreb	930	-3.1%	-6.1%	-8.8%	7.7%	0	30	175	-3.0%	-9.4%	-29.0%
Romania	Bucharest	840	-3.5%	-12.5%	-50.0%	11.0%	-50	-100	500	1.1%	-3.0%	-63.6%
Serbia	Belgrade	960	-5.9%	-11.1%	-33.3%	8.0%	0	0	0	-5.6%	-10.0%	-25.0%
SEE average		**803**	**-5.9%**	**-14.2%**	**-32.7%**	**8.68%**	**-13**	**-18**	**194**	**-4.2%**	**-10.7%**	**-41.5%**
Russia [1)]	Moscow	6,350	0.0%	-2.9%	-38.6%	12.0%	0	0	350	0.0%	-2.8%	-48.9%
Ukraine [1)]	Kiev	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
CIS average		**6,350**	**0.0%**	**-2.9%**	**-38.6%**	**12.00%**	**0**	**0**	**350**	**0.0%**	**-2.8%**	**-48.9%**
CEE average		**2,778**	**-2.0%**	**-7.0%**	**-28.6%**	**9.31%**	**-10**	**-14**	**232**	**-0.8%**	**-5.1%**	**-41.6%**
EU-15 average			**-0.4%**	**0.2%**		**5.2%**	**-8**	**-31**		**n.a.**	**n.a.**	**n.a.**

Source: CB Richard Ellis

Comment: 1) Prime rent change in USD

CEE industrial market

Country	City	Prime rent EUR per sqm pa	Percentage change q/q	Percentage change y/y	Percentage change from peak	Prime yield	Basis point change q/q	Basis point change y/y	Basis point change from peak	Capital value change 1Q10	Capital value change 2Q09	Capital value change peak
Austria	**Vienna**	**61.2**	**0.0%**	**-2.9%**	**-7.3%**	**7.50%**	**-5**	**-10**	**150**	0.7%	-1.5%	-25.4%
Germany	Berlin	55.2	0.0%	2.2%	2.2%	7.50%	0	0	50	0.0%	2.3%	-4.5%
Germany	Düsseldorf	62.4	0.0%	0.0%	0.0%	7.25%	0	0	75	0.0%	0.0%	-10.3%
Germany	Frankfurt	70.8	-0.8%	0.0%	0.0%	7.25%	0	0	75	-0.8%	0.0%	-10.3%
Germany	Hamburg	67.2	0.0%	-1.8%	-1.8%	7.25%	0	0	75	0.0%	-1.7%	-11.9%
Germany	Munich	76.8	0.0%	0.0%	-1.5%	7.25%	0	0	75	0.0%	0.0%	-11.7%
Germany		**66.5**	**-0.2%**	**0.1%**	**-0.2%**	**7.30%**	**0**	**0**	**70**	**-0.2%**	**0.1%**	**-9.8%**
Czech Republic	Prague	57.0	0.0%	-5.0%	-13.6%	8.75%	0	0	255	0.0%	-4.8%	-37.6%
Hungary	Budapest	54.0	0.0%	-10.0%	-30.8%	9.25%	-25	-25	250	2.7%	-6.6%	-44.2%
Poland	Warsaw	60.0	0.0%	0.0%	-21.9%	8.25%	-50	-50	175	6.1%	6.1%	-35.4%
Slovakia	Bratislava	54.0	12.5%	12.5%	0.0%	8.75%	0	0	225	14.3%	14.3%	-25.7%
CE4 average		**56.3**	**3.1%**	**-0.6%**	**-16.6%**	**8.75%**	**-19**	**-19**	**226**	**5.4%**	**1.5%**	**-36.4%**
Bulgaria	Sofia	54.0	0.0%	-10.0%	-10.0%	12.0%	0	0	400	0.0%	-9.1%	-39.4%
Croatia	Zagreb	72.0	-1.6%	3.5%	0.0%	9.5%	0	-25	250	-1.6%	6.3%	-26.3%
Romania	Bucharest	49.8	0.0%	-11.7%	-11.7%	10.5%	0	50	250	0.0%	-14.7%	-31.8%
Serbia	Belgrade	54.0	0.0%	-10.0%	-10.0%	13.0%	0	0	100	0.0%	-9.1%	-16.1%
SEE average		**57.5**	**-0.4%**	**-7.1%**	**-7.9%**	**11.25%**	**0**	**6**	**250**	**-0.4%**	**-7.1%**	**-27.9%**
Russia [1)]	Moscow	81.7	0.0%	-4.8%	-28.6%	14.0%	0	0	450	0.0%	-4.5%	-47.2%
Ukraine [1)]	Kiev	61.3	0.0%	-3.9%	-43.2%	16.0%	0	-100	525	0.0%	2.3%	-53.1%
CIS average		**71.5**	**0.0%**	**-4.3%**	**-35.9%**	**15.00%**	**0**	**625**	**488**	**0.0%**	**-44.1%**	**-50.3%**
CEE average		**61.7**	**0.9%**	**-4.0%**	**-20.1%**	**11.67%**	**-6**	**204**	**321**	**1.5%**	**-20.7%**	**-39.7%**
EU-15 average			**-0.6%**	**-1.3%**		**7.8%**	**-7**	**-32**		**n.a.**	**n.a.**	**n.a.**

Source: CB Richard Ellis

Comment: 1) Prime rent change in USD

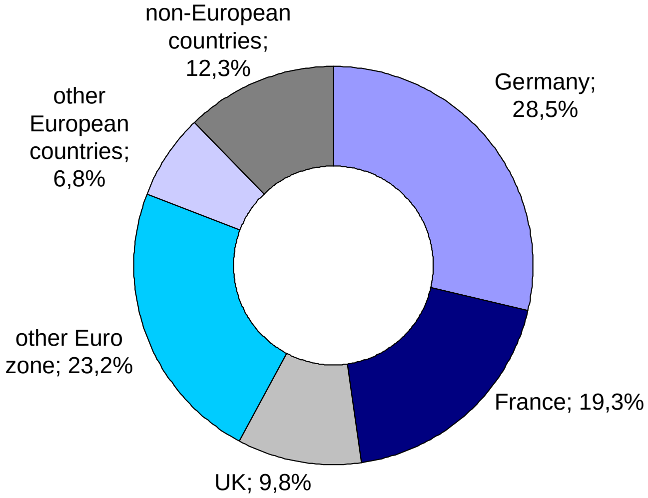
Special on German open-ended funds (GOEFs)

Open-ended property funds are one of the most popular investment vehicles in Germany, recording assets under management of EUR 90bn and nearly three million investors, both private and institutional, in 1Q10.

GOEFs invest on an international level

This type of investment was initiated in 1959, originally intended to foster investment in commercial properties in Germany only. With the Financial Markets Promotion Act, especially the fourth act introduced in 2002, the geographical scope of the property funds was enhanced. In 2009, only some 28.5% of the investment value was located in Germany, while the reminder was invested abroad. The biggest portion was accounted for by France (19%) and the UK (10%), while other European countries together made up 30% and the rest was invested outside Europe, primarily in the US and Japan. Investment in CEE, which is included in the 30% other European countries (incl. the Eurozone) was relatively low. Poland only accounted for 1.6%, the Czech Republic for 1.4% and Hungary for 0.3%.

Investment value of GOEFs by country 2009



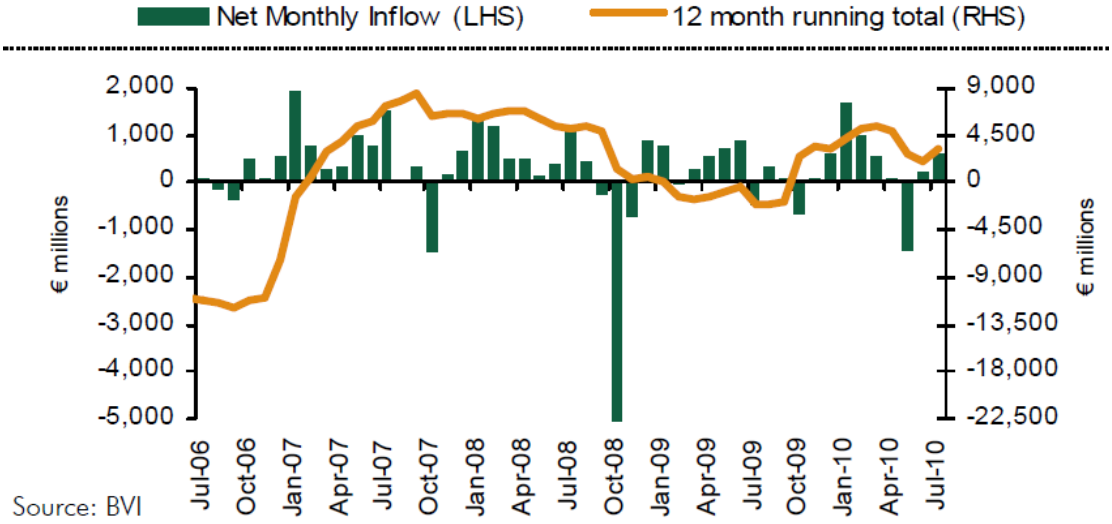
Source: BVI, Germany's Investment and Asset Management Association

Generally, these funds offer relatively stable income and short-term access to investors' funds. In the wake of the Lehman collapse, however, some EUR 5bn was withdrawn in October 2008 by large institutional investors, who had to deal with liquidity issues and needed cash. As a result, many funds were closed to redemptions in order not to be forced to sell their properties at fire-sale prices.

Possible amendments to legislation hit sector temporarily

In the beginning of 2010, fund cash flows started to pick up significantly, reaching total net inflows in of EUR 3.2bn in 1Q10. This positive trend turned in May, when the sector was shaken by negative news about plans of the Federal Finance Ministry to introduce amendments to the German Investment Act. This led to the withdrawal of EUR 1.44bn in May and new closures. However, the latest draft of the GOEF sector reforms was released in early August and was generally well received by the sector. It concentrates on protecting smaller retail investors and imposes new regulations to prevent the GOEFs being used as a money-market substitute by institutional investors (min. holding period, redemption charges). The latest monthly net flows were positive once again (EUR +250mn in June and EUR +601mn in July 2010).

GOEFs investment inflow July 2006 – July 2010



Source: CB Richard Elllis, German Open-Ended Funds, May 2010

For Austrian developers, German open-ended funds have traditionally been one of the first contact points to dispose of successful developments. Should these investors retreat from the market due to redemptions as a result of legislative changes, it would clearly be negative for the market development in Austria and CEE overall.

CA IMMO Accumulate

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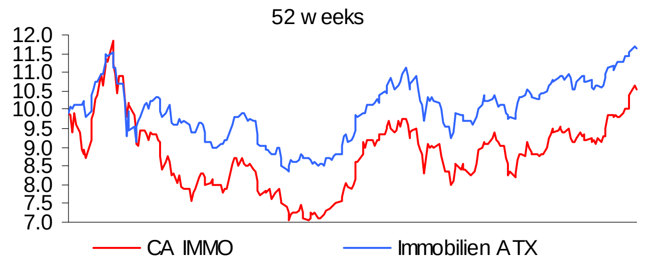
EUR mn	2009	2010e	2011e	2012e
Rental income	177.0	161.6	268.1	279.3
Revaluation result	-129.1	19.5	35.6	79.5
EBIT	3.0	161.1	240.5	292.9
Net result after min.	-76.9	28.9	74.4	120.1
EPS (EUR)	-0.89	0.33	0.85	1.38
CEPS (EUR)	0.31	0.17	0.57	0.73
BVPS (EUR)	17.9	18.8	19.4	20.5
NAV/share (EUR)	18.5	19.5	19.9	21.2
Div./share (EUR)	0.00	0.00	0.19	0.30
P/E (x)	nm	31.8	12.4	7.7
P/CE (x)	25.3	60.7	18.4	14.4
P/NAV (x)	0.43	0.54	0.53	0.50
EV/EBITDA (x)	16.5	19.2	19.2	18.0
Dividend Yield	0.0%	0.0%	1.8%	2.8%



Performance	12M	6M	3M	1M
in EUR	6.4%	32.6%	14.3%	14.5%

Share price (EUR)	10.54	Reuters	CAIV.VI	Free float	90.0%
Number of shares (mn)	87.3	Bloomberg	CAI AV	Shareholders	Bank Austria (10.0%)
Market capitalization (EUR mn)	919.7	Div. Ex-date			
Enterprise value (EUR mn)	2,758.4	**Target price**	**12.0**	Homepage:	www.caimmoag.com

Merger with CAII and takeover of Europolis ahead

- **Based on clearly better than expected gains from the disposal of properties, and a revaluation result coming in above estimates in 1H10, we increased our full-year forecast for 2010 considerably and made moderate adjustments to our mid-term estimates. Taking into account slight adjustments in our valuation parameters, we derive a 12-month target price of EUR 12.0 (previously EUR 10.2) and stick to our Accumulate recommendation for the stock of CA Immo (CAI).**

- **Including the NAV-accretive effects from the merger with CA Immo Int. (CAII) and the takeover of Europolis, we expect CAI's BVPS and NAV/share to increase to EUR 19.35 and EUR 19.93 in 2011, respectively. Based on our estimates, CAI (with 0.54x BV11, 0.53x NAV11) is currently traded at a discount of 13-15%. Some of the discount might be justified by CA Immo's increased risk profile compared to its peers (increasing CEE portion and higher leverage), but 13-15% is quite substantial, taking the already low valuation of the sector into account. The picture from the EV/EBITDA and P/CE bases, however, is mixed, depending on the year under consideration.**

- **Based on its size, the takeover of Europolis is expected to have a substantial effect on the majority of BS and P&L items. The rental income of CA Immo group is foreseen to jump to EUR 268mn and EBITDA is expected to reach EUR 207m in 2011. Although we regard management's guidance as reachable, we remain somewhat more cautious in our estimates. Available data signals a further stabilization of rental yields and market rents - at least for prime property, but the recovery is still somewhat fragile, in our opinion.**

- **Following the voluntary takeover bid, CAI reached a 97.14% stake in CAII. We therefore regard the EGM of CAII on September 27 as a purely formal act and expect a merger of the two companies briefly thereafter. The merger will be effective retroactively as of 31.12.2009 at an exchange ratio of 10 CAI shares for 19 CAII shares (based on NAVs as of June 20, 2010).**

Approaching merger with CA Immo Int.

10 CAI shares for 19 CAII shares

Following the end of the acceptance period for the voluntary takeover bid for the free float shares of CAII, CAI increased its shareholding from 63.05% to 97.14%. The takeover price was EUR 6.50 per share. The proposed merger, effective retroactively as of 31.12.2009 ("effective merger date"), should take place on the basis of an exchange ratio calculated based on the NAVs as of June 20, 2010, of 10 CAI shares for 19 CAII shares. The merger is still subject to approval from the extraordinary general meeting of CAII scheduled for September 27. As CAI holds the majority of CAII shares, this is just a formality. According to §231 of Austrian Stock Corporation law, a general meeting of CAI is not necessary.

Takeover of Europolis

Purchase price of EUR 272mn

In addition to the planned merger with CAII, the management of CAI announced some weeks ago that it has agreed with the Österreichische Volksbanken AG (ÖVAG) to acquire a 100% stake in Europolis, which holds properties with a total value of EUR 1.5bn located in the CEE region. Please find below a summary of the deal structure and pro-forma effects on key figures of the CA Immo group. For further details, we refer to our last company report published on July 15, 2010.

Deal structure:

Purchase price: EUR 272mn (0.9x NAV09) for 100% of equity of Europolis (including NPV benefits of financial package of around EUR 40mn, economic purchase price is about EUR 232mn [0.75x NAV09])
Payment terms: 50% at closing, 50% deferred for five years at 3M Euribor +100bp
Expected closing date: January 1, 2011; 1Q11 will be the first quarter including Europolis
Further elements: EUR 75mn subordinated loan granted by ÖVAG to stay in company for five years at 3M Euribor+90bp; CA Immo will immediately make a pre-payment of the cash purchase price, which will earn interest of 6.13% until closing; ÖVAG agreed to extend the maturities of all granted loans to five years (40% of total financial liabilities); the remaining financial liabilities are split between mainly Austrian and German banks
Not included in the deal: Europolis' bank business and its assets in Russia are not part of the deal and will be carved out before acquisition

Key pro-forma combined metrics

Pro-forma effects on CA Immo group:

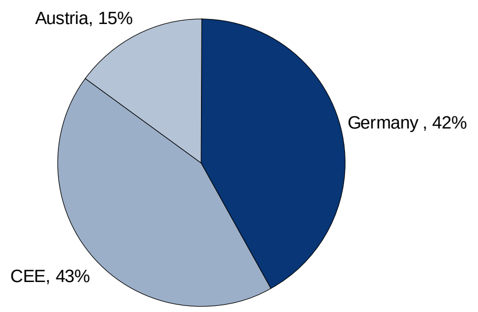
- Property assets will increase to EUR 4.9bn from EUR 3.4bn (+44%)
- Portion of investment property under development is expected to decline to 20% (from currently 30%)
- Besides the increase in the proportion of CEE property to 43% (from 19%), there will also be a shift towards logistics (to 14%, from 7%), retail (to 6%, from 4%) and office (to 56%, from 54%)
- The equity ratio is foreseen to decline to 31% (from 39%) and LTV will increase to 56% (from 45%)
- To counterbalance this development, CAI management has indicated disposals of about EUR 200-250mn within the next 18-24 months
- Parts of CA Immo's cash balance (2Q10: EUR 400mn) is put to work -> positive effect on earnings and cash flow
- Europolis' standing assets offer an initial yield of 7.2% and the vacancy rate stood at 18%
- Annualized rental income should increase to EUR 272mn, from EUR 172mn (+58%)
- Including some synergies (merging of local platforms and back office functions), CAI management expects EBITDA to increase by around 50%
- The effect on the bottom line should be even stronger, based on the increase in leverage, but also due to the low cost of debt to Europolis of around 2.75% vs. the current 4.8% of CAI (including hedging). We expect CAI's average cost of debt to be brought down by around 80bp to 4%, under a ceteris paribus assumption.

Key portfolio metrics (Dec 2009)

EURmn	Europolis [1]	CA Immo	Combined
Real estate assets	1,520	3,433	4,953
Annualized rental income	100	172	272
Total assets	1,772	4,368	6,140
Equity ratio	26%	39%	31%
Loan to value	65%	45%	56%
Employees	110	330	440

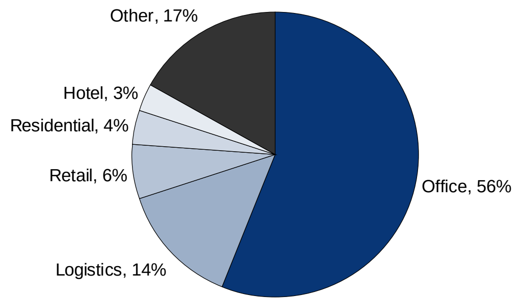
Note: Properties located in Russian will remain with the seller
Source: CA Immo Group

Combined real estate assets by region (Dec 2009)



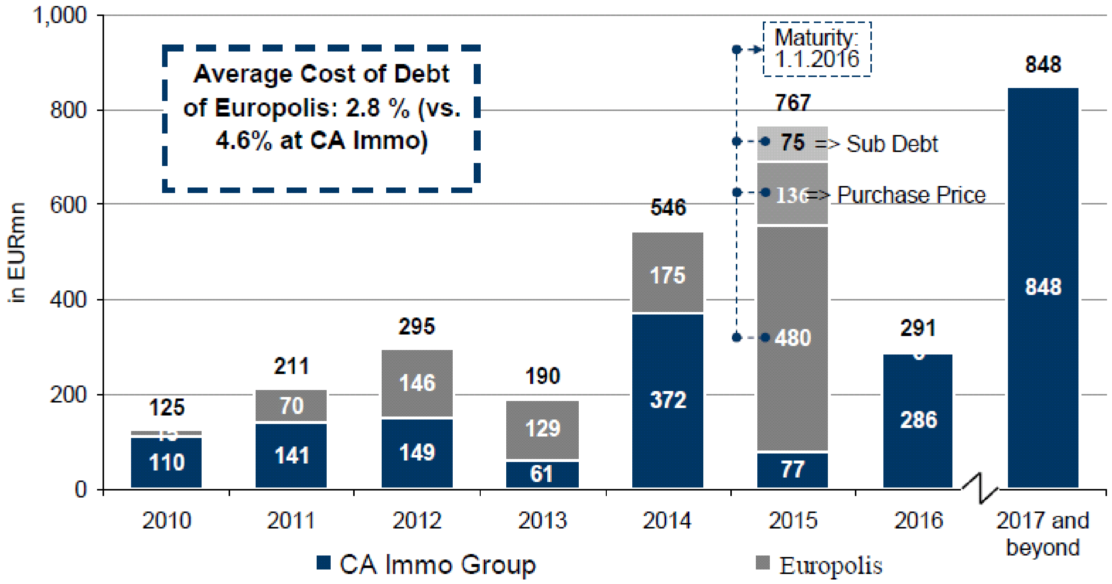
Source: CA Immo Group

Combined real estate assets by segment (Dec 2009)



Source: CA Immo Group

Combined maturity structure of financial debt



Source: CA Immo Group

2Q10 earnings review

Clearly above expectations on higher disposal gains

CA Immo (CAI) reported net profit of EUR 10.7mn, which was considerably better than expected. The main divergence from our forecasts came from noticeably higher gains from the disposal of trading property and a somewhat better revaluation result. As expected, rental income continued its quarterly downward trend (-1.6% q/q, -8.6% y/y), driven by the recent disposal of properties. The vacancy rate, however, remained stable at around 11%. The slightly negative development in rental income was overcompensated for by the successful disposal of properties in the German trading portfolio, generating a net economic gain of EUR 16.2mn in 2Q10. The result from the sale of long-term properties, however, was slightly negative at EUR -1.3mn. Based on that, net operating income and EBITDA advanced by 50.1% q/q and 42.7 q/q, respectively, despite somewhat higher indirect expenses, due in part to the takeover of Europolis and CAII.

Revaluation of property turned positive

Following eight consecutive quarters with negative adjustments, the result from the revaluation of property turned positive in 2Q10, outperforming our forecast by 8.3%, with a contribution of EUR 11.0mn. As in previous quarters, the high interest expenses on CAI's strategic cash reserve and the negative impact from the interest rate hedge valuation had an adverse impact on the bottom line. This disadvantage, however, should largely be resolved by the takeover of Europolis, which is expected to become effective in January 2011. All in all, the net result in 2Q10 turned positive, coming in at EUR 10.7mn. Consequently, EPS reached EUR 0.12 and BVPS and NNNAV/share increased slightly to EUR 17.92 (+2.0% q/q) and EUR 18.25 (+1.0% q/q), respectively.

2Q10 results

Consolidated, IFRS	Reported			Expected 2Q 10	Reported 2Q 10	Reported		
(EUR, mn)	2Q 10	2Q 09	y/y	Erste Group	vs. Erste Group	1-2Q 10	1-2Q 09	y/y
Rental revenues	41.0	44.9	-8.6%	41.2	-0.4%	82.7	90.1	-8.1%
Total revenues	**83.2**	**90.0**	**-7.6%**	**83.2**	**0.0%**	**146.9**	**147.7**	**-0.5%**
Net operating income	**49.6**	**40.0**	**24.0%**	**37.9**	**31.1%**	**82.7**	**80.2**	**3.1%**
Result from sale of properties	-1.3	8.7	n.m.	0.0	n.m.	1.1	11.0	-90.3%
EBITDA	**41.0**	**42.9**	**-4.5%**	**31.1**	**31.5%**	**69.7**	**79.3**	**-12.1%**
Revaluation of properties	11.0	-47.1	n.m.	10.2	8.3%	3.8	-100.3	n.m.
EBIT	**52.0**	**-4.2**	**n.m.**	**41.3**	**25.8%**	**73.5**	**-21.1**	**n.m.**
Net result after minorities	**10.7**	**-22.6**	**n.m.**	**6.7**	**59.2%**	**4.2**	**-56.2**	**n.m.**
Operating cash flow	**42.1**	**28.8**	**46.1%**	**n.a.**	**n.a.**	**52.5**	**59.7**	**-12.0%**
EPS basic (EUR)	0.12	-0.27	n.m.			0.05	-0.66	n.m.
EPS diluted (EUR)	0.14	-0.27	n.m.			0.07	-0.66	n.m.
Operating cash flow/share (EUR)	0.47	0.34	37.1%			0.63	0.70	-10.2%
NAV/share (BVPS) (EUR)	17.92	18.21	-1.6%			17.92	18.21	-1.6%
NNNAV/share (EUR)	18.25	19.06	-4.2%			18.3	19.1	-4.2%

Source: CA Immo Group, Erste Group Research

Quarterly development of key figures

Consolidated, IFRS (EUR, mn)	2Q 10	q/q	1Q 10	q/q	4Q 09	q/q	3Q 09	q/q	2Q 09	q/q
Rental revenues	41.0	-1.6%	41.7	-2.3%	42.7	-3.4%	44.2	-1.5%	44.9	-0.6%
Total revenues	**83.2**	**30.6%**	**63.7**	**-24.0%**	**83.8**	**46.6%**	**57.2**	**-36.5%**	**90.0**	**56.3%**
Net operating income	**49.6**	**50.1%**	**33.1**	**-27.8%**	**45.8**	**20.3%**	**38.0**	**-5.0%**	**40.0**	**-0.3%**
Result from sale of properties	-1.3	n.m.	2.4	n.m.	-3.9	n.m.	2.1	-76.1%	8.7	274.5%
EBITDA	**41.0**	**42.7%**	**28.7**	**9.8%**	**26.2**	**-28.4%**	**36.5**	**-14.8%**	**42.9**	**18.0%**
Revaluation of properties	11.0	n.m.	-7.2	-57.8%	-17.1	-20.6%	-21.5	-54.3%	-47.1	-11.6%
EBIT	**52.0**	**142.0%**	**21.5**	**137.2%**	**9.1**	**-39.7%**	**15.0**	**n.m.**	**-4.2**	**-75.2%**
Net result after minorities	**10.7**	**n.m.**	**-6.5**	**n.m.**	**1.4**	**n.m.**	**-22.1**	**-2.1%**	**-22.6**	**-32.6%**
Operating cash flow	**42.1**	**306.7%**	**10.4**	**-60.4%**	**26.2**	**-24.6%**	**34.7**	**20.3%**	**28.8**	**-6.4%**
EPS basic (EUR)	0.12	n.m.	-0.07	n.m.	0.02	n.m.	-0.25	-7.4%	-0.27	-30.8%
EPS diluted (EUR)	0.14	n.m.	-0.07	n.m.	0.02	n.m.	-0.25	-7.4%	-0.27	-30.8%
Operating cash flow/share (EUR)	0.47	325.6%	0.11	-70.0%	0.37	-5.5%	0.39	13.8%	0.34	-3.8%
NAV/share (BVPS) (EUR)	17.92	2.0%	17.57	-1.7%	17.87	-0.6%	17.97	-1.3%	18.21	-0.1%
NNNAV/share (EUR)	18.25	1.0%	18.07	-2.2%	18.47	-0.9%	18.63	-2.3%	19.06	-0.1%

Source: CA Immo Group, Erste Group Research

Changes in estimates

Increase in 2010 estimates

As we had already included the effects of the planned merger with CAII and the takeover of Europolis in our recent estimates, we made only minor changes in our mid-term forecasts. However, based on the clearly better than expected gains from the disposal of properties and the revaluation result coming in above estimates in 1H10, we increased our full-year forecasts for 2010 considerably.

Positive effect on EBITDA and net profit

Based on its size, the takeover of Europolis is expected to have a substantial effect on almost all balance sheet and P&L items. Management foresees an increase of rental income by EUR 100mn and EBITDA by EUR 50mn, following the takeover of Europolis. Although we regard management's guidance as reachable, we remain somewhat more cautious in our estimates, as rental markets are still somewhat fragile. Taking the first-time consolidation of Europolis in January 2011 into account, we expect rental income and EBITDA to increase to EUR 268mn and EUR 207mn, respectively.

Changes in estimates

Consolidated, IFRS	**2010e**			**2011e**			**2012e**		
(EUR, mn)	**Now**	**Before**	*Change*	**Now**	**Before**	*Change*	**Now**	**Before**	*Change*
Rental income	161.6	161.6	*0.0%*	268.1	264.6	*1.3%*	279.3	275.9	*1.2%*
Total revenues	**191.5**	**191.5**	*0.0%*	**315.6**	**311.5**	*1.3%*	**328.5**	**324.5**	*1.2%*
Net operating income (NOI)	**138.7**	**138.7**	*0.0%*	**232.1**	**229.1**	*1.3%*	**241.6**	**238.7**	*1.2%*
Result from the sale of property	31.8	18.2	*75.1%*	16.2	15.8	*2.5%*	16.7	14.7	*13.2%*
EBITDA	**143.5**	**131.0**	*9.6%*	**207.1**	**204.3**	*1.4%*	**215.7**	**211.1**	*2.2%*
Revaluation of properties	19.5	8.6	*125.3%*	35.6	35.2	*1.4%*	79.5	78.5	*1.3%*
Depreciation & amortization	-1.9	-1.9	*0.0%*	-2.2	-2.2	*0.0%*	-2.3	-2.3	*0.0%*
EBIT	**161.1**	**137.7**	*17.0%*	**240.5**	**237.2**	*1.4%*	**292.9**	**287.3**	*2.0%*
Net result	**28.9**	**22.3**	*29.7%*	**74.4**	**72.0**	*3.3%*	**120.1**	**115.9**	*3.6%*
EPS (EUR)	0.33	0.26	*29.7%*	0.85	0.83	*3.3%*	1.38	1.33	*3.6%*
CEPS (EUR)	0.17	0.10	*82.5%*	0.57	0.52	*10.1%*	0.73	0.66	*11.3%*
DPS (EUR)	0.00	0.00	*n.m.*	0.19	0.19	*0.1%*	0.30	0.30	*0.3%*
BVPS (EUR)	18.81	18.74	*0.4%*	19.35	19.31	*0.2%*	20.54	20.45	*0.4%*
NAV/share (EUR)	19.50	19.39	*0.6%*	19.93	19.85	*0.4%*	21.24	21.08	*0.8%*

Source: Erste Group Research

Valuation

DCF valuation

Accumulate maintained, target price: EUR 12.0 (previously EUR 10.2)

Based on increased estimates and slight adjustments in valuation parameters, we derive a new 12-month target price of EUR 12.0 (previously EUR 10.2). Relative to the current price of EUR 10.5 for CAI shares, our DCF valuation indicates upside potential of around 14%. We therefore stick to our Accumulate recommendation.

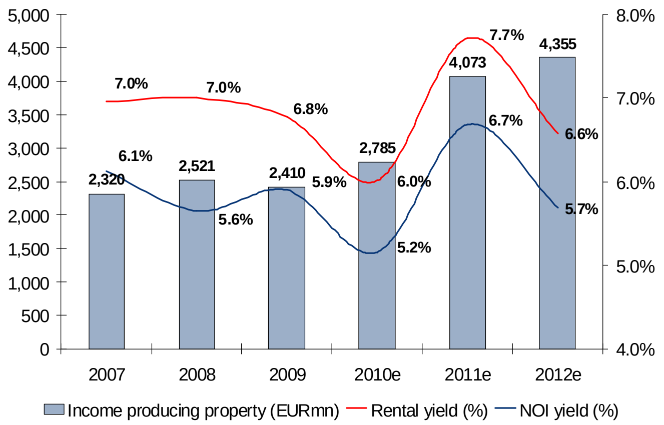
Peer group valuation

High discount on P/BV and P/NAV bases

Including the NAV-accretive effects from the merger with CAII and the takeover of Europolis, we expect CAI's BVPS and NAV/share to increase to EUR 19.35 and EUR 19.93 in 2011, respectively. Based on our estimates, CAI (with 0.54x BV11, 0.53x NAV11) is currently traded at a discount of 13-15%. Some discount might be justified by CA Immo's increased risk profile compared to its peers (higher CEE portion and leverage), but 13-15% is quite substantial, taking the already low valuation of the sector into account. The picture from the EV/EBITDA and P/CE bases, however, is mixed, depending on the year under consideration.

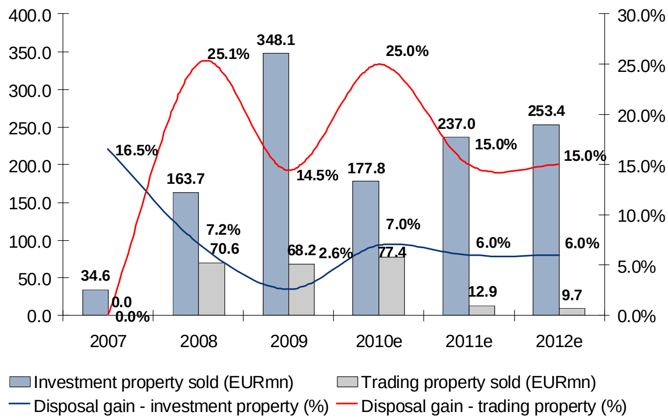
Development of key value drivers

Income-producing property, rental yield and NOI yield



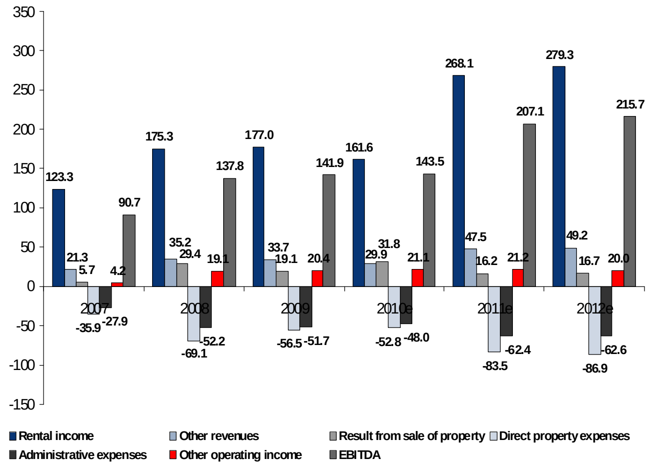
Source: CA Immo Group, Erste Group Research

Book value of property sold and disposal gain



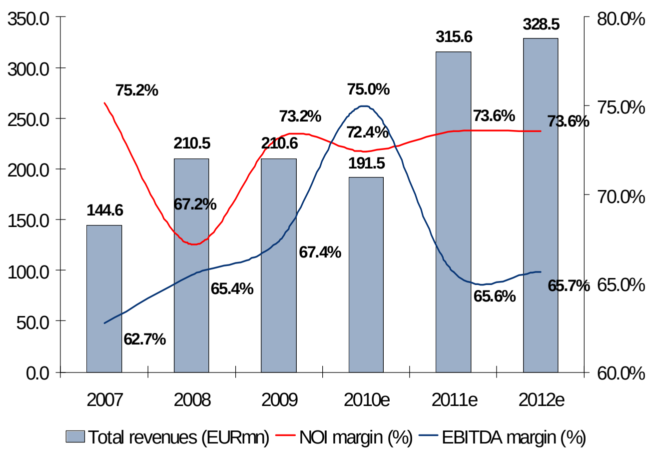
Source: CA Immo Group, Erste Group Research

EBITDA breakdown



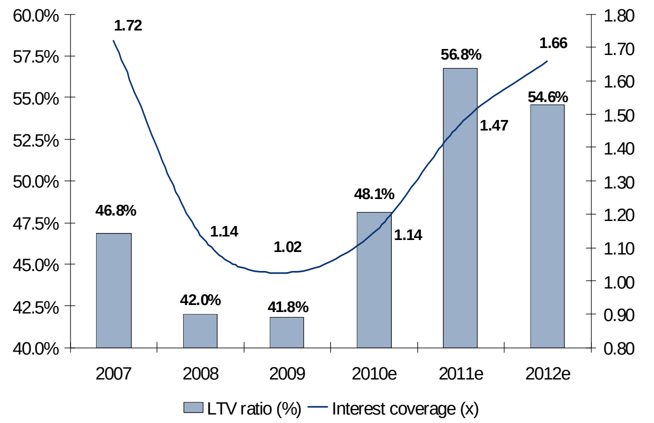
Source: CA Immo Group, Erste Group Research

Total revenues, NOI margin and EBITDA margin



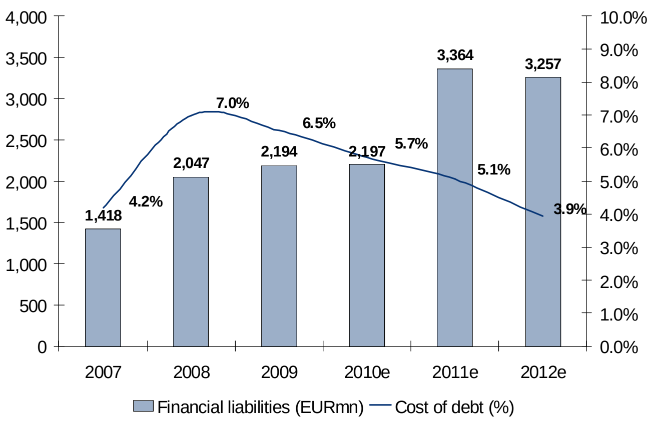
Source: CA Immo Group, Erste Group Research

LTV ratio and interest coverage ratio



Source: CA Immo Group, Erste Group Research

Financial liabilities and cost of debt



Source: CA Immo Group, Erste Group Research

Discounted cash flow model

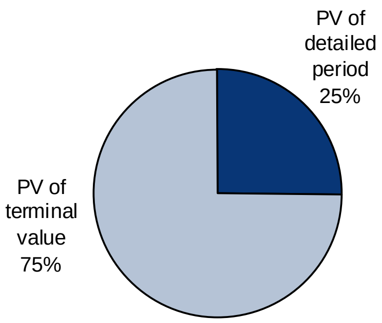
WACC calculation

	2010e	2011e	2012e	2013e	2014e	2015e (TV)
Risk free rate	3.0%	3.0%	3.0%	3.0%	3.0%	4.5%
Equity risk premium	5.3%	5.3%	5.3%	5.3%	5.3%	5.0%
Beta	1.2	1.2	1.2	1.2	1.2	1.2
Cost of equity	**9.1%**	**9.1%**	**9.1%**	**9.1%**	**9.1%**	**10.3%**
Cost of debt	5.3%	4.0%	4.0%	4.0%	4.0%	5.3%
Effective tax rate	9.0%	9.0%	9.0%	9.0%	9.0%	9.0%
After-tax cost of debt	**4.8%**	**3.6%**	**3.6%**	**3.6%**	**3.6%**	**4.8%**
Equity weight	31%	33%	35%	37%	39%	45%
WACC	**6.1%**	**5.4%**	**5.5%**	**5.6%**	**5.7%**	**7.3%**

DCF valuation

(EUR mn)	2010e	2011e	2012e	2013e	2014e	2015e (TV)
Sales growth	*22.4%*	*-6.5%*	*2.8%*	*5.0%*	*0.2%*	*2.0%*
EBITDA	184.6	207.1	215.7	233.9	236.0	218.6
EBITDA margin	*52.3%*	*62.7%*	*63.5%*	*65.6%*	*66.1%*	*60.0%*
Tax rate	*9.0%*	*9.0%*	*9.0%*	*9.0%*	*9.0%*	*9.0%*
Taxes on EBITDA	-16.6	-18.6	-19.4	-21.1	-21.2	-19.7
NOPLAT	**168.0**	**188.4**	**196.2**	**212.9**	**214.8**	**198.9**
+/- Change in working capital	4.4	-15.2	-15.1	-13.9	-13.9	-2.1
Chg. working capital / chg. Sales	*6.8%*	*66.7%*	*-164.2%*	*-81.8%*	*-2212.7%*	*-30.0%*
- Capital expenditures	-1,583.1	54.2	66.4	77.6	89.8	-20.5
Free cash flow to the firm	**-1,410.6**	**227.4**	**247.5**	**276.5**	**290.6**	**176.3**
Terminal value growth						*2.0%*
Terminal value						3,423.7
Discounted free cash flow - Dec 31 2010	0.0	215.7	222.5	235.2	233.8	2,700.4
Enterprise value - Dec 31 2010	**3,607.6**					
Minorities	170.4					
Non-operating assets	431.5					
Net debt	2,959.1					
Equity component of convertible bond	8.1					
Equity value - Dec 31 2010	**901.5**					
Number of shares outstanding (mn)	87.3					
Cost of equity	9.1%					
12M target price per share (EUR)	**12.0**					
Current share price (EUR)	10.5					
Up/Downside	*13.9%*					

Enterprise value breakdown



Sensitivity (per share)

Terminal value EBITDA margin

WACC	55.0%	57.5%	60.0%	62.5%	65.0%
6.3%	16.3	18.4	20.5	22.6	24.6
6.8%	12.1	13.9	15.8	17.7	19.5
7.3%	8.6	10.3	**12.0**	13.7	15.4
7.8%	5.8	7.3	8.9	10.4	12.0
8.3%	3.4	4.8	6.3	7.7	9.1

Terminal value growth

WACC	1.0%	1.5%	2.0%	2.5%	3.0%
6.3%	12.0	15.8	20.5	26.4	34.1
6.8%	8.9	12.0	15.8	20.5	26.4
7.3%	6.3	8.9	**12.0**	15.8	20.5
7.8%	4.0	6.3	8.9	12.0	15.8
8.3%	2.1	4.0	6.3	8.9	12.0

Source: Erste Group Research

Ratios

Per share figures	in: EUR	2007	2008	2009	2010e	2011e	2012e
EPS (basic)		0.75	-2.73	-0.89	0.33	0.85	1.38
EPS (diluted)		0.75	-2.73	-0.89	0.29	0.75	1.21
CEPS		0.50	0.22	0.31	0.17	0.57	0.73
BVPS		22.04	18.92	17.87	18.81	19.35	20.54
Tangible BVPS		22.04	18.92	17.87	18.81	19.35	20.54
NAV/share		22.51	20.50	18.47	19.50	19.93	21.24
DPS		0.00	0.00	0.00	0.00	0.19	0.30
Payout ratio		0%	0%	0%	0%	22%	22%
End-of-period no. of shares (mn)		87.26	85.76	87.26	87.26	87.26	87.26
Avg.-period no. of shares (mn)		77.94	86.86	86.42	87.26	87.26	87.26
Profitability	**in: %**	**2007**	**2008**	**2009**	**2010e**	**2011e**	**2012e**
Rental income / avg. income-gen. properties [Rental yield]		7.0%	7.0%	6.8%	6.0%	7.7%	6.6%
Net oper. income / avg. income-gen. properties [NOI yield]		6.1%	5.6%	5.9%	5.2%	6.7%	5.7%
ROE		3.7%	-13.4%	-4.8%	1.8%	4.5%	6.9%
ROA		2.8%	-7.2%	-3.1%	0.7%	1.7%	2.3%
ROCE (real estate)		4.3%	-4.7%	0.1%	3.5%	4.3%	4.6%
Financial structure	**in: %**	**2007**	**2008**	**2009**	**2010e**	**2011e**	**2012e**
Total equity / total assets [equity ratio]		59%	42%	40%	39%	33%	35%
Total debt / total assets [debt ratio]		41%	58%	60%	61%	67%	65%
Net debt / total equity [gearing ratio]		54%	86%	86%	109%	154%	139%
Loan-to-value (LTV) ratio		47%	42%	42%	48%	57%	55%
Cash ratio		65%	85%	130%	43%	51%	52%
Current ratio		206%	150%	205%	103%	112%	115%
Interest coverage ratio (x)		1.72	1.14	1.02	1.14	1.47	1.66
P&L structure	**in: %**	**2007**	**2008**	**2009**	**2010e**	**2011e**	**2012e**
Net operating income / total revenues [NOI margin]		75%	67%	73%	72%	74%	74%
EBITDA / total revenues [EBITDA margin]		62.7%	65.4%	67.4%	75.0%	65.6%	65.7%
EBIT / total revenues [EBIT margin]		104.8%	-72.5%	1.4%	84.1%	76.2%	89.2%
EBT / total revenues [EBT margin]		77.6%	-140.3%	-63.9%	19.8%	32.4%	50.2%
Net result / total revenues [Net margin]		62.2%	-140.1%	-64.0%	15.9%	25.9%	40.2%
Revaluation result / EBIT		43.2%	116.7%	-4293.7%	12.1%	14.8%	27.1%
Effective tax rate		-19.8%	-0.2%	0.1%	-20.0%	-20.0%	-20.0%
Balance sheet structure	**in: %**	**2007**	**2008**	**2009**	**2010e**	**2011e**	**2012e**
Investment properties / Tangible assets		91%	70%	71%	75%	81%	86%
Properties for sale / Tangible assets		0%	0%	0%	0%	0%	0%
Development properites / Tangible assets		8%	30%	28%	25%	18%	13%
Tangible assets / Total assets		66%	82%	79%	88%	89%	89%
Total LT liabilities / Total liabilities		81%	85%	85%	86%	89%	89%
Total ST liabilities / Total liabilities		19%	15%	15%	14%	11%	11%
Total liabilities / Total assets		41%	58%	60%	61%	67%	65%
Growth rates	**in: %**	**2007**	**2008**	**2009**	**2010e**	**2011e**	**2012e**
Rental income y/y		60%	42%	1%	-9%	66%	4%
Total revenues y/y		56%	46%	0%	-9%	65%	4%
Net operating income y/y		63%	30%	9%	-10%	67%	4%
EBITDA y/y		53%	52%	3%	1%	44%	4%
EBIT y/y		68%	-201%	-102%	5258%	49%	22%
EBT y/y		33%	-363%	-54%	-128%	169%	61%
Net result y/y		-3%	-508%	-68%	-138%	158%	61%
Investment properties y/y		89%	9%	-4%	16%	46%	7%
Properties for sale (trading properties) y/y		n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Developments/properties under construction y/y		138%	401%	-11%	-6%	1%	-29%
Tangible assets y/y		92%	43%	-6%	10%	35%	0%
Total assets y/y		41%	15%	-2%	-2%	34%	0%
Total LT liabilities y/y		13%	72%	2%	0%	54%	-3%
Total ST liabilities y/y		162%	26%	2%	-4%	15%	-2%
Total liabilities y/y		27%	63%	2%	0%	48%	-3%
Shareholders' equity y/y		53%	-18%	-7%	-4%	12%	6%

Source: CA Immo Group, Erste Group Research

Income Statement	2007	2008	2009	2010e	2011e	2012e
(IFRS, EUR mn, 31/12)	31/12/2007	31/12/2008	31/12/2009	31/12/2010	31/12/2011	31/12/2012
Total revenues	**144.57**	**210.52**	**210.63**	**191.45**	**315.59**	**328.49**
- Rental Income	123.28	175.28	176.97	161.59	268.06	279.31
- Operating costs charged	18.40	30.28	29.13	26.66	44.23	46.09
- Other	2.90	4.96	4.52	3.20	3.30	3.10
Operating expenses	-35.89	-69.06	-56.47	-52.78	-83.46	-86.86
Net operating income	**108.69**	**141.46**	**154.16**	**138.67**	**232.13**	**241.64**
Result from the sale of investment property	5.72	11.74	9.22	12.44	14.22	15.21
Result from the sale of trading property	0.00	17.70	9.86	19.34	1.93	1.45
Total administrative expenses	-27.89	-52.21	-51.71	-48.02	-62.41	-62.64
Other operating result	4.16	19.09	20.41	21.10	21.20	20.00
EBITDA	**90.69**	**137.78**	**141.94**	**143.53**	**207.08**	**215.66**
Revaluation result	65.43	-178.09	-129.09	19.46	35.64	79.51
Depreciation/amortization	-4.63	-112.30	-9.85	-1.90	-2.20	-2.25
Operating profit	**151.49**	**-152.62**	**3.01**	**161.10**	**240.52**	**292.92**
Financial result	-39.29	-142.78	-137.53	-123.10	-138.26	-127.97
Pre-tax profit	**112.19**	**-295.40**	**-134.52**	**38.00**	**102.27**	**164.95**
Tax expenses	-22.20	0.51	-0.20	-7.60	-20.45	-32.99
Extraordinary result	0.00	0.00	0.00	0.00	0.00	0.00
Minority interests	31.92	-57.77	-57.80	1.52	7.36	11.88
Net result after minorities	**58.08**	**-237.12**	**-76.92**	**28.88**	**74.45**	**120.09**

Balance Sheet	2007	2008	2009	2010e	2011e	2012e
(IFRS, EUR mn, 31/12)						
Intangible assets	34.04	53.39	39.53	40.63	42.13	44.43
Tangible assets	2,541.06	3,622.38	3,388.24	3,710.70	5,024.72	5,043.07
- Investment property	2,319.63	2,520.67	2,409.59	2,784.91	4,072.55	4,354.50
- Investment property held for sale	0.00	0.00	0.00	0.00	0.00	0.00
- Development properties	215.71	1,079.82	962.46	909.20	920.28	656.34
- Other tangible assets	5.72	2.43	1.94	2.34	8.64	8.99
Financial assets	631.86	99.56	75.88	73.88	78.88	79.48
Total fixed assets	**3,206.95**	**3,775.33**	**3,503.65**	**3,825.21**	**5,145.73**	**5,166.99**
Inventories / trading properties	0.00	168.35	128.92	51.57	38.68	29.01
Receivables and other current assets	423.18	74.22	156.27	167.37	218.87	229.87
Cash and cash equivalents	192.47	321.38	497.20	159.62	216.92	216.92
Total current assets	**615.64**	**563.95**	**782.40**	**378.56**	**474.47**	**475.80**
Other assets	0.78	55.55	24.61	28.72	52.11	49.61
TOTAL ASSETS	**3,823.38**	**4,394.83**	**4,310.65**	**4,232.49**	**5,672.31**	**5,692.40**
Shareholders'equity	**1,922.94**	**1,622.95**	**1,559.01**	**1,641.47**	**1,688.70**	**1,792.28**
Minorities	342.51	231.70	170.16	21.81	177.74	189.61
Hybrid capital	0.00	0.00	0.00	0.00	0.00	0.00
Other equity and reserves	0.00	0.00	0.00	0.00	0.00	0.00
Long-term provisions	0.00	0.00	0.00	0.00	0.00	0.00
Interest-bearing LT debts	1,156.57	1,834.86	1,852.19	1,852.19	2,965.19	2,865.19
Other LT liabilities	102.98	329.12	347.39	349.99	418.67	431.55
Total long-term liabilities	**1,259.55**	**2,163.99**	**2,199.58**	**2,202.18**	**3,383.86**	**3,296.74**
Interest-bearing ST debts	251.47	88.86	124.28	124.28	124.28	115.83
Other ST liabilities	46.90	287.33	257.63	242.76	297.73	297.93
Total short-term liabilities	**298.37**	**376.19**	**381.91**	**367.04**	**422.01**	**413.77**
TOTAL LIAB. , EQUITY	**3,823.38**	**4,394.83**	**4,310.65**	**4,232.49**	**5,672.31**	**5,692.40**

Cash Flow Statement	2007	2008	2009	2010e	2011e	2012e
(IFRS,EUR mn, 31/12)						
Cash flow from operating activities	84.00	169.66	130.76	-18.19	37.12	46.50
Cash flow from investing activities	-936.90	-127.80	72.77	-227.73	54.39	64.88
Cash flow from financing activities	897.50	89.07	-26.50	-91.66	-195.14	-111.38
CHANGE IN CASH , CASH EQU.	**44.60**	**130.93**	**177.02**	**-337.58**	**-103.62**	**0.00**

Margins & Ratios	2007	2008	2009	2010e	2011e	2012e
ROE	3.7%	-13.4%	-4.8%	1.8%	4.5%	6.9%
Equity ratio	59.3%	42.2%	40.1%	39.3%	32.9%	34.8%
Net debt	1,215.6	1,602.3	1,479.3	1,816.9	2,872.5	2,764.1
Loan-to-value (LTV)	46.8%	42.0%	41.8%	48.1%	56.8%	54.6%
Gearing	53.7%	86.4%	85.5%	109.2%	153.9%	139.5%

Source: CA Immo Group, Erste Group Research

CA IMMO International from Hold to Reduce

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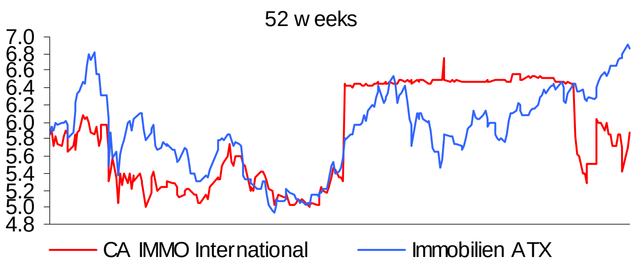
EUR mn	2009	2010e	2011e	2012e
Rental income	40.3	47.3	54.8	65.8
Revaluation result	-152.0	2.6	2.2	24.7
EBIT	-126.1	33.8	40.5	73.6
Net result after min.	-121.3	9.6	13.5	39.5
EPS (EUR)	-2.84	0.22	0.31	0.91
CEPS (EUR)	0.16	0.16	0.23	0.47
BVPS (EUR)	9.3	9.7	10.0	10.7
NAV/share (EUR)	9.6	10.1	10.4	11.3
Div./share (EUR)	0.00	0.00	0.20	0.21
P/E (x)	nm	26.6	19.0	6.5
P/CE (x)	32.5	36.7	25.0	12.6
P/NAV (x)	0.55	0.58	0.56	0.52
EV/EBITDA (x)	19.5	21.8	18.5	13.5
Dividend Yield	0.0%	0.0%	3.3%	3.5%



Performance	12M	6M	3M	1M
in EUR	0.5%	8.1%	-9.1%	5.0%

Share price (EUR)	5.88	Reuters	CAII.VI	Free float	2.9%
Number of shares (mn)	43.5	Bloomberg	CAII AV	Shareholders	CA Immo (97.1%)
Market capitalization (EUR mn)	255.5	Div. Ex-date			
Enterprise value (EUR mn)	702.3	**Target price**	**5.7**	Homepage:	www.caimmointernational.com

Merger with CA Immo approaching

- **We downgrade our recommendation to Reduce, with a target price of EUR 5.7 (previously EUR 6.5). Following a successful takeover bid for the free float shares of CA Immo Int. (CAII) by its holding company CA Immo (CAI), the next planned step in the coming weeks is the merger of the two companies. Based on the announced exchange ratio (10 CAI shares for 19 CAII shares) and a current price of EUR 10.54 for CAI shares, we calculate an implicit value for CAII shares of EUR 5.55. However, as we expect a positive development of CAI shares in the coming weeks and also wouldn't exclude selective stock purchases from CAI side, we set our target price slightly above the calculated implicit value at EUR 5.7, reflecting moderate downside potential from the current stock price. We therefore downgrade our recommendation on the stock of CAII to Reduce (from Hold).**

- **Following eight consecutive quarters with losses, CAII turned positive in 2Q10, reporting net profit of EUR 9.8mn, considerably better than expected. The main divergence from our forecasts came from positive taxes, whereas all other P&L items came in more or less in line with our estimates. Rental income advanced further, based on recent completions. However, since these properties are still in a marketing phase and therefore carry higher vacancy rates, the advance in net operating income was slightly lower than would be expected in relation to rental growth. Including the recently finalized development projects, the occupancy rate stood at 86%, compared with 84% in 1Q10. Based on the positive development in NOI and declining indirect expenses, the advance in EBITDA was even stronger. Besides the nice operating result, the turn into positive territory of the net result was mainly driven by the positive contribution from the revaluation of properties and positive income taxes.**

- **As CAII reached (with EUR 16.4mn) about 51% of our FY10 EBITDA estimate already in the first-half, we still feel quite comfortable with our forecast. We also left our EBITDA estimates for 2011 and 2012 unchanged. However, due to the better than expected revaluation result and the positive contribution from income taxes, we adjusted our net profit estimates somewhat upward.**

2Q10 earnings review

Bottom line turned positive on revaluation result, beating expectations

Following eight consecutive quarters with losses, CAII turned positive in 2Q10, reporting a net profit of EUR 9.8mn, considerably better than expected. The main divergence from our forecasts came from positive taxes (we expected negative taxes of EUR -0.9mn), whereas all other P&L items came in more or less in line with our estimates. Based on the recent completion of development projects - Capital Square (Budapest), Sava City (Belgrade) and Dunacenter (Györ) – rental income in the second quarter advanced further to EUR 11.6mn (5.8% q/q, +15.7% y/y). However, since these properties are still in a marketing phase and therefore carry higher vacancy rates, the advance in net operating income (+7.7% q/q, +13.9% y/y) was slightly lower than would be expected in relation to rental growth. The occupancy rate increased slightly further to 93%, vs. 92% in 1Q10. Including the recently finalized development projects mentioned above, the occupancy rate stood at 86%, compared with 84% in 1Q10.

Strong development of EBITDA and operating cash flow

Based on the positive development in NOI and declining indirect expenses, the advance in EBITDA was even stronger (+10.6% q/q, +23.9% y/y) and operating cash flow improved to EUR 8.5mn (+22.0% q/q, +27.9% y/y). Besides the pleasant operating result trend, the turn into positive territory of the net result was mainly driven by the positive contribution from the revaluation of properties (EUR 4.7mn) and positive income taxes of about EUR 1mn. Taken altogether, EPS reached EUR 0.23 and BVPS and NNNAV/share advanced slightly to EUR 9.42 (+2.3% q/q) and EUR 9.66 (+2.0% q/q), respectively.

2Q10 results

Consolidated, IFRS	Reported			Expected 2Q 10	Reported 2Q 10	Reported		
(EUR, mn)	2Q 10	2Q 09	y/y	Erste Group	vs. Erste Group	1-2Q 10	1-2Q 09	y/y
Rental revenues	11.6	10.1	15.7%	11.7	-0.2%	22.7	19.9	14.0%
Total revenues	**14.8**	**12.9**	**14.1%**	**14.9**	-1.0%	**29.0**	**25.5**	**14.0%**
Net operating income	**10.0**	**8.8**	**13.9%**	**10.0**	0.5%	**19.3**	**17.4**	**11.1%**
Result from sale of properties	0.0	0.0	n.m.	0.0	n.m.	0.0	0.0	n.m.
EBITDA	**8.6**	**7.0**	**23.9%**	**8.4**	**2.0%**	**16.4**	**13.5**	**21.3%**
Revaluation of properties	4.7	-43.6	n.m.	4.5	4.4%	-3.4	-102.9	-96.7%
EBIT	**13.3**	**-36.7**	**n.m.**	**12.9**	**2.7%**	**13.0**	**-89.5**	**n.m.**
Net result after minorities	**9.8**	**-34.3**	**n.m.**	**7.5**	**30.3%**	**6.3**	**-80.8**	**n.m.**
Operating cash flow	**8.5**	**6.6**	**27.9%**	**n.a.**	**n.a.**	**15.4**	**12.7**	**21.1%**
EPS (EUR)	0.23	-0.79	n.m.			0.15	-1.86	n.m.
Operating cash flow/share (EUR)	0.20	0.15	30.2%			0.37	0.29	24.6%
NAV/share (BVPS) (EUR)	9.42	10.34	-8.9%			9.42	10.34	-8.9%
NNNAV/share (EUR)	9.66	10.59	-8.8%			9.66	10.59	-8.8%

Source: CA Immo Int., Erste Group Research

Quarterly development of key figures

Consolidated, IFRS (EUR, mn)	2Q 10	q/q	1Q 10	q/q	4Q 09	q/q	3Q 09	q/q	2Q 09	q/q
Rental revenues	11.6	5.8%	11.0	7.3%	10.3	1.0%	10.1	0.8%	10.1	2.8%
Total revenues	**14.8**	**3.5%**	**14.3**	**10.5%**	**12.9**	**-0.5%**	**13.0**	**0.2%**	**12.9**	**3.4%**
Net operating income	**10.0**	**7.7%**	**9.3**	**9.9%**	**8.5**	**-4.0%**	**8.8**	**0.3%**	**8.8**	**2.3%**
Result from sale of properties	0.0	n.m.	0.0	n.m.	-0.1	n.m.	0.0	n.m.	0.0	n.m.
EBITDA	**8.6**	**10.6%**	**7.8**	**61.7%**	**4.8**	**-27.1%**	**6.6**	**-5.0%**	**7.0**	**5.8%**
Revaluation of properties	4.7	n.m.	-8.1	-67.6%	-24.9	3.5%	-24.1	-44.8%	-43.6	-26.5%
EBIT	**13.3**	n.m.	**-0.3**	**-98.4%**	**-20.1**	**14.9%**	**-17.5**	**-52.2%**	**-36.7**	**-30.5%**
Net result after minorities	**9.8**	**n.m.**	**-3.5**	**-79.1%**	**-16.6**	**-35.5%**	**-25.8**	**-24.8%**	**-34.3**	**-26.3%**
Operating cash flow	**8.5**	**22.0%**	**7.0**	**63.7%**	**4.2**	**-34.7%**	**6.5**	**-2.0%**	**6.6**	**8.5%**
EPS (EUR)	0.23	n.m.	-0.08	-79.5%	-0.39	-33.9%	-0.59	-25.3%	-0.79	-26.2%
Operating cash flow/share (EUR)	0.20	24.3%	0.16	60.7%	0.10	-33.1%	0.15	-2.6%	0.15	8.7%
NAV/share (BVPS) (EUR)	9.42	2.3%	9.21	-1.3%	9.33	-4.1%	9.73	-5.9%	10.34	-6.6%
NNNAV/share (EUR)	9.66	2.0%	9.47	-1.3%	9.59	-4.3%	10.02	-5.4%	10.59	-7.2%

Source: CA Immo Int., Erste Group Research

Outlook and valuation

Further reduction of vacancy rate

As mentioned during the CC following the presentation of the 2Q10 figures, CAII management expects a further stabilization of CEE property markets, albeit to a varying degree from country to country. Based on this market assessment, the main focus of the company in the following quarters will be on letting (as it has been in recent months), with the aim to reduce vacancy rates, especially in recently competed development projects.

Upcoming merger with CA Immo

However, the key event for CAII in the coming weeks will be the planned merger with CAI. Following the end of the acceptance period for the voluntary takeover bid for the free float shares of CAII, CAI increased its shareholding from 63.05% to 97.14%. The takeover price was EUR 6.50 per share. The proposed merger with a retroactive effect back to 31.12.2009 ("effective merger date") should take place on the basis of an exchange ratio calculated based on the NAVs as of June 20, 2010, of 10 CAI shares for 19 CAII shares. The merger is still subject to approval from the extraordinary general meeting of CAII scheduled for September 27. As CAI holds the majority of CAII shares, this is just a formality. According to §231 of Austrian Stock Corporation law, a general meeting of CAI is not necessary.

Downgrade to Reduce, target price: EUR 5.7

Taking the announced exchange ratio and a current price of EUR 10.54 for CAI shares into account, we derive an implicit value of EUR 5.55 for CAII shares. However, as we expect a positive development of CAI shares in the coming weeks and also wouldn't exclude selective stock purchases from CAI side, we set our target price slightly above the calculated implicit value at EUR 5.7, reflecting moderate downside potential from the current stock price. We therefore downgrade our recommendation on the stock of CAII to Reduce (from Hold).

Moderate changes in estimates

As CAII reached (with EUR 16.4mn) about 51% of our FY10 EBITDA estimates already in the first half, we still feel quite comfortable with our forecast. We also left our EBITDA estimates for 2011 and 2012 unchanged. However, due to a better than expected financial result and positive contribution from income taxes in 1H10, we adjusted our net profit estimate for the current financial year upward and adjusted our mid-term forecasts somewhat.

Change in estimates

Consolidated, IFRS	2010e			2011e			2012e		
(EUR, mn)	Now	Before	*Change*	Now	Before	*Change*	Now	Before	*Change*
Rental income	47.3	47.3	*0.0%*	54.8	54.8	*0.0%*	65.8	65.8	*0.0%*
Total revenues	**61.9**	**61.9**	*0.0%*	**71.8**	**71.8**	*0.0%*	**86.2**	**86.2**	*0.0%*
Net operating income (NOI)	**43.0**	**43.0**	*0.0%*	**49.9**	**49.9**	*0.0%*	**59.9**	**59.9**	*0.0%*
Result from the sale of property	0.0	0.0	*n.m.*	1.1	1.1	*0.0%*	2.3	2.3	*0.0%*
EBITDA	**32.2**	**32.2**	*0.0%*	**39.7**	**39.7**	*0.0%*	**50.5**	**50.5**	*0.0%*
Revaluations/Impairments/Depr.	1.6	1.6	*0.0%*	0.8	0.8	*0.0%*	23.0	23.0	*0.0%*
EBIT	**33.8**	**33.8**	*0.0%*	**40.5**	**40.5**	*0.0%*	**73.6**	**73.6**	*0.0%*
Net profit	**9.6**	**6.1**	*56.8%*	**13.5**	**11.1**	*21.2%*	**39.5**	**37.1**	*6.2%*
EPS (EUR)	0.22	0.14	*56.8%*	0.31	0.26	*21.2%*	0.91	0.85	*6.2%*
CEPS (EUR)	0.16	0.10	*61.6%*	0.23	0.17	*41.9%*	0.47	0.40	*16.9%*
DPS (EUR)	0.00	0.00	*n.m.*	0.20	0.19	*n.m.*	0.21	0.20	*n.m.*
BVPS (EUR)	9.69	9.61	*0.8%*	10.00	9.87	*1.4%*	10.71	10.53	*1.8%*
NAV/share (EUR)	10.15	10.05	*1.0%*	10.44	10.27	*1.7%*	11.27	11.04	*2.1%*

Source: Erste Group Research

Ratios

Per share figures	in: EUR	2007	2008	2009	2010e	2011e	2012e
EPS (basic)		1.58	-2.22	-2.84	0.22	0.31	0.91
EPS (diluted)		1.58	-2.22	-2.84	0.22	0.31	0.91
CEPS		0.43	0.38	0.16	0.16	0.23	0.47
BVPS		14.93	12.20	9.33	9.69	10.00	10.71
Tangible BVPS		14.93	12.20	9.33	9.69	10.00	10.71
NAV/share		15.83	12.65	9.59	10.15	10.44	11.27
DPS		0.35	0.00	0.00	0.00	0.20	0.21
Payout ratio		22%	0%	0%	0%	63%	23%
End-of-period no. of shares (mn)		43.46	43.46	43.46	43.46	43.46	43.46
Avg.-period no. of shares (mn)		43.46	43.46	43.46	43.46	43.46	43.46
Profitability	**in: %**	**2007**	**2008**	**2009**	**2010e**	**2011e**	**2012e**
Rental income / avg. income-gen. properties [Rental yield]		6.9%	6.5%	6.7%	7.2%	7.1%	7.7%
Net oper. income / avg. income-gen. properties [NOI yield]		6.5%	6.3%	5.8%	6.5%	6.4%	7.0%
ROE		11.1%	-16.4%	-25.9%	2.3%	3.2%	8.8%
ROA		7.5%	-11.9%	-14.1%	1.1%	1.3%	3.8%
ROCE (real estate)		9.9%	-12.2%	-15.4%	3.4%	3.7%	6.4%
Financial structure	**in: %**	**2007**	**2008**	**2009**	**2010e**	**2011e**	**2012e**
Total equity / total assets [equity ratio]		71%	56%	48%	42%	42%	46%
Total debt / total assets [debt ratio]		29%	44%	52%	58%	58%	54%
Net debt / total equity [gearing ratio]		13%	30%	61%	97%	101%	84%
Loan-to-value (LTV) ratio		12%	21%	36%	47%	48%	43%
Cash ratio		296%	164%	111%	71%	57%	57%
Current ratio		318%	177%	122%	91%	79%	83%
Interest coverage ratio (x)		2.01	2.02	1.43	1.46	1.55	2.00
P&L structure	**in: %**	**2007**	**2008**	**2009**	**2010e**	**2011e**	**2012e**
Net operating income / total revenues [NOI margin]		69%	72%	68%	69%	69%	69%
EBITDA / total revenues [EBITDA margin]		51.7%	62.0%	50.5%	52.0%	55.3%	58.6%
EBIT / total revenues [EBIT margin]		158.4%	-119.3%	-245.6%	54.5%	56.4%	85.3%
EBT / total revenues [EBT margin]		155.4%	-182.2%	-288.2%	21.0%	24.0%	58.4%
Net result / total revenues [Net margin]		128.5%	-225.9%	-258.1%	16.8%	19.2%	46.7%
Revaluation result / EBIT		69.5%	75.2%	120.5%	7.6%	5.5%	33.6%
Effective tax rate		-17.3%	24.0%	-10.4%	-20.0%	-20.0%	-20.0%
Balance sheet structure	**in: %**	**2007**	**2008**	**2009**	**2010e**	**2011e**	**2012e**
Investment properties / Tangible assets		84%	78%	90%	82%	93%	98%
Properties for sale / Tangible assets		0%	0%	0%	0%	0%	0%
Development properites / Tangible assets		15%	22%	10%	18%	7%	2%
Tangible assets / Total assets		73%	75%	76%	83%	83%	83%
Total LT liabilities / Total liabilities		83%	79%	77%	85%	85%	83%
Total ST liabilities / Total liabilities		17%	21%	23%	15%	15%	17%
Total liabilities / Total assets		29%	44%	52%	58%	58%	54%
Growth rates	**in: %**	**2007**	**2008**	**2009**	**2010e**	**2011e**	**2012e**
Rental income y/y		0%	1%	4%	17%	16%	20%
Total revenues y/y		10%	-1%	-1%	21%	16%	20%
Net operating income y/y		7%	2%	-7%	24%	16%	20%
EBITDA y/y		-15%	19%	-19%	24%	23%	27%
EBIT y/y		30%	-175%	103%	-127%	20%	82%
EBT y/y		38%	-216%	56%	-109%	32%	193%
Net result y/y		43%	-241%	26%	-108%	40%	193%
Investment properties y/y		17%	-2%	3%	17%	19%	3%
Properties for sale (trading properties) y/y		n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Developments/properties under construction y/y		463%	48%	-58%	125%	-61%	-77%
Tangible assets y/y		34%	5%	-10%	28%	4%	-2%
Total assets y/y		18%	2%	-11%	18%	4%	-1%
Total LT liabilities y/y		10%	47%	2%	44%	4%	-9%
Total ST liabilities y/y		63%	87%	15%	-13%	5%	0%
Total liabilities y/y		16%	54%	5%	31%	4%	-7%
Shareholders' equity y/y		19%	-19%	-24%	4%	3%	7%

Source: CA Immo Int., Erste Group estimates

Income Statement	**2007**	**2008**	**2009**	**2010e**	**2011e**	**2012e**
(IFRS, EUR mn, 31/12)	31/12/2007	31/12/2008	31/12/2009	31/12/2010	31/12/2011	31/12/2012
Total revenues	**52.33**	**51.99**	**51.35**	**61.91**	**71.78**	**86.19**
- Rental Income	38.11	38.66	40.27	47.26	54.79	65.80
- Operating costs charged	11.33	12.08	11.08	14.65	16.99	20.40
- Other	2.90	1.26	0.00	0.00	0.00	0.00
Operating expenses	-16.01	-14.81	-16.66	-18.90	-21.92	-26.32
Net operating income	**36.32**	**37.19**	**34.69**	**43.01**	**49.86**	**59.87**
Result from the sale of investment property	3.94	7.01	0.92	0.00	1.11	2.28
Result from the sale of trading property	0.00	0.00	0.00	0.00	0.00	0.00
Total administrative expenses	-14.57	-13.65	-11.26	-12.30	-12.49	-13.02
Other operating result	1.35	1.67	1.59	1.50	1.20	1.40
EBITDA	**27.04**	**32.22**	**25.94**	**32.20**	**39.67**	**50.54**
Revaluation result	57.57	-46.67	-151.95	2.56	2.21	24.72
Depreciation/amortization	-1.72	-47.57	-0.10	-1.00	-1.40	-1.70
Operating profit	**82.90**	**-62.02**	**-126.11**	**33.77**	**40.48**	**73.56**
Financial result	-1.60	-32.70	-21.87	-20.79	-23.29	-23.24
Pre-tax profit	**81.30**	**-94.72**	**-147.98**	**12.98**	**17.20**	**50.32**
Tax expenses	-14.06	-22.75	15.45	-2.60	-3.44	-10.06
Extraordinary result	0.00	0.00	0.00	0.00	0.00	0.00
Minority interests	-1.25	-20.91	-11.27	0.78	0.28	0.81
Net result after minorities	**68.49**	**-96.56**	**-121.26**	**9.61**	**13.48**	**39.45**

Balance Sheet	**2007**	**2008**	**2009**	**2010e**	**2011e**	**2012e**
(IFRS, EUR mn, 31/12)						
Intangible assets	0.74	0.48	0.85	0.68	0.78	0.68
Tangible assets	712.27	750.65	673.90	861.61	900.21	881.11
- Investment property	598.97	588.19	605.00	707.96	839.98	866.34
- Investment property held for sale	0.00	0.00	1.00	0.00	0.00	0.00
- Development properties	109.42	162.24	67.73	152.42	58.80	13.24
- Other tangible assets	3.88	0.23	0.18	1.23	1.43	1.53
Financial assets	103.47	79.07	75.31	85.47	89.12	93.42
Total fixed assets	**816.49**	**830.21**	**750.06**	**947.76**	**990.11**	**975.21**
Inventories / trading properties	0.00	1.25	1.25	1.25	1.25	1.25
Receivables and other current assets	11.01	11.11	10.79	17.04	19.94	22.84
Cash and cash equivalents	143.59	148.80	115.92	64.93	54.90	54.90
Total current assets	**154.59**	**161.16**	**127.96**	**83.21**	**76.09**	**78.99**
Other assets	4.73	4.88	5.74	9.18	12.68	10.68
TOTAL ASSETS	**975.80**	**996.24**	**883.76**	**1,040.15**	**1,078.88**	**1,064.88**
Shareholders'equity	**649.09**	**530.13**	**405.63**	**421.15**	**434.63**	**465.53**
Minorities	42.96	28.37	19.01	19.53	19.81	20.62
Hybrid capital	0.00	0.00	0.00	0.00	0.00	0.00
Other equity and reserves	0.00	0.00	0.00	0.00	0.00	0.00
Long-term provisions	0.00	0.00	0.00	0.00	0.00	0.00
Interest-bearing LT debts	207.68	287.22	310.66	462.22	482.22	432.22
Other LT liabilities	27.52	59.63	42.88	45.84	46.32	51.03
Total long-term liabilities	**235.20**	**346.85**	**353.54**	**508.07**	**528.54**	**483.25**
Interest-bearing ST debts	26.51	29.96	64.63	29.96	29.96	29.35
Other ST liabilities	22.06	60.94	40.94	61.45	65.95	66.15
Total short-term liabilities	**48.56**	**90.90**	**104.57**	**91.40**	**95.90**	**95.49**
TOTAL LIAB. , EQUITY	**975.80**	**996.24**	**883.76**	**1,040.15**	**1,078.88**	**1,064.88**

Cash Flow Statement	**2007**	**2008**	**2009**	**2010e**	**2011e**	**2012e**
(IFRS,EUR mn, 31/12)						
Cash flow from operating activities	21.30	19.84	26.63	6.92	15.05	20.04
Cash flow from investing activities	60.40	-33.70	-122.23	-149.28	-42.84	36.62
Cash flow from financing activities	28.38	21.10	63.91	103.78	17.78	-56.66
CHANGE IN CASH , CASH EQU.	**109.62**	**5.22**	**-32.88**	**-38.58**	**-10.02**	**0.00**

Margins & Ratios	**2007**	**2008**	**2009**	**2010e**	**2011e**	**2012e**
ROE	11.1%	-16.4%	-25.9%	2.3%	3.2%	8.8%
Equity ratio	70.9%	56.1%	48.0%	42.4%	42.1%	45.7%
Net debt	90.6	168.4	259.4	427.3	457.3	406.7
Loan-to-value (LTV)	11.8%	21.1%	36.4%	46.8%	48.0%	43.4%
Gearing	13.1%	30.1%	61.1%	97.0%	100.6%	83.7%

Source: CA Immo Int., Erste Group estimates

Company Report – Real Estate Investor – Austria – September 24, 2010

conwert from Buy to Accumulate

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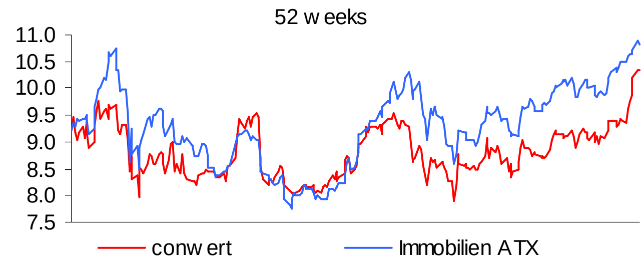
EUR mn	2009	2010e	2011e	2012e
Rental income	118.9	135.8	160.8	151.0
Revaluation result	1.6	90.9	23.7	24.1
EBIT	94.9	167.4	154.3	145.5
Net result after min.	23.8	63.2	54.1	53.0
EPS (EUR)	0.29	0.77	0.67	0.66
CEPS (EUR)	0.57	0.49	0.62	0.61
BVPS (EUR)	15.7	16.2	16.7	17.0
NAV/share (EUR)	13.7	15.0	15.6	16.1
Div./share (EUR)	0.25	0.30	0.35	0.35
P/E (x)	29.1	13.4	15.6	15.7
P/CE (x)	14.9	21.0	16.7	17.0
P/NAV (x)	0.62	0.69	0.66	0.64
EV/EBITDA (x)	21.1	23.4	18.6	18.5
Dividend Yield	2.9%	2.9%	3.4%	3.4%



Performance	12M	6M	3M	1M
in EUR	12.4%	23.3%	17.7%	14.7%

Share price (EUR)	10.36	Reuters	CONW.VI	Free float	83.0%
Number of shares (mn)	84.7	Bloomberg	CWI AV	Shareholders	Petrus Advisers (17.0%)
Market capitalization (EUR mn)	877.6	Div. Ex-date			Treasury shares (1%)
Enterprise value (EUR mn)	2,819.0	**Target price**	**11.5**	Homepage:	www.conwert.at

ECO takeover to have positive effects

- **After fully including the successfully taken over ECO Business-Immo in our forecasts, we increase the target price from EUR 10.7 to EUR 11.5. Given the strong share price appreciation since our last report in June, we lower our recommendation from Buy to Accumulate.**

- **After including ECO, there will be a positive one-off effect from the acquisition of shares below book value, which is partly compensated for by a goodwill/intangibles write-down in our projection model. All in all, we increase our EPS estimate for 2010 from EUR 0.47 to EUR 0.77, but slightly lower our estimates for 2011 and 2012 to EUR 0.67 and EUR 0.66, respectively (from EUR 0.71 and EUR 0.73), mainly as a result of a more cautious revaluation result projection.**

- **conwert already announced that it controls >90% of ECO shares. Based on recent press statements from CEO Kowar, conwert is very likely to go for a merger following the offer period. We assume that this will happen at the NAV (BVPS) exchange ratio.**

- **conwert's share buyback program is theoretically still running (approval only up to EUR 10.0), but the terms will be changed at the next EGM in October (approval up to EUR 14.0 proposed). Additional stock purchases on behalf of Petrus Advisers could be a further stock price trigger. As the main drawback for the stock, we see the fact that conwert only generates a normalized ROE of around 4%, based on our projections.**

2Q10 results

Slightly above our estimates

The reported 2Q10 results were slightly above our estimates: rental income was nearly stable at EUR 41.3mn (+2% y/y). Selling activity amounted to EUR 73.3mn in 2Q, up a solid 17% y/y. The IFRS selling margin in 2Q reached 11.4%, compared to our estimate of 12.7%, so slightly worse than expected and clearly behind the excellent margin of 17.7% in 1Q. However, this was due to one property sale (EUR 20mn) from the Haselsteiner portfolio that was basically just sold through. The revaluation result was clearly positive (EUR 6.4mn, compared to our estimate of only EUR 1.0mn). This is also the main difference compared to our estimates. The BVPS reached EUR 15.20 (after EUR 15.84 as of March 31, 2010). The decline is due to the dividend payment and the resale of treasury shares.

conwert 2Q2010 results

Consolidated, IFRS (EUR, mn)	Reported 1H 2010	1H 2009	y/y	Exp. 1H10 Erste	Rep. vs. Erste	Reported 2Q 10	2Q 09	y/y
Rental income	80.5	80.3	0%	80.3	0.2%	41.30	40.35	2%
Total revenues	218.0	227.9	-4%	206.0	5.8%	125.40	112.47	12%
EBITDA	50.6	55.6	-9%	51.3	-1.4%	25.70	28.65	-10%
Revaluation result	6.2	-3.1	-299%	0.8	nm	6.40	-2.97	n.m.
EBIT	51.7	47.3	9%	47.1	9.7%	29.50	23.12	28%
Net result	12.2	13.7	-11%	11.4	7.2%	8.50	6.88	24%
EPS (EUR)	0.15	0.17	-12%	0.14	7.1%	0.10	0.09	11%
FFO	27.40	44.44	-38%	26.5	3.4%	14.40	20.57	-30%

Source: Company Data, Erste Group Research

conwert confirmed that it expects at least EUR 275mn in property sales this year (and very likely even more than that), with a 10-15% IFRS margin. The earnings outlook was slightly revised (necessary after the successful ECO takeover) and conwert now expects an increase in results compared to 2009 (slightly better than before).

Successful ECO majority takeover

Voluntary offer from conwert successful

At the beginning of August, conwert informed shareholders that it was successful with its voluntary takeover bid for ECO shares. After the end of the first acceptance period, conwert confirmed that the offer was accepted by the holders of 21,236,065 ECO shares, i.e. approx. 62.3% of all ECO shares. The required acceptance threshold of 50% plus one share was therefore clearly reached. Taking into account the ECO shares that conwert held prior to the takeover offer plus shares that conwert continues to buy over the market, conwert already controls over 90% of ECO's share capital.

Merger with ECO to follow

The acceptance period was extended for a further three months in accordance with § 19 (3) of the Austrian Takeover Act, ending November 3, 2010, 17:00 local time in Vienna. According to Austrian law, conwert's ownership of >90% of ECO means that it could go for (1) a squeeze-out procedure to get rid of the remaining ECO free float shareholders, or (2) a merger procedure (just as in the case of CA Immo and CA Immo Int.). In a newspaper interview, CEO Kowar stated that they will go for a merger with ECO. In the case of CA Immo / CA Immo Int. and Immofinanz / Immoeast, such a merger was done at the NAV per share exchange ratio, which we also expect in the case of conwert and ECO.

Estimate changes

Significant influence from ECO consolidation

Compared to our last report in June, we now fully include ECO as of August 2010. This obviously increases rental income, NOI and EBITDA. Concerning the revaluation result, we have become a little bit more cautious. Given that this is non-cash, the influence on the valuation itself is limited. The increase in net result in 2010 is triggered by the inclusion of a positive one-off effect of around EUR 80mn from the purchase of ECO shares below their book value. However, this is partly compensated for in our model by one-off costs, mainly the write-downs of the ECO management company book value. We assumed EUR 34mn for this, so there remains a net pre-tax positive effect of EUR 46mn in our projections.

Change in estimates

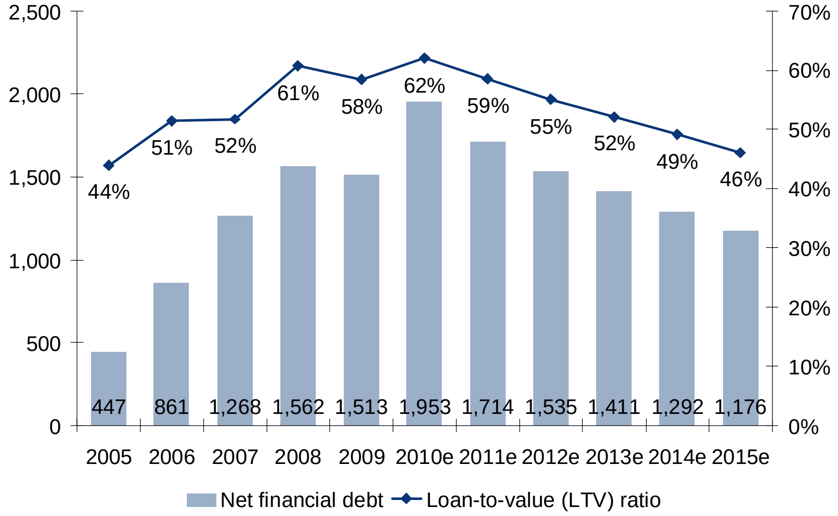
Consolidated, IFRS (Currency, mn)	2010e Now	2010e Before	2010e Change	2011e Now	2011e Before	2011e Change	2012e Now	2012e Before	2012e Change
Rental income	135.8	125.8	*7.9%*	160.8	130.8	*22.9%*	151.0	130.4	*15.7%*
Net operating income	144.9	137.5	*5.4%*	165.8	143.2	*15.8%*	158.2	143.7	*10.1%*
EBITDA	120.5	115.3	*4.5%*	137.6	115.7	*18.9%*	128.4	117.3	*9.5%*
Revaluation result	90.9	7.9	*n.m.*	23.7	34.8	*-31.7%*	24.1	33.9	*-28.9%*
EBIT	167.4	113.2	*47.8%*	154.3	140.5	*9.9%*	145.5	141.2	*3.1%*
Net result after min.	63.2	38.5	*64.3%*	54.1	57.8	*-6.4%*	53.0	58.2	*-8.9%*
EPS	0.77	0.47	*64.3%*	0.67	0.71	*-6.4%*	0.66	0.73	*-8.9%*
BVPS	16.20	15.89	*1.9%*	16.73	16.47	*1.6%*	17.04	16.84	*1.2%*
NAV/share	14.99	14.09	*6.4%*	15.64	14.84	*5.4%*	16.10	15.43	*4.3%*

Source: Erste Group Research

Effect on NAV better than BVPS

The significant difference in the effect on BVPS and NAV per share is due to the fact that we fully adjust any goodwill or similar intangible assets in our NAV calculation, so the full positive effect of the initial consolidation is only visible in the estimated NAV per share. The financial result is additionally impacted by the net financial debt being taken over and the use of funds for the purchase of ECO shares. The increase in net debt and LTV following the ECO takeover is clearly visible in the chart below.

Net debt (EURmn) and LTV

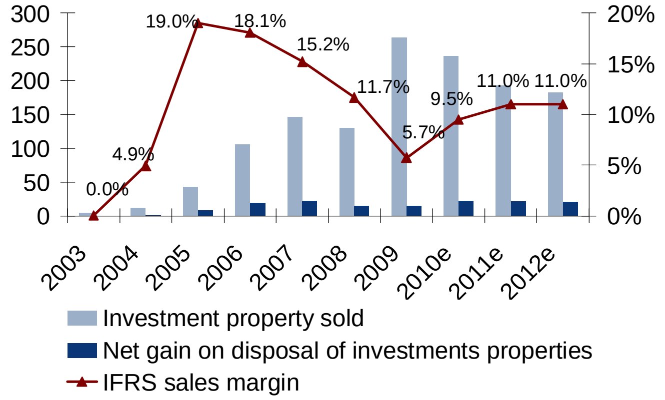


Source: Company data, Erste Group estimates

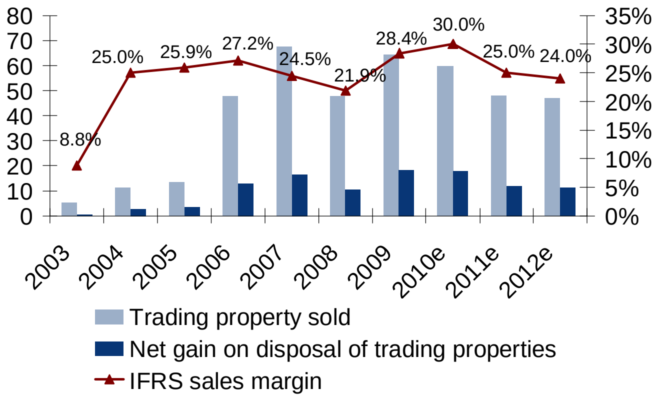
Back to pre-takeover LTV ratios in 2012

According to our estimates, conwert should be back to pre-takeover LTV ratios in 2012, assuming regular sales activity at conwert and a step-by-step liquidation of the previous ECO portfolio. The detailed assumptions concerning sales activity at conwert can be seen in the following two charts, whereby ECO sales are also included beginning with August 2010, i.e. the date of full consolidation.

Investment property sales (EURmn)



Trading property sales (EURmn)



Source: Company data, Erste Group estimates

Valuation and target price

Our target price setting method remains unchanged: 75% DCF and 25% NAV per share. The peer group analysis is shown for information purposes only. Compared to our last report, we have made the following changes in our valuations:

- Full consolidation of ECO for the whole projection period, however, with a step-by-step liquidation of ECO's properties – with assumed minor sales losses compared to the previous fair values
- Exclusion of the previous minority stake in ECO as a non-operating asset in our DCF valuation
- No changes in the cost of capital, terminal value growth, TV capital composition, etc.
- Moving of the NAV per share from Dec. 31, 2009 to Dec. 31, 2010, which now already includes the positive one-off effect from the ECO takeover

Recommendation lowered from Buy to Accumulate

Given that our DCF result increased from EUR 9.6 to EUR 10.4 (compared to our last report from June 2010), we can say that the ECO takeover at EUR 7.15 had a positive impact on the overall results. Of course, both free cash flows and net debt levels were significantly increased, but the two effects largely compensated for one another. What remains, however, is the clearly positive impact of the takeover on our NAV per share projection. Instead of the previous EUR 14.1, we now project a EUR 15.0 NAV per share as of Dec. 31, 2010 (Erste Group definition, excl. intangibles). Given that the projected NAV flows with 25% into our target price calculation, the ultimate effect is an increase of our target price from EUR 10.7 to EUR 11.5. Given the significantly increased stock price since our last report, this now results in an Accumulate recommendation (after Buy).

Target price calculation		**Weight**
DCF based 12M target value	10.4	75%
NAV per share (Dec 31, 2010)	15.0	25%
12M target price (EUR)	**11.5**	

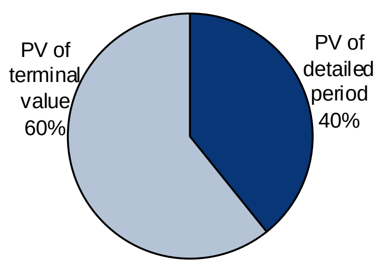
WACC calculation

	2011e	2012e	2013e	2014e	2015e	2016e (TV)
Risk free rate	3.0%	3.0%	3.0%	3.0%	3.0%	4.5%
Equity risk premium	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%
Beta	0.95	0.95	0.95	0.95	0.95	0.95
Cost of equity	**7.3%**	**7.3%**	**7.3%**	**7.3%**	**7.3%**	**8.8%**
Cost of debt	4.7%	4.7%	4.7%	4.7%	4.7%	5.2%
Effective tax rate	11.0%	11.0%	11.0%	11.0%	11.0%	11.0%
After-tax cost of debt	**4.2%**	**4.2%**	**4.2%**	**4.2%**	**4.2%**	**4.6%**
Equity weight	39%	42%	44%	47%	49%	50%
WACC	**5.4%**	**5.5%**	**5.6%**	**5.6%**	**5.7%**	**6.7%**

DCF valuation

(EUR mn)	2011e	2012e	2013e	2014e	2015e	2016e (TV)
Sales growth	*27.5%*	*-5.0%*	*-3.1%*	*-1.5%*	*-1.4%*	*1.5%*
EBITA	130.6	121.4	115.6	112.5	114.8	118.5
EBITA margin	*51.5%*	*50.4%*	*49.5%*	*48.9%*	*50.7%*	*51.5%*
Tax rate	11.0%	11.0%	11.0%	11.0%	11.0%	*11.0%*
Taxes on EBITA	-14.4	-13.4	-12.7	-12.4	-12.6	-13.0
NOPLAT	**116.2**	**108.1**	**102.9**	**100.1**	**102.2**	**105.4**
+ Depreciation	7.0	7.0	7.0	7.0	1.8	1.8
+/- Change in working capital	-7.6	-5.3	2.7	1.8	1.1	0.0
Chg. working capital / chg. Sales	*-13.8%*	*41.8%*	*-35.7%*	*-50.5%*	*-32.0%*	*0.0%*
- Capital expenditures	244.8	163.8	107.4	101.2	95.1	-6.0
Free cash flow to the firm	**360.5**	**273.6**	**220.0**	**210.1**	**200.2**	**101.2**
Terminal value growth						*2.0%*
Terminal value						2,195.6
Discounted free cash flow - Dec 31 2010	342.1	246.2	187.5	169.6	152.9	1,676.6
Enterprise value - Dec 31 2010	**2,774.8**					
Minorities	13.3					
Non-operating assets	0.0					
Net debt	1,953.1					
Other adjustments	0.0					
Equity value - Dec 31 2010	**808.3**					
Number of shares outstanding (mn)	82.3					
Cost of equity	7.3%					
12M target value per share (EUR)	**10.4**					
Current share price (EUR)	10.4					
Up/Downside	*-0.1%*					

Enterprise value breakdown



Sensitivity (per share)

WACC	Terminal value EBITA margin 47.5%	49.5%	51.5%	53.5%	55.5%
5.7%	13.9	15.1	16.2	17.3	18.4
6.2%	11.0	11.9	12.9	13.9	14.9
6.7%	8.6	9.5	**10.4**	11.2	12.1
7.2%	6.7	7.5	8.3	9.1	9.9
7.7%	5.2	5.9	6.6	7.3	8.0

WACC	Terminal value growth 1.0%	1.5%	2.0%	2.5%	3.0%
5.7%	10.1	12.8	16.2	20.6	26.6
6.2%	8.1	10.2	12.9	16.3	20.7
6.7%	6.4	8.2	**10.4**	13.0	16.4
7.2%	5.0	6.5	8.3	10.5	13.1
7.7%	3.8	5.1	6.6	8.4	10.6

Source: Erste Group estimates

Income Statement	**2007**	**2008**	**2009**	**2010e**	**2011e**	**2012e**
(IFRS, EUR mn, 31/12)	31/12/2007	31/12/2008	31/12/2009	31/12/2010	31/12/2011	31/12/2012
Total revenues	**110.65**	**187.99**	**198.90**	**221.18**	**253.63**	**241.06**
- Rental Income	83.22	110.44	118.90	135.82	160.80	150.97
- Operating costs charged	26.27	37.30	43.40	47.54	56.28	52.84
- Other	1.16	40.25	36.60	37.83	36.55	37.25
Operating expenses	-44.38	-62.04	-69.40	-76.30	-87.84	-82.83
Net operating income	**66.27**	**125.96**	**129.50**	**144.88**	**165.79**	**158.23**
Result from the sale of investment property	22.22	15.16	15.10	22.43	21.16	20.06
Result from the sale of trading property	16.55	10.44	18.30	17.95	11.99	11.27
Total administrative expenses	-34.23	-62.17	-65.40	-71.60	-70.35	-70.59
Other operating result	4.72	5.25	7.60	6.84	9.00	9.45
EBITDA	**75.53**	**94.64**	**105.00**	**120.50**	**137.59**	**128.42**
Revaluation result	97.84	-2.16	1.60	90.87	23.74	24.09
Depreciation/amortization	-0.85	-22.23	-11.60	-44.00	-7.00	-7.00
Operating profit	**172.53**	**70.25**	**94.90**	**167.37**	**154.34**	**145.51**
Financial result	-27.37	-98.80	-63.00	-79.87	-89.46	-81.84
Pre-tax profit	**145.15**	**-28.55**	**31.90**	**87.50**	**64.88**	**63.67**
Tax expenses	-29.00	-1.17	-8.20	-20.97	-10.46	-10.37
Extraordinary result	0.00	0.00	0.00	0.00	0.00	0.00
Minority interests	-1.22	-0.29	0.10	-3.33	-0.27	-0.27
Net result after minorities	**114.94**	**-30.01**	**23.80**	**63.21**	**54.14**	**53.03**

Balance Sheet	**2007**	**2008**	**2009**	**2010e**	**2011e**	**2012e**
(IFRS, EUR mn, 31/12)						
Intangible assets	222.80	216.21	205.51	162.01	155.51	149.01
Tangible assets	2,029.72	2,137.20	2,143.45	2,778.18	2,564.58	2,431.32
- Investment property	2,029.72	2,045.13	2,143.45	2,778.18	2,564.58	2,431.32
- Investment property held for sale	0.00	0.00	0.00	0.00	0.00	0.00
- Development properties	0.00	92.07	0.00	0.00	0.00	0.00
- Other tangible assets	0.00	0.00	0.00	0.00	0.00	0.00
Financial assets	110.02	76.73	76.20	5.20	5.20	5.20
Total fixed assets	**2,362.54**	**2,430.14**	**2,425.16**	**2,945.39**	**2,725.29**	**2,585.53**
Inventories / trading properties	315.53	360.12	373.90	369.08	361.10	354.15
Receivables and other current assets	169.69	147.93	98.10	106.67	117.72	114.16
Cash and cash equivalents	100.15	69.92	61.60	61.60	61.60	61.60
Total current assets	**585.37**	**577.97**	**533.60**	**537.35**	**540.42**	**529.92**
Other assets	0.52	8.10	3.80	3.80	3.80	3.80
TOTAL ASSETS	**2,948.43**	**3,016.21**	**2,962.50**	**3,486.54**	**3,269.51**	**3,119.24**
Shareholders'equity	**1,386.84**	**1,261.07**	**1,269.90**	**1,332.69**	**1,343.26**	**1,367.85**
Minorities	20.42	13.14	10.00	13.33	13.60	13.87
Hybrid capital	0.00	0.00	0.00	0.00	0.00	0.00
Other equity and reserves	0.00	0.00	0.00	0.00	0.00	0.00
Long-term provisions	0.23	0.19	0.20	0.20	0.20	0.20
Interest-bearing LT debts	1,026.36	1,301.35	1,241.94	1,777.00	1,597.00	1,467.00
Other LT liabilities	93.75	70.03	63.68	80.47	85.69	90.99
Total long-term liabilities	**1,120.11**	**1,371.37**	**1,305.62**	**1,857.47**	**1,682.69**	**1,557.99**
Interest-bearing ST debts	341.83	330.99	332.70	237.73	178.84	129.28
Other ST liabilities	79.01	39.45	43.80	44.80	50.60	49.74
Total short-term liabilities	**420.84**	**370.44**	**376.50**	**282.53**	**229.43**	**179.02**
TOTAL LIAB. , EQUITY	**2,948.43**	**3,016.21**	**2,962.50**	**3,486.54**	**3,269.51**	**3,119.24**

Cash Flow Statement	**2007**	**2008**	**2009**	**2010e**	**2011e**	**2012e**
(IFRS,EUR mn, 31/12)						
Cash flow from operating activities	60.37	3.67	152.30	23.09	37.37	43.95
Cash flow from investing activities	-783.89	-145.86	89.90	-119.53	244.82	163.79
Cash flow from financing activities	736.32	113.73	-250.90	96.44	-282.19	-207.74
CHANGE IN CASH , CASH EQU.	**15.70**	**-30.23**	**-8.60**	**0.00**	**0.00**	**0.00**

Margins & Ratios	**2007**	**2008**	**2009**	**2010e**	**2011e**	**2012e**
ROE	10.3%	-2.3%	1.9%	4.9%	4.0%	3.9%
Equity ratio	47.7%	42.2%	43.2%	38.6%	41.5%	44.3%
Net debt	1,268.0	1,562.4	1,513.0	1,953.1	1,714.2	1,534.7
Loan-to-value (LTV)	51.7%	60.8%	58.5%	62.1%	58.6%	55.1%
Gearing	90.1%	122.6%	118.2%	145.1%	126.3%	111.1%

Source: Company data, Erste Group estimates

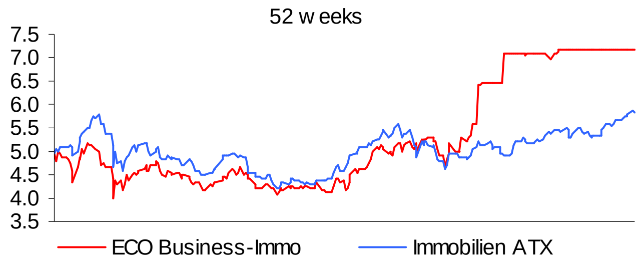
Sector Report – CEE Real Estate

Company Report – Real Estate Investor – Austria – September 24, 2010

ECO Business-Immo from Hold to Reduce

Günther Artner, CFA (Analyst) +43 (0)5 0100 -11523 guenther.artner@erstegroup.com

EUR mn	2009	2010e	2011e	2012e
Rental income	49.7	41.2	35.8	27.9
Revaluation result	-17.4	3.9	0.0	0.0
EBIT	12.4	29.7	18.4	14.3
Net result after min.	-6.9	11.7	6.4	7.3
EPS (EUR)	-0.20	0.34	0.19	0.21
CEPS (EUR)	-0.26	0.21	0.19	0.21
BVPS (EUR)	10.5	10.5	10.8	11.1
NAV/share (EUR)	10.3	10.4	10.7	10.9
Div./share (EUR)	0.00	0.00	0.00	0.00
P/E (x)	nm	20.9	38.1	33.6
P/CE (x)	-16.4	33.9	37.8	33.4
P/NAV (x)	0.42	0.69	0.67	0.65
EV/EBITDA (x)	20.2	21.1	19.6	15.8
Dividend Yield	0.0%	0.0%	0.0%	0.0%



Performance	12M	6M	3M	1M
in EUR	43.9%	64.7%	11.0%	0.0%

Share price (EUR)	7.15	Reuters	EBIV.VI	Free float	9.6%
Number of shares (mn)	34.1	Bloomberg	ECO AV	Shareholders	conwert (90.4%)
Market capitalization (EUR mn)	243.8	Div. Ex-date			
Enterprise value (EUR mn)	546.9	**Target price**	**7.1**	Homepage:	www.eco-immo.at

Time to get out

- **Following the successful takeover bid of conwert for ECO, we cut our rating to Reduce. ECO's new target price amounts to EUR 7.10 and is based on the latest BVPS ratio of conwert and ECO (0.69x) and an assumed conwert stock price of EUR 10.3. The target price is set under the assumption that there will finally be a merger between conwert and ECO.**

- **Following the extended offering period, which will run until November 3, 2010, 17:00 local time in Vienna, we believe that it is very likely that conwert will control significantly more than the current 90.4% of ECO. Following that, conwert will very likely go for a merger with ECO. In other cases, the exchange ratio in such a merger was simply based on NAVs (BVPS). As a result, we see a high probability that ECO will no longer be listed 12 months from now.**

- **Our recommendation for the remaining ECO investors is to accept the conwert bid in the extended offer period or to sell over the market at price levels close to the EUR 7.15 level. We see no further upside in this stock. Following the expiry of the November 3 deadline, we believe that there is a risk of minor share price losses.**

- **The reported 1H10 results fell somewhat short of our estimates, which did not have any impact on the stock price.**

Future of ECO shares

Voluntary offer from conwert successful

At the beginning of August, conwert informed shareholders that it was successful with its voluntary takeover bid for ECO shares. After the end of the first acceptance period, conwert confirmed that the offer was accepted by the holders of 21,236,065 ECO shares, i.e. approx. 62.3% of all ECO shares. The required acceptance threshold of 50% plus one share was therefore clearly reached. Taking into account the ECO shares that conwert held prior to the takeover offer plus shares that conwert continues to buy over the market, conwert already controls 90.4% of the share capital.

Recommen-dation - accept offer

The acceptance period was extended for a further three months in accordance with § 19 (3) of the Austrian Takeover Act, ending November 3, 2010, 17:00 local time in Vienna. During this time, the remaining shareholders can decide to accept the offer and file a declaration of acceptance with their depository bank. We expect that conwert will clearly hold significantly more than 90% following this extended offer period. According to the Austrian laws, this means that conwert could go for (1) a squeeze-out procedure to get rid of the remaining ECO free float shareholders, or (2) a merger procedure (just as in the case of CA Immo and CA Immo Int.). In this case, we cannot rule out losses for the remaining ECO free float shareholders in comparison to the EUR 7.15 cash offer. In case of CA Immo/CA Immo Int. and Immofinanz/Immoeast the merger terms were set according to the NAV (BVPS) exchange ratio.

As a result, we recommend that the remaining ECO investors accept the bid in the extended period or sell their ECO shares over the market at a price close to EUR 7.15.

2Q10 results snapshot

ECO Business-Immo 1H10 results

Consolidated, IFRS	Reported			Exp.	Rep. vs.	Reported		
(EUR, mn)	1H10	1H09	y/y	Erste	Erste	2Q10	2Q09	y/y
Rental revenues	27.97	31.73	-12%	27.39	2.1%	13.64	15.21	-10%
Revaluation result	2.81	-25.31	-111%	2.21	27.3%	1.60	-10.43	-115%
EBIT	19.85	-8.30	-339%	24.08	-17.6%	10.62	-2.11	-604%
Net result	9.55	-14.55	-166%	12.92	-26.1%	6.14	-4.72	-230%
BVPS (NAV)	10.48	10.27	2%	10.67	-1.8%	10.48	10.27	2%
EPS	0.28	-0.43	-165%	0.38	-26.3%	0.18	-0.14	n.m.

Source: Company Data, Erste Group Research

2Q10 results fell short of expectations

At the end of August, ECO presented 2Q10 results that fell somewhat short of our expectations. Although the top line and revaluation result were close to our estimates, the operating results fell clearly short of our projections. The reasons stemmed from (1) the extent of the result from property sales, (2) relatively high direct property expenses and (3) high operating expenses. Given the takeover situation, the below-expectation results did not have any impact on the share price, which tracks the currently running EUR 7.15 offer from conwert.

Change in estimates

This time, our changes in estimates are rather dramatic. The reason for that is that we switched from a regular going-concern assumption to a step-by-step liquidation assumption. In our opinion, this is the most likely scenario for ECO. As a result, we believe that ECO will assume minor losses on selling assets and will not show any revaluation gains (at least not material ones). We also deleted the dividend assumption.

Change in estimates

Consolidated, IFRS (Currency, mn)	2010e Now	Before	*Change*	2011e Now	Before	*Change*	2012e Now	Before	*Change*
Total revenues	50.9	50.3	*1.2%*	44.2	50.6	*-12.6%*	34.5	53.0	*-34.9%*
Net operating income	33.1	35.4	*-6.5%*	29.6	36.0	*-17.9%*	23.7	38.0	*-37.8%*
EBITDA	25.9	32.9	*-21.3%*	18.5	26.8	*-30.8%*	14.4	28.4	*-49.3%*
Revaluation result	3.9	6.8	*-42.5%*	0.0	8.9	*-100.0%*	0.0	9.3	*-100.0%*
EBIT	29.7	39.6	*-24.9%*	18.4	35.6	*-48.2%*	14.3	37.7	*-61.9%*
Net result after min.	11.7	19.7	*-40.9%*	6.4	17.0	*-62.4%*	7.3	19.2	*-62.2%*
EPS	0.34	0.58	*-40.9%*	0.19	0.50	*-62.4%*	0.21	0.56	*-62.2%*
BVPS	10.53	11.06	*-4.8%*	10.84	11.47	*-5.5%*	11.11	11.86	*-6.4%*
NAV/share	10.36	10.94	*-5.4%*	10.66	11.42	*-6.6%*	10.93	11.88	*-8.0%*

Source: Erste Group Research

Target price setting

EUR 7.10 target price based expected merger

Given the fact that ECO's share price is purely driven by the takeover and following merger terms with conwert, we believe that there is no reason to present a target price based on DCF or peer group analysis. ECO's new target price amounts to EUR 7.10 and is based on the latest BVPS ratio of conwert and ECO (0.69x) and an assumed conwert stock price of EUR 10.3. Compared to ECO's current stock price (which is still basically fixed by the EUR 7.15 cash offer), this results in a Reduce recommendation. In 12 months' time, we see a high likelihood that ECO will no longer be listed.

Merger as risk for share price

A certain risk factor for the stock price is that conwert will probably go for a merger with ECO (and not for a squeeze-out), as already indicated by conwert's management in newspaper interviews. This could mean the possibility of stock price losses following the November 3 deadline.

Income Statement	2007	2008	2009	2010e	2011e	2012e
(IFRS, EUR mn, 31/12)	31/12/2007	31/12/2008	31/12/2009	31/12/2010	31/12/2011	31/12/2012
Total revenues	**48.59**	**74.79**	**61.37**	**50.88**	**44.24**	**34.53**
- Rental Income	39.96	61.67	49.73	41.17	35.79	27.94
- Operating costs charged	8.63	13.13	11.64	9.72	8.45	6.59
- Other	0.00	0.00	0.00	0.00	0.00	0.00
Operating expenses	-14.12	-19.70	-18.70	-17.80	-14.66	-10.86
Net operating income	**34.47**	**55.09**	**42.67**	**33.08**	**29.58**	**23.67**
Result from the sale of investment property	0.00	3.22	0.40	4.00	-2.00	-2.00
Result from the sale of trading property	16.51	1.30	0.08	0.00	0.00	0.00
Total administrative expenses	-8.56	-20.00	-13.80	-11.71	-9.52	-7.61
Other operating result	1.26	2.64	0.47	0.51	0.44	0.35
EBITDA	**43.68**	**42.25**	**29.82**	**25.88**	**18.50**	**14.40**
Revaluation result	17.15	-48.99	-17.42	3.91	0.00	0.00
Depreciation/amortization	-0.03	-0.06	-0.04	-0.05	-0.05	-0.06
Operating profit	**60.80**	**-6.79**	**12.36**	**29.75**	**18.45**	**14.35**
Financial result	-19.15	-43.15	-21.36	-16.89	-11.33	-6.29
Pre-tax profit	**41.66**	**-49.94**	**-9.00**	**12.86**	**7.12**	**8.06**
Tax expenses	-8.42	11.98	1.98	-1.20	-0.71	-0.81
Extraordinary result	0.00	0.00	0.00	0.00	0.00	0.00
Minority interests	-0.47	2.27	0.15	0.00	0.00	0.00
Net result after minorities	**32.77**	**-35.70**	**-6.87**	**11.65**	**6.41**	**7.25**

Balance Sheet	2007	2008	2009	2010e	2011e	2012e
(IFRS, EUR mn, 31/12)						
Intangible assets	0.24	0.22	0.19	0.19	0.19	0.19
Tangible assets	1,174.98	1,074.40	821.80	669.52	495.32	369.12
- Investment property	1,140.02	981.89	782.47	651.68	493.48	367.28
- Investment property held for sale	0.00	51.88	0.00	0.00	0.00	0.00
- Development properties	34.75	40.42	39.28	17.78	1.78	1.78
- Other tangible assets	0.21	0.21	0.06	0.06	0.06	0.06
Financial assets	10.16	0.25	0.16	0.16	0.16	0.16
Total fixed assets	**1,185.37**	**1,074.86**	**822.16**	**669.87**	**495.67**	**369.47**
Inventories / trading properties	58.32	0.00	0.00	0.00	0.00	0.00
Receivables and other current assets	58.62	13.26	9.40	8.23	7.16	5.59
Cash and cash equivalents	34.71	14.65	16.00	22.22	86.73	152.05
Total current assets	**151.65**	**27.91**	**25.40**	**30.45**	**93.89**	**157.64**
Other assets	1.08	10.85	10.99	8.99	8.49	8.99
TOTAL ASSETS	**1,338.10**	**1,113.62**	**858.55**	**709.31**	**598.05**	**536.10**
Shareholders'equity	**422.90**	**368.20**	**356.50**	**359.15**	**369.56**	**378.81**
Minorities	12.78	6.92	0.83	0.83	0.83	0.83
Hybrid capital	0.00	0.00	0.00	0.00	0.00	0.00
Other equity and reserves	0.00	0.00	0.00	0.00	0.00	0.00
Long-term provisions	0.00	0.00	0.00	0.00	0.00	0.00
Interest-bearing LT debts	603.62	455.00	433.86	323.86	203.86	133.86
Other LT liabilities	14.73	15.85	18.54	15.95	15.45	15.95
Total long-term liabilities	**618.34**	**470.85**	**452.40**	**339.81**	**219.31**	**149.81**
Interest-bearing ST debts	216.18	253.60	37.40	0.57	0.57	0.57
Other ST liabilities	67.89	14.06	11.42	8.95	7.78	6.07
Total short-term liabilities	**284.07**	**267.65**	**48.82**	**9.51**	**8.35**	**6.64**
TOTAL LIAB. , EQUITY	**1,338.10**	**1,113.62**	**858.55**	**709.31**	**598.05**	**536.10**

Cash Flow Statement	2007	2008	2009	2010e	2011e	2012e
(IFRS,EUR mn, 31/12)						
Cash flow from operating activities	4.31	1.87	16.85	1.89	8.36	9.17
Cash flow from investing activities	-375.17	49.27	80.06	151.16	176.15	126.15
Cash flow from financing activities	345.62	-71.20	-95.55	-146.83	-120.00	-70.00
CHANGE IN CASH , CASH EQU.	**-25.25**	**-20.06**	**1.35**	**6.22**	**64.51**	**65.32**

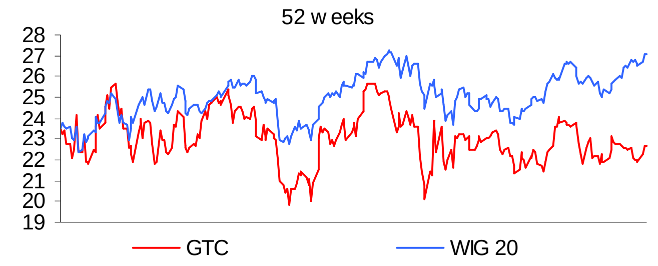
Margins & Ratios	2007	2008	2009	2010e	2011e	2012e
ROE	9.1%	-9.0%	-1.9%	3.3%	1.8%	1.9%
Equity ratio	32.6%	33.7%	41.6%	50.8%	61.9%	70.8%
Net debt	785.1	694.0	455.3	302.2	117.7	-17.6
Loan-to-value (LTV)	63.7%	64.6%	55.4%	45.1%	23.8%	-4.8%
Gearing	180.2%	185.0%	127.4%	84.0%	31.8%	-4.6%

Source: Company data, Erste Group estimates

GTC Hold

Petr Bartek, (Analyst) +420 224 995-227 pbartek@csas.cz

EUR mn	2009	2010e	2011e	2012e
Rental income	96.2	130.3	151.4	177.1
Revaluation result	-172.3	34.2	155.7	152.4
EBIT	-122.1	115.9	253.0	274.0
Net result after min.	-128.3	45.2	140.1	146.8
EPS (EUR)	-0.58	0.21	0.64	0.67
CEPS (EUR)	0.19	0.05	-0.07	-0.03
BVPS (EUR)	4.4	4.6	5.2	5.9
NAV/share (EUR)		5.6	6.4	7.2
Div./share (EUR)	0.00	0.00	0.00	0.00
P/E (x)	nm	27.9	9.0	8.6
P/CE (x)	32.8	114.2	-80.7	-224.5
P/NAV (x)		1.03	0.90	0.80
EV/EBITDA (x)	49.4	29.4	25.7	21.3
Dividend Yield	0.0%	0.0%	0.0%	0.0%



Performance	12M	6M	3M	1M
in EUR	-3.5%	-2.7%	-2.4%	2.0%

Share price (PLN)	22.66	Reuters	GTCE.WA	Free float	41.7%
Number of shares (mn)	219.4	Bloomberg	GTC PW	Shareholders	TC RE Holding N.V. (43.1%)
Market capitalization (EUR mn)	1,260.2	Div. Ex-date			ING OFE (8%)
Enterprise value (EUR mn)	2,420.8	**Target price**	**23.1**	Homepage:	www.gtc.com.pl

Distant horizon

- **We slightly lower our target price to PLN 23.1 per share (based on a DCF valuation), following the weaker 2Q10 results, and maintain our Hold recommendation. We still see the anticipated household weakness in SEE (37% of completed portfolio in 2010e) as a drag on GTC's results, while the market in Warsaw (20% of portfolio in 2010e) is the engine for positive news flow and revaluation in 2010-12.**

- **We cut our 2011-12 EBITDA forecast by 7.5% and 4.8%, respectively, due to the (I) exclusion of the sold Topaz and Nefryt buildings from our estimates (neutral for DCF, as the net debt decreases proportionally) and due to the still low occupancy in GTC's recently finished office projects in Polish secondary cities (under 20%) and weak residential sales and margins.**

- **We have slightly increased our long-term estimates, as we include 60k sqm office projects in Warsaw and Budapest in our 2012-15 forecast for delivery of commercial projects. GTC already announced the restart of the Okecie III building and we see overall demand for office space in Warsaw picking up nicely. Budapest reached a turning point in vacancy in 2Q and we see space for delivery of a prime project in 2013 here.**

- **GTC's current valuation is demanding, both cash flow-wise (25.7x EV/EBITDA 2011e) and balance sheet-wise (1.1x P/BV 2011e). This is justified by GTC's good long-term outlook, as it has a quality equity-funded landbank and a good track record. However, GTC's growth potential is diluted, due to the constrained bank financing for development projects and GTC's 51% LTV. The reported LTV on GTC's rental portfolio is 63%, while under-construction projects have 51% LTV and the landbank is modestly leveraged at 12%. GTC thus invited JV partners for new projects (e.g. Osijek, Burgas).**

2Q10 review: Mixed picture

GTC reported 2Q10 results that were below our and market estimates

GTC reported 2Q10 results that were below our and market estimates on all lines. While revenues were only 4% below the consensus, EBITDA before revaluation was (at EUR 17.9mn, +64% y/y) some 9% below our estimate. The company reported almost zero net profit, due to one-off financial costs related to the ongoing sale of two office buildings in Warsaw. The booked tax was higher than PBT, due to the depreciation of the PLN vs. the EUR during 2Q (appreciation of EUR-denominated assets at subsidiaries with the PLN as the functional currency). However, the PLN is back at the levels from 1Q10, so the tax will be reversed.

2Q10 results

Consolidated, IFRS	Reported			Expected	
(EUR, mn)	2Q 10	2Q 09	y/y	Erste	Cons.
Revenues	40.8	38.3	6.5%	43.8	42.4
EBITDA	17.9	10.9	64.2%	19.7	
Revaluation and amortisation	13.1	-28.7	n.m.	19.5	
EBIT	31.0	-17.8	-273.8%	39.2	35.3
Net income	2.5	-11.9	-121.0%	20.0	20.9
EBITDA margin	44%	28%	n.m.	45%	
EBIT margin	76%	-47%	-263.3%	90%	83%

Source: Company Data, Bloomberg, Erste Group Research

On the operating level, rental revenues were flat q/q, while we expected slight growth. While residential sales were relatively good, the margin on sales was negative. GTC emphasized that it is trying to release cash from residential projects rather than wait for a slightly higher margin there. The company posted a EUR 13mn revaluation gain. The positive revaluation was driven by yield compression and higher occupancy on office projects in Warsaw, as expected. GTC recorded a EUR 24.5mn revaluation profit on old assets and on fair-valued under-development assets, while recently-finished assets (GTC finalized the first phase of the Katowice office and UBP Lodz buildings in 2Q) and assets carried at-cost showed negative revaluation/impairments of EUR 11.4mn. The loss on recently-finished assets is probably a result of their very low initial occupancy (less than 20%). We estimate that the impairments on projects at-cost relate to projects in SEE. Overall, the results were slightly worse than expected, due to the somewhat weaker top line and EBITDA. We also have not seen significant progress in leasing of projects in Polish secondary cities yet.

Changes in estimates

We cut our 2011-12 EBITDA forecast by 7.5% and 4.8%, respectively

We cut our 2011-12 EBITDA forecast by 7.5% and 4.8%, respectively, mainly due to the exclusion of the Topaz and Nefryt buildings (EUR 78.9mn, 5.3% of GTC's consolidated NRA of rented projects) from our estimates. The two projects were sold in September for EUR 78.9mn, or a 7.2% yield. The selling price was fully in line with our YE10 estimated value of the projects. The exclusion of Topaz and Nefryt is also negative for our 2011-12 revaluation estimates, as both assets are located in the nicely performing Warsaw market.

The second reason for the lower short-term estimates is the still weak office markets in most Polish secondary cities. GTC's recently finished projects in Lodz and Katowice have very low occupancy and showed negative revaluations in 2Q10. We have slightly lowered our rental revenue estimates on those projects, as well as the expected revaluation. We also dropped our estimates for residential sales, as 2Q was still weak and the residential market in SEE is not expected to recover anytime soon.

Change in estimates

Consolidated, IFRS (EUR, mn)	2010e Now	2010e Before	2010e Change	2011e Now	2011e Before	2011e Change	2012e Now	2012e Before	2012e Change
Revenues	169.6	188.8	-10.2%	201.1	220.7	-8.9%	286.5	276.1	3.8%
EBITDA	82.2	84.5	-2.7%	97.8	105.7	-7.5%	122.1	128.3	-4.8%
Revaluation and amortisation	34.2	31.8	7.6%	155.7	172.6	-9.8%	152.4	183.4	-16.9%
EBIT	115.9	115.7	0.1%	253.0	277.8	-8.9%	274.0	311.1	-11.9%
Net income	45.2	47.7	-5.2%	140.1	160.1	-12.5%	146.8	176.2	-16.6%
EBITDA margin	48.5%	44.7%	8.4%	48.6%	47.9%	1.6%	42.6%	46.5%	-8.2%
EBIT margin	68.4%	61.3%	11.5%	125.8%	125.9%	-0.1%	95.6%	112.7%	-15.1%

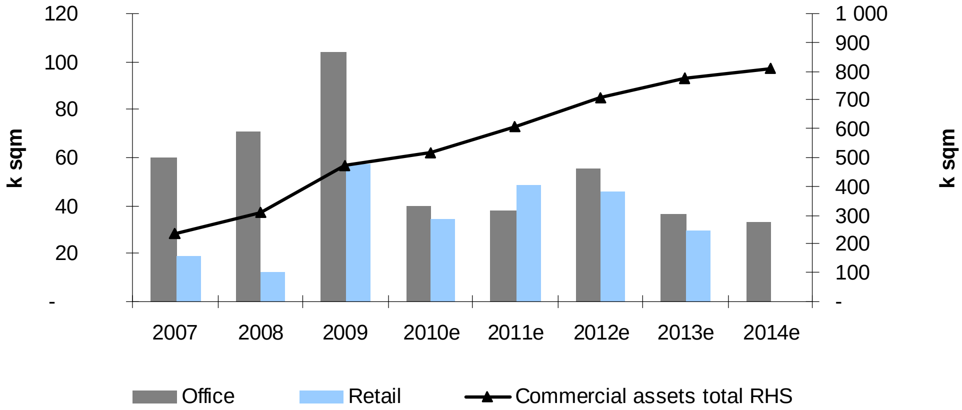
Source: Erste Group Research

Our longer-term estimates were adjusted upwards by 60k sqm

Our longer-term estimates were adjusted upwards (by 60k sqm or 15%) in terms of volume of delivered commercial projects. Demand for office space in Warsaw is picking up nicely and we also see space for the selective restart of true prime projects in (e.g.) Budapest. While the overall vacancy rates are still high in CEE, the supply of prime projects should dry up relatively quickly.

GTC leased the entire Platinium IV building (delivery in 2011) in 1H10 and said that there is also strong interest from tenants in pre-leases in the fifth building at PBP, as well as the third building at Okecie Business Park in Warsaw. GTC plans to start the construction of those two buildings in 4Q10.

Commercial pipeline delivery forecast



Source: GTC, Erste Group estimates

Drivers of our mid-term estimates

We expect GTC to continue seeing average 21% EBITDA growth in 2011-13

- We expect GTC to continue seeing an average 21% EBITDA growth in 2011-13, driven by investments in commercial assets (250k sqm under construction vs. 517k sqm completed assets) and growing occupancy in recently finished projects (190k sqm in last 18M).
- We expect GTC to have 707k sqm of office and retail space in 2012.
- GTC has a regular lease expiry profile and we expect easing pressure from tenants alongside the stronger PLN. We thus expect rather stable rental revenue on mature assets, apart from the sold Topaz and Nefryt offices (4.5% of GTC's total NOI).
- We expect 25-50bp yield compression in CE4 countries in 2010 (from YE09 levels) and an average 60bp compression by YE12. We believe that increased risk premiums and fiscal austerity packages will prevent yield compression in SEE this year, but we have a 45bp average yield compression in our outlook by YE12.
- Rents have stabilized in Warsaw this year, but should fall 3% to 5% in secondary Polish cities and SEE, due to high vacancy rates. Retail rents should increase in Poland already in 2H10, but retail in SEE is under continued pressure. A nice 3% to 7% pickup in rent levels in Poland is expected in 2011, thanks to the low supply of new projects.
- Mid-term rent growth is modeled at 3% to 5%, with the assumption of the usual rent cycle, accompanied by the overall low stock of modern offices in the region.

Expected yields on GTC's portfolio

Yields applied	2008	2009	2010e	2011e	2012e	2013e
Poland offices	7.0%	7.7%	7.1%	6.9%	6.9%	6.9%
Poland retail	6.1%	7.2%	6.9%	6.7%	6.7%	6.7%
Hungary	7.3%	8.1%	7.8%	7.8%	7.6%	7.6%
SEE countries	7.4%	8.5%	8.5%	8.2%	8.1%	8.1%

Source: GTC, Erste Group estimates

Landbank

GTC owns extensive self-funded commercial landbank

GTC owns an extensive self-funded commercial landbank, which allows for the construction of almost 800k sqm of commercial space in CEE (59%), SEE (33%) and CIS (8%), on top of the 2010-12 pipeline. The landbank is mostly in good locations. We thus believe that GTC will be the first to restart projects.

GTC owns an extensive residential landbank, allowing it to build an additional 540k sqm. Some 47% of the space is in CE4, while 53% is in SEE. We see a chance to restart some 100k sqm of projects for delivery in 2011-13.

Leverage

GTC's LTV increased to 51% as of 1H10

GTC's LTV increased to 51% as of 1H10, due to continued debt-funded investments during 2009/1H10. Still, it has some EUR 300mn financing capacity in its balance sheet (EUR 203mn in cash, only 51% LTV on development projects) and we calculate around EUR 70mn free operating cash flow (including the sale of two assets) in 2010. This is enough to complete the 250k sqm of development projects and start a few new projects without the need to raise equity. However, the rapid start of new projects is only possible through e.g. joint ventures or other dilutive means (as is the case for the Wilanow mall, Osijek, Burgas). One risk is the possible need to inject more equity into projects finalized in 2010-11, in the case of their low initial interest coverage.

DCF valuation

We use GTC's EBIT result, adjusted for property revaluation, as a basis for NOPLAT calculation (taxes on revaluation are usually deferred and not paid in the end). Terminal value growth is assumed at 3%, as local real estate markets (and GTC in particular) have plenty of potential from the long-term perspective. We included the estimated NAV of the commercial landbank (EUR 313mn) and GTC's 35% share in non-consolidated Czech operations (EUR 59mn) in the equity value, while minorities (IFRS value) are deducted.

Using the DCF-FCFF, we arrive at PLN 23.1 target price

Using the DCF-FCFF model and a 12.7% cost of equity (down from 13.2%, due to the lower Rf rate), we arrive at a PLN 23.1 per share 12M target price. As the target price is only slightly above the current share price, we maintain our Hold recommendation.

GTC is currently traded well above rest of our sector coverage universe

GTC is currently traded well above the rest of our sector coverage universe, with 1.1x P/BV 2011e (which assumes a solid recovery in property values already and all ongoing development projects) and 25.7x EV/EBITDA 2011e. It is also traded above its closest peer Echo on both multiples. This is justified by GTC's good long-term outlook, as it has a quality equity-funded landbank and a good track record. However, we do not see many upside triggers based on the current valuation for the shares.

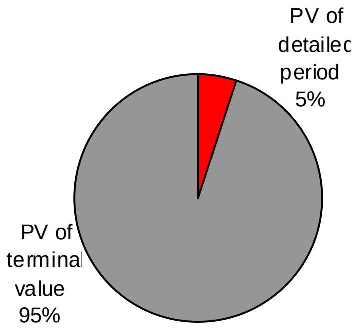
WACC calculation

	2011e	2012e	2013e	2014e	2015e	2016e (TV)
Risk free rate	5.5%	5.5%	5.5%	5.5%	5.5%	5.0%
Equity risk premium	6.0%	6.0%	6.0%	6.0%	6.0%	5.7%
Beta	1.2	1.2	1.2	1.2	1.2	1.0
Cost of equity	**12.7%**	**12.7%**	**12.7%**	**12.7%**	**12.7%**	**10.7%**
Cost of debt	5.5%	5.5%	5.5%	5.5%	5.5%	5.0%
Effective tax rate	18.0%	18.0%	18.0%	18.0%	18.0%	18.0%
After-tax cost of debt	**4.5%**	**4.5%**	**4.5%**	**4.5%**	**4.5%**	**4.1%**
Equity weight	47%	50%	52%	56%	62%	62%
WACC	**8.4%**	**8.6%**	**8.8%**	**9.1%**	**9.6%**	**8.2%**

DCF valuation

(EUR mn)	2011e	2012e	2013e	2014e	2015e	2016e (TV)
Sales growth	*18.6%*	*42.4%*	*12.6%*	*9.5%*	*5.4%*	*4.1%*
EBIT before revaluation	97.3	121.6	145.9	165.4	178.2	193.8
EBIT before revaluation margin	*48.4%*	*42.4%*	*45.2%*	*46.8%*	*47.8%*	*50.0%*
Tax rate	*18.0%*	*18.0%*	*18.0%*	*18.0%*	*18.0%*	*18.0%*
Taxes on EBIT before revaluation	-17.5	-21.9	-26.3	-29.8	-32.1	-34.9
NOPLAT	**79.8**	**99.7**	**119.6**	**135.7**	**146.1**	**158.9**
+ Depreciation	0.5	0.6	0.6	0.7	0.8	0.8
+/- Change in working capital	24.4	55.4	0.3	4.0	-27.1	0.0
Chg. working capital / chg. Sales	*77.4%*	*64.9%*	*0.9%*	*13.1%*	*-141.5%*	*0.0%*
- Capital expenditures	-134.0	-158.3	-123.2	-43.2	-19.0	-0.8
Free cash flow to the firm	**-29.2**	**-2.7**	**-2.7**	**97.1**	**100.7**	**158.9**
Terminal value growth						*3.0%*
Terminal value						3,066.9
Discounted free cash flow - Dec 31 2010	-27.0	-2.3	-2.1	69.6	65.8	1,853.0
Enterprise value - Dec 31 2010	**1,957.1**					
Minorities	56.5					
Non-operating assets (landbank)	312.9					
Net debt	1,104.1					
35% stake in Czech operations	58.8					
Equity value - Dec 31 2010	**1,168.2**					
Number of shares outstanding (mn)	219.4					
Cost of equity	12.7%					
EUR/PLN	3.96					
12M target price per share (PLN)	**23.1**					
Current share price (PLN)	22.7					
Up/Downside	*1.8%*					

Enterprise value breakdown



Source: Erste Group Research

Sensitivity (per share)

Terminal value EBIT before revaluation margin

WACC	49.0%	49.5%	50.0%	50.5%	51.0%
7.2%	31.3	31.8	32.2	32.7	33.2
7.7%	26.3	26.8	27.2	27.6	28.0
8.2%	22.3	22.7	**23.1**	23.4	23.8
8.7%	19.0	19.4	19.7	20.0	20.4
9.2%	16.3	16.6	16.9	17.2	17.5

Terminal value growth

WACC	2.0%	2.5%	3.0%	3.5%	4.0%
7.2%	23.4	27.4	32.2	38.5	46.6
7.7%	20.0	23.2	27.2	32.0	38.2
8.2%	17.1	19.8	**23.1**	27.0	31.8
8.7%	14.7	17.0	19.7	22.9	26.8
9.2%	12.6	14.6	16.9	19.5	22.7

Income Statement	**2007**	**2008**	**2009**	**2010e**	**2011e**	**2012e**
(IFRS, EUR mn, 31/12)	31/12/2007	31/12/2008	31/12/2009	31/12/2010	31/12/2011	31/12/2012
Total revenues	**73.61**	**114.54**	**156.36**	**169.55**	**201.13**	**286.49**
- Rental Income	52.30	72.08	96.23	130.33	151.40	177.14
- Operating costs charged	0.00	0.00	0.00	0.00	0.00	0.00
- Other	21.31	42.46	60.13	39.22	49.73	109.35
Operating expenses	-23.66	-51.88	-71.17	-66.10	-79.14	-134.87
Net operating income	**49.95**	**62.66**	**85.19**	**103.45**	**121.98**	**151.62**
Result from the sale of investment property	0.00	0.00	0.00	0.00	0.00	0.00
Result from the sale of trading property	0.00	0.00	0.00	0.00	0.00	0.00
Total administrative expenses	-21.11	-21.96	-24.66	-21.24	-24.18	-29.48
Other operating result	2.30	8.01	-10.00	0.00	0.00	0.00
EBITDA	**31.13**	**48.71**	**50.53**	**82.21**	**97.80**	**122.13**
Revaluation result	292.38	235.60	-172.25	34.18	155.73	152.45
Depreciation/amortization	-0.36	-0.46	-0.43	-0.47	-0.52	-0.57
Operating profit	**323.15**	**283.85**	**-122.15**	**115.91**	**253.00**	**274.01**
Financial result	-24.01	-15.96	-42.67	-56.75	-65.48	-77.71
Pre-tax profit	**299.14**	**267.89**	**-164.82**	**59.16**	**187.52**	**196.29**
Tax expenses	-37.73	-78.81	25.38	-10.65	-33.75	-35.33
Extraordinary result	0.00	0.00	0.00	0.00	0.00	0.00
Minority interests	-27.00	-23.85	11.14	-3.30	-13.65	-14.13
Net result after minorities	**234.41**	**165.22**	**-128.30**	**45.21**	**140.12**	**146.83**

Balance Sheet	**2007**	**2008**	**2009**	**2010e**	**2011e**	**2012e**
(IFRS, EUR mn, 31/12)						
Intangible assets	7.98	1.34	0.00	0.00	0.00	0.00
Tangible assets	1,173.20	1,881.99	2,028.35	2,095.27	2,379.97	2,685.70
- Investment property	860.93	1,827.79	1,971.92	2,068.16	2,357.85	2,668.59
- Investment property held for sale	0.00	0.00	0.00	0.00	0.00	0.00
- Development properties	286.36	1.35	1.11	1.11	1.11	1.11
- Other tangible assets	25.91	52.85	55.33	26.00	21.00	16.00
Financial assets	27.90	44.87	49.48	53.03	54.77	56.47
Total fixed assets	**1,209.08**	**1,928.20**	**2,077.84**	**2,148.30**	**2,434.74**	**2,742.17**
Inventories / trading properties	212.93	322.01	270.85	265.70	240.27	183.82
Receivables and other current assets	69.12	77.50	53.45	47.48	54.30	74.49
Cash and cash equivalents	359.39	227.47	215.02	203.27	173.96	150.57
Total current assets	**641.44**	**626.97**	**539.32**	**516.45**	**468.53**	**408.88**
Other assets	10.71	3.23	5.42	5.42	5.42	5.42
TOTAL ASSETS	**1,861.23**	**2,558.40**	**2,622.57**	**2,670.17**	**2,908.69**	**3,156.47**
Shareholders'equity	**958.67**	**1,098.93**	**964.22**	**1,009.43**	**1,149.55**	**1,296.39**
Minorities	29.43	56.99	46.51	56.51	70.16	84.29
Hybrid capital	0.00	0.00	0.00	0.00	0.00	0.00
Other equity and reserves	0.00	0.00	0.00	0.00	0.00	0.00
Long-term provisions	0.00	0.00	0.00	0.00	0.00	0.00
Interest-bearing LT debts	578.48	926.11	1,234.04	1,230.33	1,297.47	1,335.05
Other LT liabilities	119.20	234.68	186.21	190.90	218.94	246.38
Total long-term liabilities	**697.68**	**1,160.79**	**1,420.25**	**1,421.23**	**1,516.41**	**1,581.43**
Interest-bearing ST debts	31.95	67.88	59.85	77.00	64.00	70.00
Other ST liabilities	143.51	173.81	131.74	105.99	108.57	124.37
Total short-term liabilities	**175.45**	**241.69**	**191.59**	**182.99**	**172.57**	**194.37**
TOTAL LIAB. , EQUITY	**1,861.23**	**2,558.40**	**2,622.57**	**2,670.17**	**2,908.69**	**3,156.47**

Cash Flow Statement	**2007**	**2008**	**2009**	**2010e**	**2011e**	**2012e**
(IFRS,EUR mn, 31/12)						
Cash flow from operating activities	-27.58	-86.49	23.40	91.28	110.49	164.06
Cash flow from investing activities	-192.27	-417.11	-299.75	-62.06	-133.97	-158.28
Cash flow from financing activities	282.62	379.82	278.52	-40.51	-5.83	-29.16
CHANGE IN CASH , CASH EQU.	**73.86**	**-131.92**	**-12.44**	**-11.75**	**-29.32**	**-23.39**

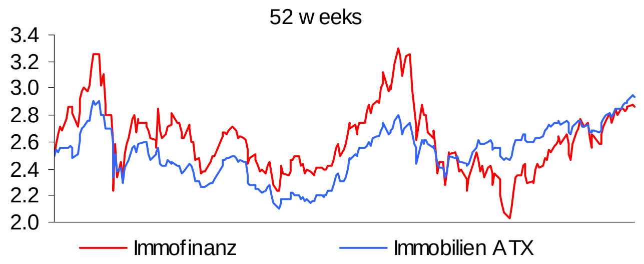
Margins & Ratios	**2007**	**2008**	**2009**	**2010e**	**2011e**	**2012e**
ROE	27.7%	16.1%	-12.4%	4.6%	13.0%	12.0%
Equity ratio	53.1%	45.2%	38.5%	39.9%	41.9%	43.7%
Net debt	251.0	766.5	1,078.9	1,104.1	1,187.5	1,254.5
Loan-to-value (LTV)	21.4%	40.9%	53.3%	52.0%	49.2%	46.0%
Gearing	25.4%	66.3%	106.7%	103.6%	97.4%	90.9%

Source: Company data, Erste Group estimates

Immofinanz Buy

Gernot Jany, CFA (Analyst) +43 (0)5 0100 - 11903 gernot.jany@erstegroup.com

EUR mn	2009	2010e	2011e	2012e
Rental income	541.7	574.9	601.6	626.9
Revaluation result	-20.2	9.2	29.6	51.6
EBIT	181.1	448.7	508.4	567.3
Net result after min.	80.8	267.4	286.0	330.5
EPS (EUR)	0.17	0.26	0.27	0.29
CEPS (EUR)	0.83	0.24	0.28	0.28
BVPS (EUR)	4.6	4.9	4.8	5.0
NAV/share (EUR)	5.0	5.3	5.2	5.4
Div./share (EUR)	0.00	0.10	0.10	0.10
P/E (x)	18.7	11.2	10.7	9.9
P/CE (x)	3.9	12.0	10.1	10.1
P/NAV (x)	0.64	0.54	0.55	0.53
EV/EBITDA (x)	21.0	17.0	15.6	14.5
Dividend Yield	0.0%	3.3%	3.5%	3.4%



Performance	12M	6M	3M	1M
in EUR	14.3%	14.3%	18.6%	5.4%

Share price (EUR)	2.86	Reuters	IMFI.VI	Free float	92.5%
Number of shares (mn)	1,044.2	Bloomberg	IIA AV	Shareholders	Fries Familien-PS (5.0%)
Market capitalization (EUR mn)	2,984.4	Div. Ex-date			WITIKO Invest (2.56%)
Enterprise value (EUR mn)	7,481.7	**Target price**	**3.6**	Homepage:	www.immofinanz.com

Refinancing of convertible bonds ahead

– **Following the clearly better than expected FY09/10 EBITDA figures, we have adjusted our mid-term EBITDA estimates somewhat upward and increased our EBITDA margin (excl. gains from the disposal of property) in the terminal value calculation to 60% (from 57%). Based on the increased estimates and taking some changes in our valuation parameters into account, we derive a 12-month target price of EUR 3.6 (previously EUR 3.0) and therefore stick to our Buy recommendation.**

– **Our positive stance on Immofinanz is also backed by different market valuation yardsticks. At 0.60x BV11e, 0.55x NAV11e and 15.6x EBITDA11e (incl. full conversion of CB2011), the stock is currently traded at a discount of 5-19% to its closest peers. Historically, the discount of about 40-45% to BV and NAV is still very high. Recently, the CEO of Immofinanz mentioned that he could imagine the payout of a dividend per share of about EUR 0.10 already for FY10/11, depending on the successful refinancing of the outstanding convertible bonds (CB2014 and CB2017). Based on the current stock price, this would result in a dividend yield for FY10/11 of around 3.3%, further increasing the attractiveness of the stock.**

– **The main near-term stock price trigger is therefore the potentially successful refinancing of the outstanding convertible bonds (CB2014 and CB2017) with a total nominal value of EUR 866.6mn. According to recent statements by the CEO of Immofinanz, management favors the refinancing with a newly issued convertible bond (conversion price of around EUR 4.2-4.3) already in FY10/11. To keep things simple, we have modeled a refinancing via the issuance of a new corporate bond. Using a new convertible bond instead would result in a moderately higher fair value depending on assumptions made. Besides the refinancing issue, management's attention in the coming quarters will be on finalization of ongoing developments, the selective reactivation of temporarily suspended projects, the portfolio and process optimization and active letting management ('letting offensive').**

Refinancing of convertible bonds

Restructuring largely complete

With the merger of Immoeast/Immofinanz into Immofinanz Group, the agreed settlement of the 'IBAG bond' and the internalization of management, the formal restructuring of Immofinanz Group is finished. However, there are still some important issues that require management's close attention, of which the most important is the refinancing of convertible bonds.

Refinancing of CBs expected already in FY10/11

Taking recent conversions into account, the total amount of Immofinanz's convertible bonds' nominal value currently outstanding is about EUR 1,061mn. In the case of the remaining EUR 194.2mn CB2011, we expect full conversion by the end of December 2011, as the bond has a carrying conversion price of EUR 2.0 in the money. As the CB2014 and CB2017 are a long way out of the money (conversion price of EUR 14.68 and EUR 9.26) and holders of both bonds are provided with a put option effective from January 2012 and December 2012, respectively, a conversion seems unlikely. We therefore expect the remaining convertible bonds to be refinanced either with a new convertible bond (at a higher yield and/or lower conversion price) and/or a corporate bond. In the case of the outstanding convertible bonds, we have assumed refinancing of the CB2014 via corporate bond issuance (total nominal value of EUR 656mn) and the repayment of the smaller CB2017 (EUR 240mn incl. accrued interest) in cash. According to recent statements by the CEO of Immofinanz, management favors the refinancing with a newly issued convertible bond (with a conversion price of around EUR 4.2-4.3 and a premium of 35-40% above the stock price). Repayment financed by the disposal of property was also mentioned, but seems rather unlikely.

Convertible bonds outstanding (as of April 30, 2010)

							Put option - bond holder		Issuer call - Immofinanz	
Issue	Maturity	Nominal amount	Interest paid	Interest accrued	Total interest	Coversion price	Period	Repayment	Period	Strike price [1)]
CB2011	22-Dec-11	229.6	7.00%		7.00%	2.00	1-Dec-09 to 6-Oct-11			
CB2014	20-Jan-14	655.8	2.75%		2.75%	14.68	19-Jan-12	100.00	19-Jan-11	19.08
CB2017	19-Nov-17	212.3	1.25%	2.50%	3.75%	9.26	19-Nov-12	113.47	03-Dec-14	12.04
							19-Nov-14	119.60		
Conversion CB2011		-35.4								
Conversion CB2014		0.0								
Conversion CB2017		-1.5								
Sub-total 14 & 17		**866.6**	**2.39%**		**3.00%**					
Total		**1,060.8**	**3.47%**		**3.97%**					

Source: Immofinanz Group, Erste Group Research

Notes: 1) Company can call the convertibles if the stock price stays 20 out of 30 days above the strike price

Optimization of property portfolio and disposal of non-core assets

Focus on eight regions and four sectors

Currently, Immofinanz owns properties located in 16 markets, but management has indicated that, for efficiency reasons, it plans to dispose of non-core assets in the medium term and to focus on eight core regions and four core sectors in the future. With the aim also of generating cash for its temporarily suspended development projects, management has earmarked properties worth about EUR 1.2bn for disposal in its 'Trade' portfolio. Since there is a gap between the announced EUR 2.2bn sales program and the EUR 1.2bn 'Trade' portfolio, we assume that assets worth EUR 1.0bn will eventually be moved from the 'Work' to the 'Trade' portfolio. As well as assets located outside its core markets, management has mentioned on a number of occasions its desire to reduce its exposure to Romania and to the Russian retail market for portfolio optimization reasons.

'Letting offensive'

However, based on the company's sufficient cash position (EUR 505mn) and moderate leverage (taking a successful refinancing of CBs into account), we see no need for hurry in this respect and expect the disposal of properties as well as further investments in the development pipeline to be highly dependent on the future development of property markets in the region. On average, the vacancy rate of the standing investments stood at about 10%, which is not too bad compared with other players in the market. However, scratching beneath the surface, there are some markets carrying relatively high vacancy rates. Management has addressed the problem already, aiming to increase occupancy via a 'letting offensive'.

Property portfolio (as of April 30, 2010)

Country	Standing investments in EURmn	Suspended development projects in EURmn	Property under construction in EURmn	Investments in EURmn	Property portfolio in EURmn	Property portfolio in %
Austria	3,747.5	9.7	68.1	69.3	3,894.6	42.7%
Germany	674.7	28.6	1.2	48.7	753.2	8.3%
Czech Republic	634.8	15.5	27.1	0.0	677.4	7.4%
Hungary	511.3	37.5	0.0	0.0	548.8	6.0%
Poland	643.0	4.5	3.9	21.8	673.2	7.4%
Romania	598.2	223.1	18.6	76.2	916.1	10.0%
Russia	727.5	0.0	60.7	0.0	788.2	8.6%
Slovakia	253.9	9.6	0.3	13.4	277.2	3.0%
Non-core countries	510.5	55.1	0.0	22.9	588.5	6.5%
Total	**8,301.4**	**383.6**	**179.9**	**252.3**	**9,117.2**	**100.0%**

Source: Immofinanz Group

Standing investments by country (as of April 30, 2010)

Country	Number of properties	Book value in EURmn	Book value in %	Rentable space in sqm	Vacancy rate in %	Net rental income for FY10/11 in EURmn	Rental yield in %
Austria	1,449	3,747.5	45.1%	3,441,999	6.2%	206.9	5.5%
Germany	84	674.7	8.1%	1,223,902	9.9%	51.7	7.7%
Czech Republic	29	634.8	7.6%	380,279	18.5%	45.6	7.2%
Hungary	27	511.3	6.2%	391,440	25.3%	37.8	7.4%
Poland	23	643.0	7.7%	289,275	4.6%	46.1	7.2%
Romania	15	598.2	7.2%	380,971	11.6%	50.9	8.5%
Russia	5	727.5	8.8%	183,105	10.0%	70.6	9.7%
Slovakia	11	253.9	3.1%	116,809	7.8%	19.8	7.8%
Non-core countries	38	510.5	6.1%	435,573	21.9%	41.7	8.2%
Total	**1,681**	**8,301.4**	**100.0%**	**6,843,352**	**10.0%**	**571.1**	**6.9%**

Source: Immofinanz Group

Standing investments by sector (as of April 30, 2010)

Country	Number of properties	Book value in EURmn	Book value in %	Rentable space in sqm	Vacancy rate in %	Net rental income for FY10/11 in EURmn	Rental yield in %
Office	113	2,686.4	32.4%	1,436,439	15.6%	193.0	7.2%
Retail	186	2,075.4	25.0%	955,867	7.3%	171.2	8.2%
Residential	1,274	2,504.5	30.2%	2,764,842	5.1%	120.2	4.8%
Logistics	101	840.2	10.1%	1,614,258	14.7%	71.5	8.5%
Others	7	194.8	2.3%	71,947	18.6%	15.3	7.9%
Total	**1,681**	**8,301.3**	**100.0%**	**6,843,352**	**10.0%**	**571.2**	**6.9%**

Source: Immofinanz Group

Completion and selective reactivation of development projects

Outstanding construction costs of EUR 240mn

Severe liquidity problems forced management to cut its oversized development pipeline considerably during the crisis. Currently, the company actively works on 64 development projects with a planned rentable space of 185,612 sqm and an expected total market value of EUR 477.7mn. The outstanding construction costs of EUR 238.9mn are manageable, in our opinion. For further details on the top 10 development projects, we refer to page 66ff in the FY09/10 annual report of Immofinanz.

54 projects are temporarily suspended

Besides that, Immofinanz temporarily suspended 54 development projects with a total book value of EUR 383.5mn, predominantly in Romania. As soon as suitable economic conditions prevail, these projects are to be reactivated or sold. Immofinanz is not obliged to make any further payments for these projects. The project status, financing situation, profitability and market situation of all temporally suspended projects are continuously evaluated.

Inventory projects and forward purchases

Furthermore, Immofinanz is active in 13 inventory projects with a total book value of EUR 114.9mn, among which the Gerling District in Cologne is the biggest and most actively pursued. Also including the currently not actively pursued projects, the number of projects rises to 46, with a total book value of EUR 252.3bn. Not included in the property figures are six forward purchase agreements with a total future purchase price of EUR 77.2mn

Property under construction (as of April 30, 2010)

Country	Number of properties	Book value in EURmn	Acquisition costs in EURmn	Accumulated valuation in EURmn	Outstanding construction cost in EURmn	Total cost in EURmn	Expected market value after completion in EURmn	Planned rentable space in sqm
Austria	51	68.1	75.4	-7.3	64.1	139.5	129.3	47,703
Germany	3	1.2	2.0	-0.7	2.9	4.9	4.5	4,488
Czech Republic	6	27.1	33.5	-6.5	47.4	80.9	92.0	36,287
Poland	1	3.9	0.2	3.7	52.5	52.7	65.5	18,984
Romania	1	18.6	33.6	-15.0	22.0	55.6	45.8	25,857
Russia	1	60.7	161.2	-100.6	48.6	209.8	138.7	50,561
Slovakia	1	0.3	0.5	-0.2	1.4	1.9	2.0	1,732
Total	**64**	**179.9**	**306.4**	**-126.6**	**238.9**	**545.3**	**477.8**	**185,612**

Source: Immofinanz Group

Temporarily suspended projects and undeveloped land (as of April 30, 2010)

Country	Number of properties	Book value in EURmn	Acquisition costs in EURmn	Accumulated valuation in EURmn
Austria	2	9.7	11.2	-1.5
Germany	2	28.6	35.8	-7.2
Czech Republic	5	15.5	13.8	1.7
Hungary	4	37.5	25.0	12.5
Poland	4	4.5	7.4	-2.9
Romania	24	223.1	390.7	-167.6
Slovakia	3	9.6	24.4	-14.8
Non-core countries	10	55.1	67.0	-11.9
Total	**54**	**383.6**	**575.3**	**-191.7**

Source: Immofinanz Group

Notes: 1) reported on the balance sheet together with standing investments under investment property

Active inventory projects (as of April 30, 2010)

Country	Number of properties	Book value in EURmn	Acquisition costs in EURmn	Accumulated valuation in EURmn
Austria	6	46.4	55.8	-9.4
Germany	1	48.7	82.4	-33.7
Poland	2	1.5	5.4	-3.8
Romania	1	1.3	3.1	-1.8
Non-core countries	3	17.0	17.0	0.0
Total	**13**	**114.9**	**163.7**	**-48.7**

Source: Immofinanz Group

1Q10/11 earnings preview

Clearly positive net result expected

Following the negative 4Q09/10 result, we expect a clearly positive net result after minorities in 1Q10/11. The development will be driven by a strong increase in EBITDA, mainly due to a normalisation of property related expenses from the high level seen in the fourth quarter. A positive contribution is also expected from the revaluation result, which however will in our opinion be overcompensated by a negative currency effect in the financial result.Immofinanz will report its 1Q10/11 figures on September 27, before market opening.

1Q10/11 estimates

Consolidated, IFRS (EUR, mn)	1Q 10/11e	q/q	y/y	4Q 09/10	q/q	3Q 09/10	q/q	2Q 09/10	q/q	1Q 09/10	q/q
Rental income	142.0	0.8%	5.5%	140.9	3.0%	136.8	5.7%	129.5	-3.8%	134.6	-6.2%
Total revenues	**186.5**	**2.2%**	**4.0%**	**182.4**	**-1.0%**	**184.3**	**6.3%**	**173.3**	**-3.3%**	**179.2**	**-10.8%**
Net operating income (NOI)	**118.3**	**30.3%**	**0.8%**	**90.8**	**-23.1%**	**118.1**	**5.5%**	**111.9**	**-4.7%**	**117.4**	**-3.5%**
Result from the sale of property	5.5	-78.7%	-54.9%	25.9	n.m.	-16.4	n.m.	8.7	-28.7%	12.2	101.8%
EBITDA	**107.9**	**-4.6%**	**-0.9%**	**113.1**	**59.9%**	**70.8**	**-30.7%**	**102.1**	**-6.2%**	**108.8**	**11.0%**
Net profit after minorities	**47.9**	**n.m.**	**-4.0%**	**-24.8**	**n.m.**	**21.1**	**-39.3%**	**34.7**	**-30.3%**	**49.8**	**n.m.**
Gross cash flow	**n.a.**	**n.m.**	**n.m.**	**134.6**	**70.5%**	**78.9**	**-4.1%**	**82.3**	**-10.2%**	**91.6**	**n.m.**
NAV/share (BVPS) (EUR)	n.a.	n.m.	n.m.	4.63	-5.9%	4.92	-0.8%	4.96	1.6%	4.88	2.7%
EPRA NAV/share (EUR)	n.a.	n.m.	n.m.	5.04	-9.2%	5.55	-1.2%	5.62	4.7%	5.37	2.3%
EPRA NAV/share diluted (EUR)	n.a.	n.m.	n.m.	4.78	n.m.	n.a.	n.m.	n.a.	n.m.	n.a.	n.m.
NNNAV/share (EUR)	n.a.	n.m.	n.m.	4.75	n.m.	n.a.	n.m.	n.a.	n.m.	n.a.	n.m.

Source: Immofinanz Group, Erste Group Research

Changes in estimates

Increase in mid-term estimates

Immofinanz's FY09/10 net profit came in considerably below our estimates, on unexpectedly high depreciation & amortization charges. However, EBITDA surprised on the positive side, advancing by almost 27% y/y, mainly driven by lower administrative expenses, due to the cancelation of the management contract. Based on the better than expected operating result, we have adjusted our mid-term EBITDA forecasts somewhat upward, but remained somewhat more conservative than management, which expects EBITDA to increase to about EUR 600mn within three years. EBITDA is mainly influenced by income from asset management and operating expenses, the timing of the finalization of development projects as well as the disposals of properties. Besides other minor changes in our financial model, we have also increased our revaluation result forecast, as signals from property markets are further improving. This, however, has no direct impact on our cash flow based valuation.

Dividend already for FY10/11?

CEO Zehetner recently mentioned in an interview that he could imagine the payment of a dividend per share of around EUR 0.10 already for FY10/11, depending on the successful refinancing of convertible bonds (CB2014 and CB2017). As we regard the refinancing of convertible bonds as the most likely scenario, we have incorporated a dividend payment already for FY10/11 and increased our estimates for the years thereafter to EUR 0.10 per share (previously EUR 0.05).

Changes in estimates

Consolidated, IFRS (EUR, mn)	2010e Now	2010e Before	2010e Change	2011e Now	2011e Before	2011e Change	2012e Now	2012e Before	2012e Change
Rental income	574.9	563.3	*2.1%*	601.6	594.4	*1.2%*	626.9	625.9	*0.2%*
Total revenues	**757.9**	**741.8**	*2.2%*	**790.1**	**778.4**	*1.5%*	**815.7**	**812.5**	*0.4%*
Net operating income (NOI)	**482.5**	**477.3**	*1.1%*	**514.1**	**514.3**	*-0.1%*	**544.1**	**547.3**	*-0.6%*
Result from the sale of property	16.7	7.7	*117.2%*	16.9	15.0	*12.9%*	24.2	15.5	*55.8%*
EBITDA	**440.5**	**415.9**	*5.9%*	**479.9**	**464.5**	*3.3%*	**516.7**	**502.2**	*2.9%*
Revaluation of properties	9.2	-37.9	*n.m.*	29.6	22.9	*29.3%*	51.6	47.0	*9.8%*
Depreciation & amortization	-1.0	-1.0	*0.0%*	-1.2	-1.2	*0.0%*	-1.0	-1.0	*0.0%*
EBIT	**448.7**	**376.9**	*19.0%*	**508.4**	**486.2**	*4.6%*	**567.3**	**548.3**	*3.5%*
Net result	**267.4**	**202.5**	*32.0%*	**286.0**	**224.4**	*27.4%*	**330.5**	**304.4**	*8.6%*
EPS (EUR)	0.26	0.19	*32.0%*	0.27	0.21	*27.4%*	0.29	0.27	*8.9%*
CEPS (EUR)	0.24	0.23	*1.9%*	0.28	0.21	*32.6%*	0.28	0.25	*12.7%*
DPS (EUR)	0.10	0.00	*n.m.*	0.10	0.05	*92.8%*	0.10	0.05	*92.1%*
BVPS (EUR)	4.88	5.06	*-3.4%*	4.80	4.99	*-3.8%*	5.00	5.21	*-4.1%*
NAV/share (EUR)	5.27	5.47	*-3.7%*	5.18	5.38	*-3.8%*	5.41	5.62	*-3.8%*

Source: Erste Group Research

Valuation

DCF valuation

Buy maintained, target price: EUR 3.6 (previously EUR 3.0)

Based on increased estimates (including an upward adjustment of the EBITDA margin in the terminal value calculation to 60%, vs. 57% previously) and slight adjustments in valuation parameters, we derive a new 12-month target price of EUR 3.6 (previously EUR 3.0). Relative to the current price of EUR 3.0 for Immofinanz shares, our DCF valuation indicates upside potential of around 26%. We therefore stick to our Buy recommendation.

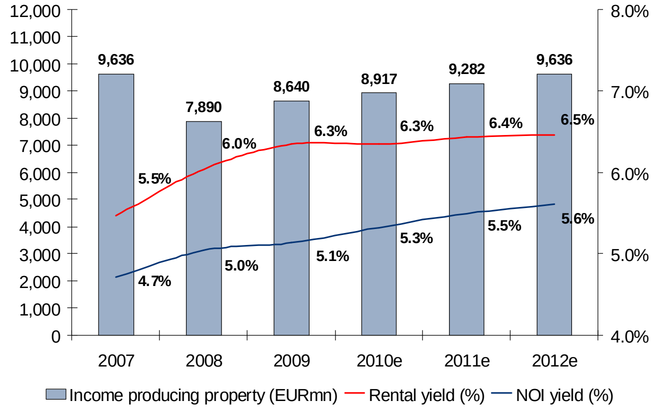
Peer group valuation

Moderate to high discount to peer group

Our positive stance on Immofinanz is also backed by different market valuation yardsticks. At 0.60x BV11e, 0.55x NAV11e and 15.6x EBITDA11e (incl. full conversion of CB2011), Immofinanz is traded at a discount of 5-19% to its closest peers. Historically, the discount of about 40-45% to BV and NAV is also still very high. Recently, the CEO mentioned that he could imagine the payout of a dividend per share of about EUR 0.10 already for FY10/11, depending on the successful refinancing of the outstanding convertible bonds (CB2014 and CB2017). Based on the current stock price, this would result in a dividend yield for FY10/11 of around 3.3%, further increasing the attractiveness of the stock.

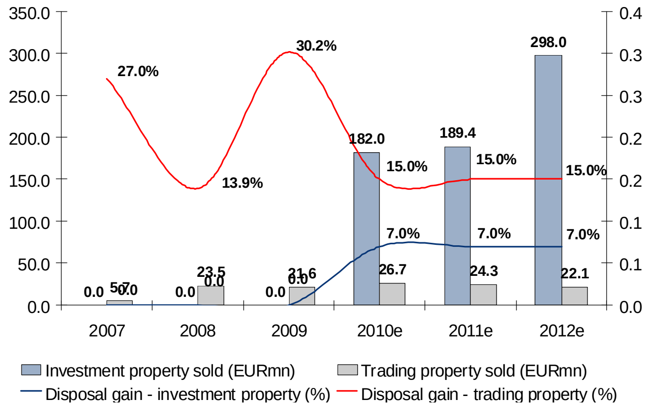
Development of key value drivers

Income-producing property, rental yield and NOI yield



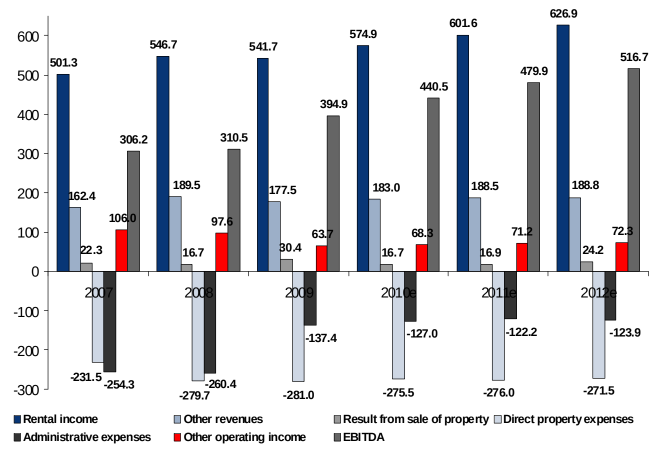
Source: Immofinanz Group, Erste Group Research

Book value of property sold and disposal gain



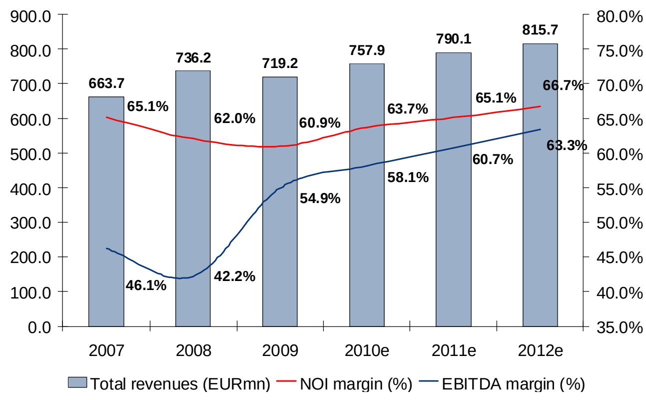
Source: Immofinanz Group, Erste Group Research

EBITDA breakdown



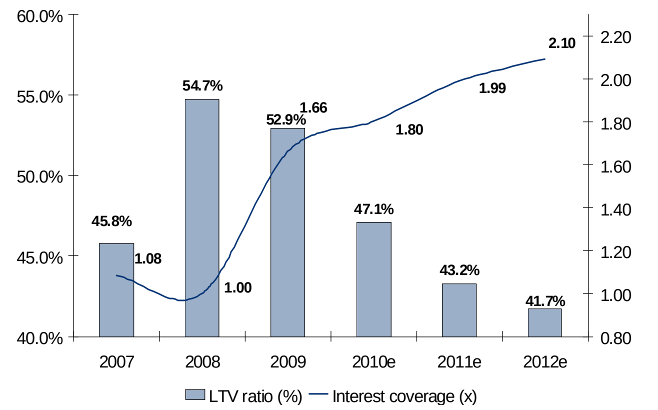
Source: Immofinanz Group, Erste Group Research

Total revenues, NOI margin and EBITDA margin



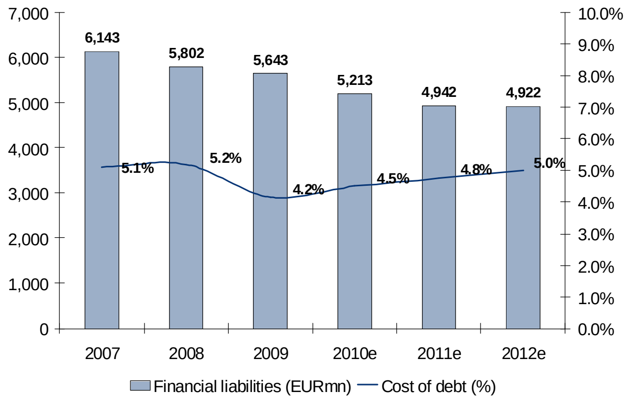
Source: Immofinanz Group, Erste Group Research

LTV ratio and interest coverage ratio



Source: Immofinanz Group, Erste Group Research

Financial liabilities and cost of debt



Source: Immofinanz Group, Erste Group Research

Discounted cash flow model

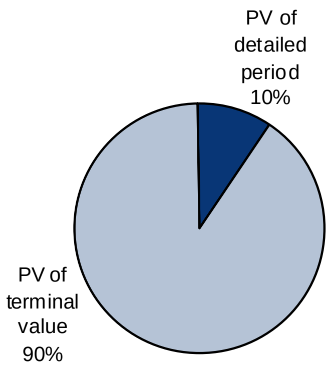
WACC calculation

	2010e	2011e	2012e	2013e	2014e	2015e (TV)
Risk free rate	3.0%	3.0%	3.0%	3.0%	3.0%	4.5%
Equity risk premium	5.3%	5.3%	5.3%	5.3%	5.3%	5.2%
Beta	1.2	1.2	1.2	1.2	1.2	1.2
Cost of equity	**9.4%**	**9.4%**	**9.4%**	**9.4%**	**9.4%**	**10.7%**
Cost of debt	4.5%	4.8%	5.0%	5.0%	5.0%	5.3%
Effective tax rate	9.0%	9.0%	9.0%	9.0%	9.0%	9.0%
After-tax cost of debt	**4.1%**	**4.3%**	**4.6%**	**4.6%**	**4.6%**	**4.8%**
Equity weight	44%	46%	47%	48%	49%	50%
WACC	**6.4%**	**6.7%**	**6.8%**	**6.9%**	**6.9%**	**7.8%**

DCF valuation

(EUR mn)	2010e	2011e	2012e	2013e	2014e	2015e (TV)
Sales growth	*5.5%*	*3.7%*	*2.8%*	*2.7%*	*2.4%*	*2.0%*
EBITDA	440.5	479.9	516.7	548.9	573.1	541.4
EBITDA margin	*55.9%*	*58.7%*	*61.4%*	*63.6%*	*64.8%*	*60.0%*
Tax rate	*9.0%*	*9.0%*	*9.0%*	*9.0%*	*9.0%*	*9.0%*
Taxes on EBITDA	-39.6	-43.2	-46.5	-49.4	-51.6	-48.7
NOPLAT	**400.9**	**436.8**	**470.2**	**499.5**	**521.5**	**492.7**
+/- Change in working capital	-7.0	5.0	-4.0	-4.0	-3.0	-1.8
Chg. working capital / chg. Sales	*-16.9%*	*17.0%*	*-17.4%*	*-17.8%*	*-14.2%*	*-10.0%*
- Capital expenditures	-221.4	-284.4	-248.0	-239.0	-300.5	-34.6
Free cash flow to the firm	**172.5**	**157.4**	**218.2**	**256.5**	**218.0**	**456.3**
Terminal value growth						*2.5%*
Terminal value						10,982.7
Discounted free cash flow - April 30 2010	162.1	138.7	180.0	198.0	157.4	7,928.7
Enterprise value - April 30 2010	**8,764.9**					
Minorities	40.9					
Non-operating assets	1,695.5					
Net debt	4,886.2					
Full conversion of CB 2011	194.2					
Equity value - April 30 2010	**5,727.5**					
Number of shares outstanding (mn)	1,141.3					
Cost of equity	9.4%					
12M target price per share (EUR)	**5.68**					
Current share price (EUR)	2.86					
Up/Downside	*98.9%*					

Enterprise value breakdown



Sensitivity (per share)

	Terminal value EBITDA margin				
WACC	56.0%	58.0%	60.0%	62.0%	64.0%
6.8%	4.3	4.6	4.8	5.1	5.3
7.3%	3.7	3.9	4.2	4.4	4.6
7.8%	3.2	3.4	**3.6**	3.8	4.0
8.3%	2.8	3.0	3.1	3.3	3.5
8.8%	2.4	2.6	2.7	2.9	3.1

	Terminal value growth				
WACC	1.0%	1.5%	2.0%	2.5%	3.0%
6.8%	3.5	4.1	4.8	5.7	6.8
7.3%	3.1	3.6	4.2	4.9	5.7
7.8%	2.7	3.1	**3.6**	4.2	4.9
8.3%	2.4	2.7	3.1	3.6	4.2
8.8%	2.1	2.4	2.7	3.2	3.7

Source: Erste Group Research

Ratios

Per share figures in: EUR	2007	2008	2009	2010e	2011e	2012e
EPS (basic)	0.66	-4.29	0.17	0.26	0.27	0.29
EPS (diluted)	0.66	-4.29	0.17	0.25	0.27	0.29
CEPS	0.54	0.21	0.83	0.24	0.28	0.28
BVPS	9.47	4.75	4.63	4.88	4.80	5.00
Tangible BVPS	9.47	4.75	4.63	4.88	4.80	5.00
NAV/share	11.55	5.25	5.04	5.27	5.18	5.41
DPS	0.00	0.00	0.00	0.10	0.10	0.10
Payout ratio	0%	0%	0%	37%	37%	34%
End-of-period no. of shares (mn)	459.00	459.05	1044.22	1044.22	1141.32	1141.32
Avg.-period no. of shares (mn)	459.00	459.03	467.34	1044.22	1068.49	1141.32
Profitability in: %	**2007**	**2008**	**2009**	**2010e**	**2011e**	**2012e**
Rental income / avg. income-gen. properties [Rental yield]	5.5%	6.0%	6.3%	6.3%	6.4%	6.5%
Net oper. income / avg. income-gen. properties [NOI yield]	4.7%	5.0%	5.1%	5.3%	5.5%	5.6%
ROE	7.2%	-60.3%	2.3%	5.4%	5.4%	5.9%
ROA	2.7%	-22.4%	1.7%	2.3%	2.5%	2.8%
ROCE (real estate)	3.8%	-23.0%	2.9%	3.9%	3.9%	4.3%
Financial structure in: %	**2007**	**2008**	**2009**	**2010e**	**2011e**	**2012e**
Total equity / total assets [equity ratio]	51%	39%	41%	44%	46%	47%
Total debt / total assets [debt ratio]	49%	61%	59%	56%	54%	53%
Net debt / total equity [gearing ratio]	66%	106%	100%	86%	75%	72%
Loan-to-value (LTV) ratio	46%	55%	53%	47%	43%	42%
Cash ratio	81%	53%	35%	41%	49%	50%
Current ratio	275%	122%	99%	87%	99%	100%
Interest coverage ratio (x)	1.08	1.00	1.66	1.80	1.99	2.10
P&L structure in: %	**2007**	**2008**	**2009**	**2010e**	**2011e**	**2012e**
Net operating income / total revenues [NOI margin]	65%	62%	61%	64%	65%	67%
EBITDA / total revenues [EBITDA margin]	46.1%	42.2%	54.9%	58.1%	60.7%	63.3%
EBIT / total revenues [EBIT margin]	77.5%	-281.3%	25.2%	59.2%	64.3%	69.5%
EBT / total revenues [EBT margin]	83.7%	-462.3%	29.0%	40.0%	46.2%	51.7%
Net result / total revenues [Net margin]	56.5%	-414.4%	27.2%	36.0%	36.9%	41.3%
Revaluation result / EBIT	71.9%	65.0%	-11.1%	2.1%	5.8%	9.1%
Effective tax rate	-32.5%	-10.4%	-6.1%	-10.0%	-20.0%	-20.0%
Balance sheet structure in: %	**2007**	**2008**	**2009**	**2010e**	**2011e**	**2012e**
Investment properties / Tangible assets	92%	93%	98%	98%	98%	99%
Properties for sale / Tangible assets	0%	0%	0%	0%	0%	0%
Development properites / Tangible assets	8%	7%	2%	2%	1%	1%
Tangible assets / Total assets	68%	73%	74%	77%	79%	80%
Total LT liabilities / Total liabilities	89%	81%	80%	82%	84%	84%
Total ST liabilities / Total liabilities	11%	19%	20%	18%	16%	16%
Total liabilities / Total assets	49%	61%	59%	56%	54%	53%
Growth rates in: %	**2007**	**2008**	**2009**	**2010e**	**2011e**	**2012e**
Rental income y/y	32%	9%	-1%	6%	5%	4%
Total revenues y/y	30%	11%	-2%	5%	4%	3%
Net operating income y/y	33%	6%	-4%	10%	7%	6%
EBITDA y/y	34%	1%	27%	12%	9%	8%
EBIT y/y	-42%	-503%	-109%	148%	13%	12%
EBT y/y	-39%	-713%	-106%	46%	20%	16%
Net result y/y	-33%	-745%	-104%	231%	7%	16%
Investment properties y/y	17%	-18%	10%	3%	4%	4%
Properties for sale (trading properties) y/y	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Developments/properties under construction y/y	112%	-33%	-69%	-15%	-21%	-30%
Tangible assets y/y	22%	-19%	4%	3%	4%	3%
Total assets y/y	22%	-25%	3%	-1%	1%	2%
Total LT liabilities y/y	26%	-16%	-2%	-4%	-1%	1%
Total ST liabilities y/y	11%	59%	8%	-16%	-15%	-2%
Total liabilities y/y	24%	-8%	0%	-6%	-4%	0%
Shareholders' equity y/y	21%	-42%	7%	6%	8%	4%

Source: Immofinanz Group, Erste Group Research

Income Statement	2007	2008	2009	2010e	2011e	2012e
(IFRS, EUR mn, 30/04)	30/04/2008	30/04/2009	30/04/2010	30/04/2011	30/04/2012	30/04/2013
Total revenues	**663.65**	**736.23**	**719.17**	**757.94**	**790.10**	**815.67**
- Rental Income	501.30	546.73	541.71	574.89	601.57	626.90
- Operating costs charged	144.29	169.11	157.85	163.84	168.44	169.26
- Other	18.06	20.39	19.61	19.20	20.10	19.50
Operating expenses	-231.49	-279.68	-280.98	-275.47	-276.02	-271.55
Net operating income	**432.16**	**456.55**	**438.19**	**482.47**	**514.09**	**544.12**
Result from the sale of investment property	20.78	13.47	23.91	12.74	13.26	20.86
Result from the sale of trading property	1.53	3.27	6.52	4.01	3.65	3.32
Total administrative expenses	-254.33	-260.41	-137.42	-126.98	-122.25	-123.95
Other operating result	106.03	97.60	63.68	68.30	71.20	72.30
EBITDA	**306.18**	**310.47**	**394.87**	**440.54**	**479.95**	**516.65**
Revaluation result	370.03	-1,347.35	-20.19	9.21	29.61	51.64
Depreciation/amortization	-161.76	-1,034.39	-193.55	-1.00	-1.20	-1.00
Operating profit	**514.45**	**-2,071.27**	**181.14**	**448.75**	**508.36**	**567.29**
Financial result	40.81	-1,332.17	27.08	-145.61	-143.59	-145.77
Pre-tax profit	**555.26**	**-3,403.43**	**208.22**	**303.14**	**364.77**	**421.52**
Tax expenses	-180.23	352.32	-12.65	-30.31	-72.95	-84.30
Extraordinary result	0.00	0.00	0.00	0.00	0.00	0.00
Minority interests	70.17	-1,083.52	114.77	5.46	5.84	6.74
Net result after minorities	**304.86**	**-1,967.59**	**80.79**	**267.37**	**285.98**	**330.47**

Balance Sheet	2007	2008	2009	2010e	2011e	2012e
(IFRS, EUR mn, 30/04)						
Intangible assets	330.80	185.02	211.82	216.82	219.32	221.32
Tangible assets	10,508.86	8,485.29	8,841.79	9,093.14	9,427.74	9,746.49
- Investment property	9,636.19	7,890.24	8,639.98	8,917.21	9,282.39	9,636.00
- Investment property held for sale	0.00	0.00	0.00	0.00	0.00	0.00
- Development properties	849.49	572.67	179.86	152.88	121.41	85.44
- Other tangible assets	23.18	22.38	21.95	23.05	23.95	25.05
Financial assets	2,339.94	1,176.53	1,209.06	1,159.56	994.33	944.83
Total fixed assets	**13,179.60**	**9,846.84**	**10,262.67**	**10,469.52**	**10,641.40**	**10,912.64**
Inventories / trading properties	338.05	241.64	297.07	270.33	246.00	223.86
Receivables and other current assets	1,309.36	682.39	632.51	282.51	282.51	282.51
Cash and cash equivalents	681.66	712.99	505.40	505.40	505.40	505.40
Total current assets	**2,329.06**	**1,637.02**	**1,434.98**	**1,058.24**	**1,033.91**	**1,011.77**
Other assets	59.74	184.87	265.94	269.44	266.94	269.74
TOTAL ASSETS	**15,568.40**	**11,668.73**	**11,963.58**	**11,797.20**	**11,942.24**	**12,194.15**
Shareholders'equity	**4,348.23**	**2,181.36**	**4,831.95**	**5,099.32**	**5,480.19**	**5,704.87**
Minorities	3,528.98	2,383.91	40.92	46.38	52.21	58.96
Hybrid capital	0.00	0.00	0.00	0.00	0.00	0.00
Other equity and reserves	0.00	0.00	0.00	0.00	0.00	0.00
Long-term provisions	0.00	0.00	0.00	0.00	0.00	0.00
Interest-bearing LT debts	5,443.18	4,548.21	4,486.16	4,274.06	4,179.86	4,179.86
Other LT liabilities	1,402.30	1,210.64	1,157.13	1,156.30	1,189.86	1,234.96
Total long-term liabilities	**6,845.48**	**5,758.85**	**5,643.29**	**5,430.36**	**5,369.72**	**5,414.82**
Interest-bearing ST debts	436.60	1,008.49	905.44	682.27	499.05	474.52
Other ST liabilities	409.10	336.12	541.98	538.88	541.08	540.98
Total short-term liabilities	**845.71**	**1,344.61**	**1,447.42**	**1,221.14**	**1,040.12**	**1,015.50**
TOTAL LIAB. , EQUITY	**15,568.40**	**11,668.73**	**11,963.58**	**11,797.20**	**11,942.24**	**12,194.15**

Cash Flow Statement	2007	2008	2009	2010e	2011e	2012e
(IFRS,EUR mn, 30/04)						
Cash flow from operating activities	307.66	107.74	401.73	251.22	305.60	322.04
Cash flow from investing activities	-2,047.95	-247.51	-242.45	173.60	-135.21	-202.97
Cash flow from financing activities	1,437.46	-474.18	-305.50	-424.82	-170.39	-119.08
CHANGE IN CASH , CASH EQU.	**-403.29**	**-469.57**	**-178.11**	**0.00**	**0.00**	**0.00**

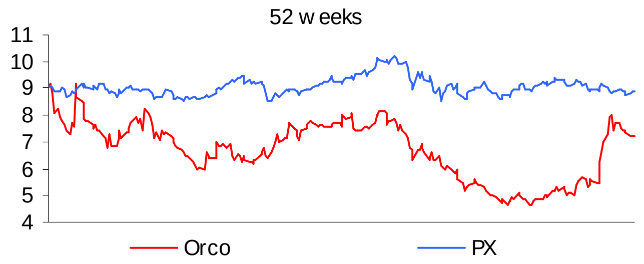
Margins & Ratios	2007	2008	2009	2010e	2011e	2012e
ROE	7.2%	-60.3%	2.3%	5.4%	5.4%	5.9%
Equity ratio	50.6%	39.1%	40.7%	43.6%	46.3%	47.3%
Net debt	5,198.1	4,843.7	4,886.2	4,450.9	4,173.5	4,149.0
Loan-to-value (LTV)	45.8%	54.7%	52.9%	47.1%	43.2%	41.7%
Gearing	66.0%	106.1%	100.3%	86.5%	75.4%	72.0%

Source: Immofinanz Group, Erste Group Research

Orco from Under review to Accumulate

Petr Bartek, (Analyst) +420 224 995-227 pbartek@csas.cz

EUR mn	2009	2010e	2011e	2012e
Rental income	96.6	96.8	100.2	110.9
Revaluation result	-177.6	26.6	74.6	70.5
EBIT	-254.2	61.2	119.2	124.0
Net result after min.	-250.6	229.9	24.2	27.2
EPS (EUR)	-23.35	18.41	1.73	1.93
CEPS (EUR)	-6.46	16.28	-3.58	-3.08
BVPS (EUR)	5.2	22.5	24.3	26.2
NAV/share (EUR)	8.2	25.4	29.5	33.5
Div./share (EUR)	0.00	0.00	0.00	0.00
P/E (x)	nm	0.4	4.2	3.7
P/CE (x)	-1.0	0.4	-2.0	-2.3
P/NAV (x)	0.79	0.28	0.24	0.21
EV/EBITDA (x)	126.4	28.2	23.3	19.3
Dividend Yield	0.0%	0.0%	0.0%	0.0%



Performance	12M	6M	3M	1M
in EUR	-20.4%	-7.0%	39.3%	27.0%

Share price (EUR)	7.20	Reuters	ORCOsp.PR	Free float	98.8%
Number of shares (mn)	14.0	Bloomberg	ORCO CP	Shareholders	Lansdowne Capital (7.1%)
Market capitalization (EUR mn)	101.1	Div. Ex-date			AXA Investment Managers (6.22%)
Enterprise value (EUR mn)	1,212.8	**Target price**	**8.2**	Homepage:	www.orcogroup.com

Bonds restructured, cash flow satisfactory

- **The bond restructuring enforced by the commercial court brought the debt service of parent company Orco to significantly lower levels. Although the interest coverage of the whole group is still low and its short-term debt high, it is not a threat to the liquidity of the parent company.**

- **Orco's cash flow is fueled by sizable commercial development sales and assets disposals. The company has announced EUR 143mn in asset sales YTD at a selling price on average 5.4% above the latest valuation. We assume the sale of EUR 453mn worth of assets, with net cash proceeds of EUR 118mn in 2010-11.**

- **Orco's NAV went up from EUR 8.2/share to EUR 25.3/share and LTV dropped to 69% in 2Q10, thanks to the revaluation of the restructured bonds. The lower reported LTV and high NAV are eye-catching. Orco's pre-bond LTV is at an acceptable 56%, which should allow for smooth refinancing of projects.**

- **We see Orco's consolidated adjusted EBITDA growing to a level around EUR 45mn in 2010-11, compared to some EUR 70mn cash interest costs (including bond annuities). The reported EBITDA, however, hides the underlying CAPEX cycle, which is positive for Orco.**

- **Our DCF model yields a EUR 8.2 per diluted share 12M target price. We thus have an Accumulate recommendation on Orco shares, as its risk profile calmed significantly after the bond restructuring. Orco's valuation is relatively high on near-term EV/EBITDA (23.3x 2011e). However, we believe it is worth taking into account its low P/NAV (0.24x 2011e), given Orco's good progress in restructuring and recent disposals above book values.**

Investment case

Bond restructuring very positive for debt service of parent Orco

The bond restructuring enforced by the commercial court (as part of the court protection) brought the debt service of parent company Orco to significantly lower levels (first installment of EUR 8.9mn in 2Q11, EUR 23mn in 2012-13), allowing it to focus on further portfolio restructuring. Although the interest coverage of the whole group is still low and its short-term debt high, it is not a threat to the liquidity of the parent company.

Cash flow fueled by sizable commercial development sales

Orco's cash flow is fueled by sizable commercial development sales and assets disposals. The company has announced EUR 143mn in asset sales YTD at a selling price on average 5.4% above the latest valuation. We assume the sale of EUR 453mn worth of assets, with net cash proceeds of EUR 118mn in 2010-11, thanks to sales in the liquid German market. The company finished most of its projects during the court protection period and has very low CAPEX at present.

NAV went up from EUR 8.2/share to EUR 25.3/share

Orco's NAV went up from EUR 8.2/share to EUR 25.3/share and LTV dropped to 69% in 2Q10, thanks to the revaluation of the restructured bonds to lower NPV, as well as asset disposals. Although we believe that Orco's LTV should be around 80% on a basis comparable with its peers, the lower reported LTV and high NAV are eye-catching. Orco's pre-bond LTV is at an acceptable 56%, which should allow for smooth refinancing of projects with sufficient interest coverage or clear development potential.

Orco is making progress in lowering its running OPEX with an ambitious plan for a 28.5% (EUR 27mn) running cost decrease by YE10. Its revenues from renting are projected to grow slightly. The missing rent from disposed-of assets will be offset with growing occupancy in the immature prime assets in Prague and Budapest. Residential development sales are expected to fall by a third to around EUR 60mn per year in 2010-12, but the underlying cash flow will be high, as Orco is selling finished inventory.

We see adjusted EBITDA growing to EUR 45mn in 2010-11, CAPEX cycle positive

We see Orco's consolidated adjusted EBITDA growing to a level around EUR 45mn in 2010-11, compared to some EUR 70mn cash interest costs (including bond repayments). The reported EBITDA, however, hides the underlying CAPEX cycle, which is positive for Orco. We believe that Orco is able to reach full interest coverage through disposals of the Suncani Hvar hotel chain, logistics assets in the Czech Republic and part of the land bank in the mid term.

EUR 8.2 per diluted share 12M target price, Accumulate

We value Orco using a DCF model based on portfolio structure after the already announced and likely asset disposals. The DCF model yields a EUR 8.2 per diluted share 12M target price. We thus have an Accumulate recommendation on Orco shares, as its risk profile calmed significantly after the bond restructuring. Orco's relative valuation is rather high on near-term EV/EBITDA (23.3x 2011e), due to the still high share of its unutilized land bank and development projects in its balance sheet. However, we believe it is worth taking into account its low P/BV (0.24x 2011e), given Orco's good progress in restructuring and recent disposals above book values.

Still high-risk investment, Orco will still be loss-making pre-revaluation in 2010-12

Orco is obviously still a high-risk investment, as its liquidity relies on continued asset disposals in 2010-11. Any slowdown in restructuring or a renewed freeze on the investment market could send it back into liquidity problems. Also, its high profit from 2Q10 (thanks to the bond revaluation) will not be repeated and we estimate that Orco will still be loss-making pre-revaluation in 2010-12. Still, its cash flows are a somewhat different story.

Ongoing court appeals against bond restructuring biggest threat

There is also a risk stemming from ongoing court appeals against Orco's bond restructuring and its recent capital increases (below NAV). In the case that the appeal against the bond restructuring is successful, Orco would face significantly increased bond liabilities. There is also a possibility of Orco losing its majority in the Suncani Hvar hotel chain, due to its dispute with its partner, the Croatian privatization fund. Such deconsolidation would be positive for Orco's income statement, however.

Debt still at high level, but structure is improved

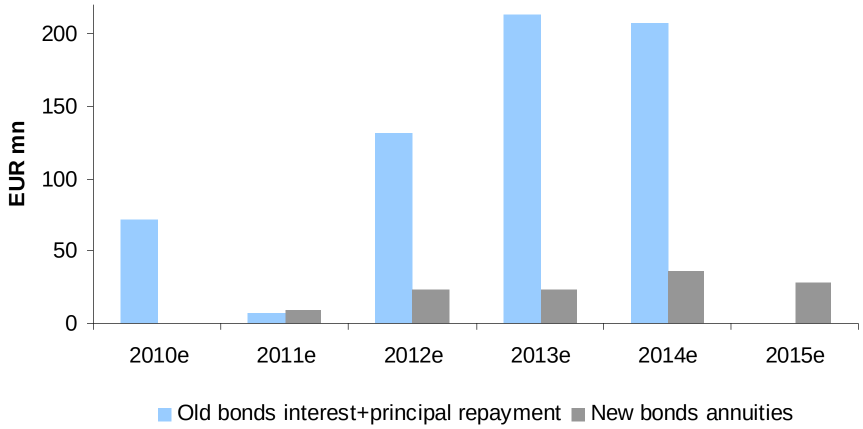
Orco's reported LTV decreased from 84.4% at YE09 to 69.1% in 2Q10

Orco's reported LTV decreased from 84.4% at YE09 to 69.1% in 2Q10, mainly thanks to the EUR 270mn revaluation of EUR 411mn in bonds of the parent Orco after their restructuring into longer maturities (from average 3Y to average 8Y), forced by the court during Orco's court protection. LTV would decrease by a minor 1.2% to 83.2% without the revaluation. The small decrease is a result of the repayment of some EUR 95mn in loans linked to residential and commercial sales and asset disposals.

New bond repayment schedule is favorable for parent Orco

The new bond repayment schedule is much more favorable for the parent Orco, as its financing needs for 2012-14 decreased substantially. The restructured bonds now behave like a 10Y loan with an irregular interest rate and with the majority of repayments falling beyond 2015.

Change in bond repayments of parent OPG after restructuring



Source: Orco, Erste Group estimates

The effective interest rate applied on the bonds is a high 23.1%. Calculating the effective interest rate on OPG's bonds at a non-investment grade bond yield of around 9%, we arrive at EUR 318mn NPV, compared to EUR 138mn calculated by the appraisal. We thus see Orco's LTV comparable to other RE companies at close to 80%, instead of the reported 69%. The lower reported LTV should not have any positive impact on Orco's capacity to draw loans for its SPVs. The pre-bond LTV important for banks decreased slightly by 2% in 1H10 and stands at 56.1% at present.

Some EUR 240mn in bank loans related to non-income-producing assets

Apart from the EUR 231mn in bonds (EUR 136mn at parent, plus EUR 93mn Orco Germany bonds), Orco currently reports EUR 1.06bn in bank loans on the SPV level. 77% of the bank loans relate to investment assets and recently finished projects; we thus estimate pre-bond LTV on those assets at around 59%. Some EUR 240mn (23%) of the bank loans relate to the non-income-producing landbank and projects on hold/under construction. The pre-bond LTV on the non-income-producing assets is thus at a high 60%.

EUR 578.3mn short-term debt is high…

The still worrying item in Orco's balance sheet is its high level of short-term debt, which reached EUR 578.3mn (with EUR 274.6mn in breach of covenants) in 2Q10. Some EUR 157mn of the loans in breach are long-term loans. Orco claimed that no early repayment was requested, due to their breach to date.

Orco's short term debt as of 1H10

Loans financing projects in EUR Million	Total less than one year	of which in breach	To be renegociated
Finished Projects	125.8	9.0	9.0
Projects under construction	42.7	11.2	0.0
Long term Dev.Projects	85.9	56.6	13.2
Assets held or plan.for Sales	102.3	36.3	0.0
Total IP	213.1	161.5	78.7
Bonds	8.5		
Total short term finance debt	578.3	274.6	100.9

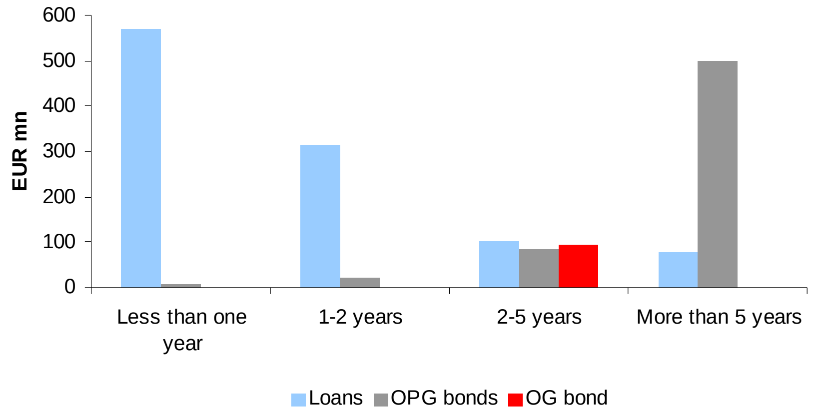
Source: Orco

…but is on SPV level, often with negative NAV

The short-term loans are on the SPV level and are covered by a mortgage. In the case the loan becomes due, the bank will exercise its pledge. Many SPVs with loans in breach currently have negative NAVs, so their deconsolidation would be positive for Orco's NAV. The short-term debt is thus not a threat for the parent Orco's liquidity, but is a threat for Orco's earnings power, etc.

We believe that Orco's 56% pre-bond LTV is low enough to allow relatively smooth refinancing of EUR 295mn loans, without breach of covenants. Orco estimates the real amount of loans to be renegotiated (i.e. projects with loans in breach not intended to be sold) at EUR 101mn. Orco has significant bank loan refinancing needs as well in the following year (2H11/1H12). The biggest loan is EUR 305mn performing loan financing of the GSG portfolio in Berlin, whose value has gone up significantly since the acquisition. We believe that the recovering leasing market will improve the SPV's interest coverage and LTV and thus will allow refinancing of investment assets in general.

Borrowings maturity



Source: Orco, EG calculations, includes total OPG bond liability incl. interest and redemption premiums

One significant risk is Orco Germany's EUR 100mn bond maturing in 2012

One significant risk is the EUR 100mn bond at Orco Germany maturing in 2012. Orco Germany has 67% pre-bond LTV, which does not allow bond refinancing with bank loans. A big part of the expected proceeds from commercial asset sales in Germany will thus have to stay in the subsidiary for the bond repayment.

Portfolio shift from hybrid to investment

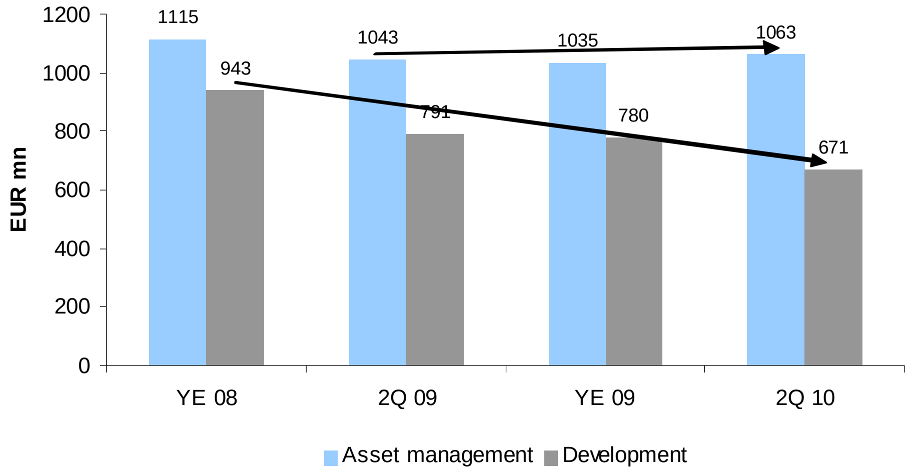
Investment property accounts for approx. 75% of Orco's RE portfolio

Orco's structure of assets has moved from a diverse mix of rental assets, commercial and residential development projects, land and significant financial assets to a structure with the biggest share in investment properties, followed by mostly finished residential and commercial projects. Investment property and finished projects account for approx. EUR 1.3bn (or 75%) of Orco's RE portfolio (65% of total assets), while the landbank, under development and problematic assets intended for sale account for EUR 0.4bn, according to our calculation. Orco has sold or pre-sold EUR 143mn worth of assets YTD, with a similar split between investment/development assets. The EUR 671mn development part in the chart below includes some EUR 167mn finished commercial projects (for sale) and EUR 79.5mn finished residential projects.

Little reason to expect big revaluation losses

Orco's asset structure currently provides little reason to expect big revaluation losses, given the lower share of the landbank (16% of the portfolio) and financial assets (EUR 33mn/1.7% of total assets), while the stabilizing investment market allowed an increase in the value of rental assets in Germany in 1H10. Orco sold assets at an average 5.4% profit in 1-2Q10, which confirms its valuations. We expect that further positive revaluations will come only in 2011, as 2H10 could be impacted by the recent departure of anchor tenants from two buildings in its CEE portfolio.

Orco's RE assets structure at YE09



Source: Orco, EGB estimates

45% of portfolio is located in Germany

The main part of the portfolio is, with over a 45% share, a mix of office/residential assets located in Germany, followed by core CE markets (31%). The remainder is made up of the Suncani Hvar hotel chain in Croatia (7%) and logistics/office assets in Russia (4%). Orco's restructuring strategy is focused on renting and residential development in core CE capital cities (Prague, Berlin, Warsaw), selling the levered landbank and the disposal of hospitality and logistics assets with insufficient interest coverage in the mid term. The key expansion project is the large Bubny landbank in Prague city center (27ha unzoned), followed by several large residential projects in Prague and Poland. We do not include the development of the Bubny site in our projections, as it still does not have necessary permits and first investments could be done only in 2H11/2012, in our view.

Portfolio valuation not as low as one could expect

Orco's net initial yield was at 5.56% in YE09, reversionary yield stands at 7.09%

Orco disclosed detailed yields on its portfolio in YE09 for the first time. Orco's net initial yield on EUR 933mn in rental assets (excluding hotels and logistics in Russia) was at a low 5.56%, due to several large fresh assets in the portfolio (Sky Office, Na Porici, Vysocany, Gate etc.). The reversionary yield, which reflects estimated rental values, was at 7.09%. We see a slight yield compression in the range of 10bp as possible in the case that leasing of the fresh assets is successful.

YE09 portfolio valuation

All values are in million euros	Number of assets	DTZ Market Value Euros	Valuation movement in the year Euros	Net Initial Yield	Reversionary Yield
Office Czech Republic	5	158,0	- 0,6	4,69%	8,59%
Industrial Czech Republic	4	30,0	- 8,0	9,48%	10,78%
TOTAL CZECH REPUBLIC*	**9**	**188,0**	**8,6**	**5,28%**	**8,92%**
Office Hungary	3	28,9	- 14,7	8,67%	10,77%
Parkings Hungary	1	5,1	- 1,3	2,17%	0,00%
TOTAL HUNGARY**	**4**	**34,0**	**- 16,0**	**6,54%**	**9,27%**
Industrial Poland	2	10,4	- 1,7	8,18%	12,86%
Office Poland	1	5,5	- 0,1	5,59%	8,19%
TOTAL POLAND	**3**	**15,9**	**- 1,8**	**7,29%**	**11,25%**
TOTAL SLOVAKIA	**1**	**15,9**	**- 2,6**	**0,00%**	**9,35%**
Commercial GSG	3	74,4	2,6	6,86%	6,76%
Industrial GSG	1	4,5	- 0,3	29,81%	29,81%
Mixed Commercial GSG	28	309,9	- 27,5	6,10%	6,20%
Residential GSG	1	2,4	- 0,2	6,58%	5,37%
Residential/ Commercial GSG	11	52,4	- 0,4	7,49%	6,14%
Storage Production	1	0,8	- 0,8	4,14%	9,09%
TOTAL GSG PORTFOLIO*	**45**	**444,4**	**- 26,6**	**6,63%**	**6,52%**
Commercial Germany	2	40,4	- 2,7	6,32%	7,22%
Office Germany	4	160,6	68,2	2,13%	5,70%
Mixed office Germany	2	13,3	0,5	5,56%	6,06%
Residential Germany	2	2,4	- 0,2	4,70%	7,34%
Retail Germany	1	5,8	- 0,8	9,69%	9,69%
TOTAL GERMANY EXCL GSG*	**11**	**222,5**	**65,0**	**3,33%**	**6,13%**
OFFICE Luxembourg	**1**	**27,9**	**- 2,5**	**5,91%**	**6,47%**
TOTAL	74	948,6	12,1	5,56%	7,09%

Source: Orco

Our projection of 1.5% to 4.8% revaluation gains is driven by market development

We would expect a higher reversionary yield, given the slow leasing market and generally still high vacancy in many recently finished assets. Valuation measures for hospitality assets and Molcom logistics in Russia were not disclosed. We calculate Molcom's EBITDA reversionary yield around 14%, in line with the market, while EBITDA in Suncani Hvar was negative in 2009. Our projection of revaluation gains in the range of 1.5% to 4.8% for the RE portfolio in 2010-12 is thus driven more by the expected gradual decrease in the market level of yields and further expected growing rents in the GSG portfolio than by the reversionary potential of Orco's assets.

Revenues

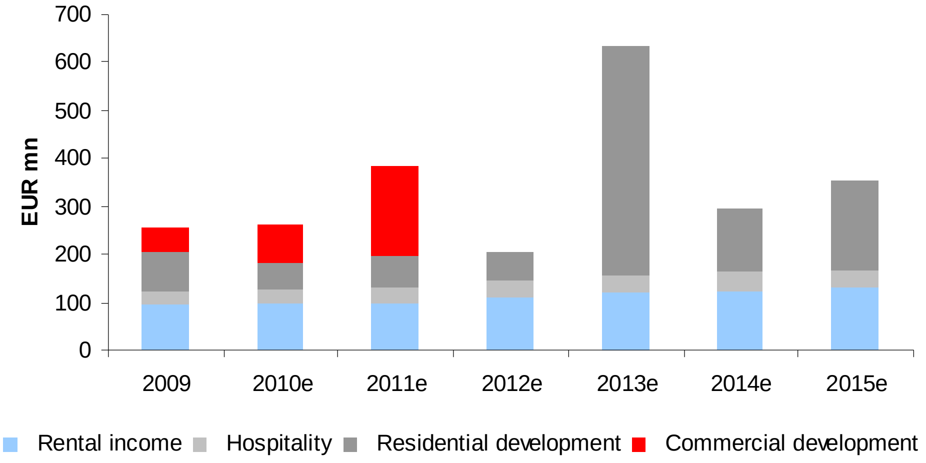
Orco's core revenues from renting projected as slightly growing

Orco's core revenues from renting are broadly stable YTD. While there were several departures of key tenants in Prague and Budapest, its biggest GSG portfolio shows stable and growing occupancy. Hotel revenues improved nicely in 2Q10 from the depressed levels in previous quarters and the summer season in Hvar should show almost 100% occupancy. Missing revenues from disposed-of assets will be offset by growing occupancy in the immature prime assets in Prague and Budapest (e.g. Na Porici, Hradcanska, Paris department store and Vaci 1 from 2011). Overall, we project slightly growing rent and hotel revenues in 2010-11, on very shaky underlying development.

Residential development sales are very weak, but cash flows are much higher

Residential development sales were very weak in 2Q10 (EUR 10mn, -48% q/q) and the company was cautious regarding the Prague residential market for 2H10. Orco is currently working on only two smaller projects in Prague, but has EUR 79.5mn in finished inventory and about 470 units (ca. EUR 80mn GDV) in ready to start projects. Overall, we expect a still weak 2H10 before a slow recovery in 2011. Revenues are expected to fall by a third from the 2009 level to around EUR 60mn per year in 2010-12, but the underlying cash flow will be high, as Orco is selling mainly finished inventory in 2010-11. We have included the big luxury Zlota project in our projections for 2013, as it seems that the local authorities are in favor of the project. Orco has a quality landbank, allowing for the construction of about 6,500 units (excluding the Bubny and Kaluga sites) in the Czech Republic and Poland. We thus include residential development as Orco's second biggest EBITDA contributor in our long-term estimates.

Revenue forecast



Source: Orco, Erste Group estimates

Orco is in process of significant downsizing of its development arm

Operating profitability growing

Orco's operating margins have been rather low, due to the high share of low-margin assets like hospitality and logistics; also, the big GSG portfolio has lower margins than usual for an office portfolio, due to its focus on small and mid-size tenants. The second reason is the high headcount and OPEX related to the development business. Orco is in the process of significant downsizing of its development arm, while it also focuses on cost cutting in all other businesses.

Orco's adjusted EBITDA was up 33.7% y/y in YE09 and 87.4% y/y in 1H10

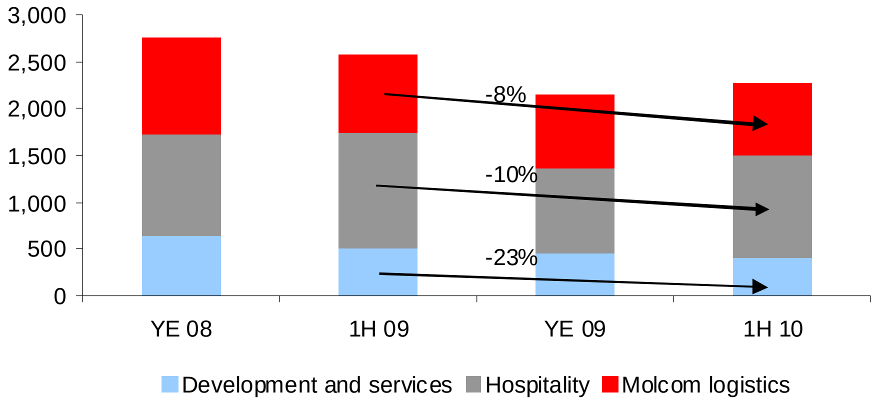
Orco reports adjusted EBITDA, which is EBITDA before revaluations, profit/loss from asset disposals and adjusted for past revaluations. Orco's adjusted EBITDA reached EUR 29.9mn (+33.7% y/y) in YE09 and EUR 21.35mn (+87.4% y/y) in 1H10. The increase in 1H10 was one-half driven by high irregular revenues in the commercial development segment and improving hotel revenues (+10% y/y), while the second half of the improvement is attributable to cost cutting. Personnel expenses were down 12% y/y and other costs were down 8% y/y in 1H10.

OPEX development

Source: Orco, 2H09 employee benefits adjusted for EUR 3.7mn management warrants allocation

Orco has cut its workforce in its core business (excluding hotels and logistics) from 778 at YE07 to 420 at YE09 and targets 300 by YE10. Further restructuring of overheads should take the total overhead costs from EUR 19mn to EUR 15mn by the end of 2010, excluding Molcom, hospitality and Orco Germany. Orco is preparing further cost cutting measures for Orco Germany and Suncani Hvar.

Headcount full-time equivalent development



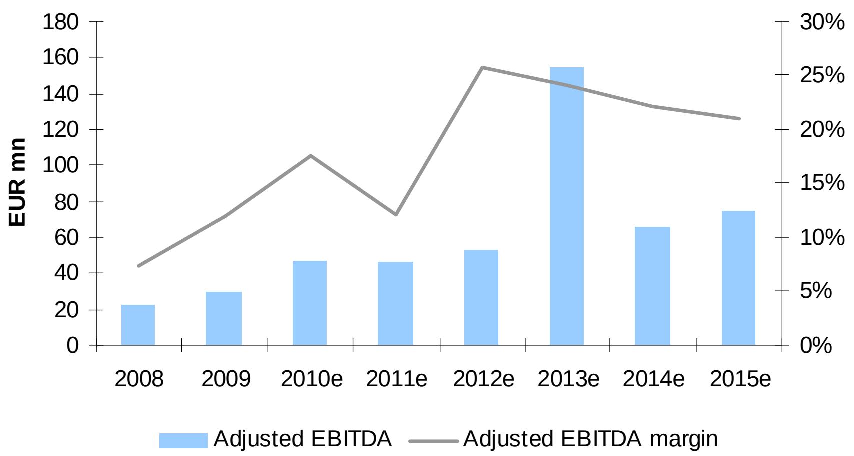
Source: Orco

Overall running OPEX, excluding hotels, logistics and restructuring costs, dropped by 16% to EUR 87mn in 2009 and is targeted at EUR 60mn (-28.5%) by YE10. As Orco's cost structure is still difficult to split (and is shadowed by one-offs and restructuring costs), we project lower cost savings at EUR 18mn (14.5%) by 2011. The expected appreciation of the RUB and other local currencies is also a reason for the higher estimated costs.

We see adjusted EBITDA growing to EUR 45mn in 2010-11, CAPEX cycle positive

We see Orco's consolidated adjusted EBITDA growing to around EUR 45mn in 2010-11, compared to some EUR 70mn in cash interest costs. The reported EBITDA, however, hides the underlying CAPEX cycle, which is positive for Orco (the book value of finished sold projects is shown in COGS). We believe that Orco is able to reach good interest coverage through disposals of the Suncani Hvar hotel chain, logistics assets in the Czech Republic and part of the landbank in the mid term (not included in our forecast).

Adjusted EBITDA forecast

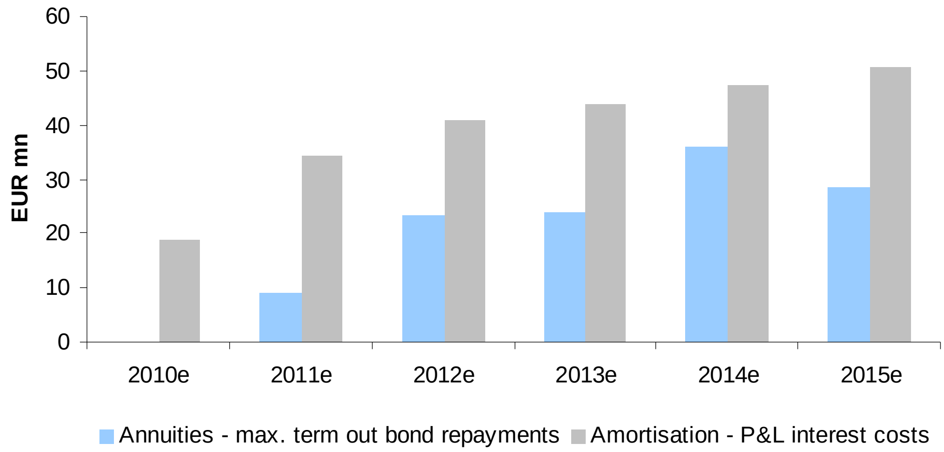


Source: Orco, Erste Group estimates

High bond amortization hurts bottom line

Orco's net income line will look weak in 2H10-12. The company still does not cover its interest costs from the operating result and this is also the case for our projection, which does not assume the disposal of the unprofitable Suncani Hvar and Czech logistics arm. Orco's reported financial costs are set to increase, due to high non-cash bond amortization, following their revaluation in 2Q10 (e.g. EUR 38mn amortization vs. cash EUR 23mn annuity in 2012). We estimate that Orco will still be loss-making pre-revaluation in 2010-12. Positive net income is estimated, thanks to the slightly positive revaluation at a muted 1.5% to 4.8% of the RE portfolio in 2010-12. Still, Orco's cash flow is a somewhat different story, as explained above.

Difference between bond amortization and cash repayments



Source: Orco, Erste Group estimates

DCF Valuation

Risk of Orco failing in next one to two years is low, so we use DCF for valuation

We see the risk of Orco failing in the next one to two years as relatively low at present. Although its interest coverage from the operating result is insufficient and its short-term debt is high, the company is able to fill in the cash flow gap with sizable disposals of assets. The short-term debt is on the SPV level, so there is only a minor risk from refinancing for the parent. The improving investment market was visible in recent deals, when Orco sold above the latest valuations. We thus decided to use our standard DCF model for the valuation.

The detailed period of the model covers the repayment period of restructured bonds. The FCFF calculation includes EBITA before revaluations, CAPEX (including both investments in rental assets and residential development) and adds the book value of sold assets (both rental and residential), which is a non-cash cost in the income statement.

Target price is calculated using diluted number of shares

The DCF model essentially includes Orco's already announced and likely short-term rental/landbank asset disposals (mainly Sky Office, the Wertheim site, Cumberland) in the amount of EUR 453mn in 2010-11, but does not include potential disposals of logistics or hotel operations. The remaining landbank not used for residential development projections (Bubny, Kaluga, etc.) is included in non-operating assets at its book value (EUR 96mn). The target price is calculated using the diluted number of shares, as there are 4.6mn shares (33%) to be potentially issued through warrant exercises at EUR 7.0/share (currently in the money).

We arrive at EUR 8.2/share 12M target price; Accumulate

Using the DCF model, we arrive at a **EUR 8.2/share** twelve-month target price. The share thus offers nice upside potential, even after the recent rally. We thus assign Orco our Accumulate recommendation, as its risk profile fell significantly after the bond restructuring.

WACC calculation

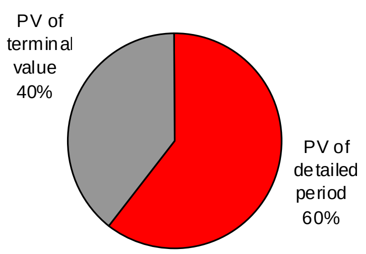
	2011e	2012e	2013e	2014e	2015e	2016e	2017e	2018e	2019e	2020e (TV)
Risk free rate	3.6%	3.6%	3.6%	3.6%	3.6%	3.6%	3.6%	3.6%	3.6%	5.0%
Equity risk premium	5.8%	5.8%	5.8%	5.8%	5.8%	5.8%	5.8%	5.8%	5.8%	5.8%
Beta	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.0
Cost of equity	**10.5%**	**10.5%**	**10.5%**	**10.5%**	**10.5%**	**10.5%**	**10.5%**	**10.5%**	**10.5%**	**10.8%**
Cost of debt	7.6%	7.6%	7.6%	7.6%	7.6%	7.6%	7.6%	7.6%	7.6%	7.0%
Effective tax rate	19%	19%	19%	19%	19%	19%	19%	19%	19%	19%
After-tax cost of debt	**6.2%**	**6.2%**	**6.2%**	**6.2%**	**6.2%**	**6.2%**	**6.2%**	**6.2%**	**6.2%**	**5.7%**
Equity weight	27%	30%	36%	38%	39%	38%	39%	40%	43%	50%
WACC	**7.3%**	**7.4%**	**7.7%**	**7.8%**	**7.8%**	**7.8%**	**7.8%**	**7.9%**	**8.0%**	**8.2%**

DCF valuation

(EUR mn)	2011e	2012e	2013e	2014e	2015e	2016e	2017e	2018e	2019e	2020e (TV)
Sales growth	*43.9%*	*-46.0%*	*206.9%*	*-53.8%*	*20.0%*	*-6.0%*	*22.9%*	*-6.6%*	*-19.8%*	*2.9%*
EBITA	44.6	53.6	154.1	65.5	74.5	72.5	83.4	80.3	70.5	72.6
EBITA margin	*11.5%*	*25.7%*	*24.1%*	*22.1%*	*21.0%*	*21.7%*	*20.3%*	*21.0%*	*22.9%*	*22.9%*
Tax rate	*19.0%*	*19.0%*	*19.0%*	*19.0%*	*19.0%*	*19.0%*	*19.0%*	*19.0%*	*19.0%*	*19.0%*
Taxes on EBITA	-8.5	-10.2	-29.3	-12.4	-14.2	-13.8	-15.8	-15.3	-13.4	-13.8
+/- Change in working capital	-18	73	-63	7	-2	11	-4	-20	-5	0
- Capital expenditures	-47	-90	-248	-115	-138	-140	-159	-126	-91	0
+ BV of assets sold	275	48	348	107	150	129	186	161	96	0
Free cash flow to the firm	**245.9**	**75.1**	**162.7**	**52.7**	**70.8**	**59.1**	**90.9**	**79.9**	**57.3**	**58.8**
Terminal value growth										*2.0%*
Terminal value										945
Discounted free cash flow - Dec 31 2010	229	65	131	39	49	38	54	44	29	446

Enterprise value - Dec 31 2010	1,125
Minorities	-24
Non-operating assets	96
Net debt - Dec 31 2010	-1,088
Effect of dilutive instruments	32
Equity value - Dec 31 2010	**142**
Diluted number of shares (mn)	18.6
Cost of equity	11%
12M target price per share (EUR)	**8.2**
Current share price (EUR)	7.2
Up/Downside	*14%*

Enterprise value breakdown



Sensitivity (per share)

WACC	Terminal value EBITA margin				
	21.9%	**22.4%**	**22.9%**	**23.4%**	**23.9%**
7.2%	12.1	12.8	13.4	14.1	14.8
7.7%	9.4	10.0	10.6	11.2	11.8
8.2%	7.1	7.6	**8.2**	8.8	9.3
8.7%	5.1	5.7	6.2	6.7	7.2
9.2%	3.5	3.9	4.4	4.9	5.4

WACC	Terminal value growth				
	1.0%	**1.5%**	**2.0%**	**2.5%**	**3.0%**
7.2%	8.4	10.7	13.4	16.7	20.8
7.7%	6.4	8.3	10.6	13.3	16.6
8.2%	4.6	6.3	**8.2**	10.5	13.2
8.7%	3.1	4.5	6.2	8.1	10.3
9.2%	1.8	3.0	4.4	6.1	8.0

Source: Factset, Erste Group Research

Income Statement	2007	2008	2009	2010e	2011e	2012e
(IFRS, EUR mn, 31/12)	31/12/2007	31/12/2008	31/12/2009	31/12/2010	31/12/2011	31/12/2012
Total revenues	**299.23**	**299.93**	**251.53**	**268.59**	**386.52**	**208.77**
- Rental Income	66.10	111.40	96.60	96.80	100.24	110.87
- Operating costs charged	0.00	0.00	0.00	0.00	0.00	0.00
- Other	233.13	188.53	154.93	171.78	286.28	97.90
Operating expenses	-225.15	-227.02	-192.03	-183.66	-302.73	-117.35
Net operating income	**74.08**	**72.90**	**59.50**	**84.93**	**83.79**	**91.42**
Result from the sale of investment property	30.88	6.20	2.52	-1.68	-2.03	0.00
Result from the sale of trading property	0.00	0.00	0.00	0.00	0.00	0.00
Total administrative expenses	-58.20	-59.34	-49.29	-40.28	-37.16	-37.84
Other operating result	0.00	0.00	0.00	0.00	0.00	0.00
EBITDA	**46.76**	**19.76**	**12.74**	**42.97**	**44.61**	**53.58**
Revaluation result	147.38	-216.95	-177.60	26.55	74.57	70.46
Depreciation/amortization	-17.03	-188.52	-89.35	-8.31	0.00	0.00
Operating profit	**177.10**	**-385.71**	**-254.22**	**61.21**	**119.18**	**124.04**
Financial result	-73.86	-127.67	-110.16	163.55	-81.26	-81.65
Pre-tax profit	**103.25**	**-513.38**	**-364.37**	**224.76**	**37.92**	**42.38**
Tax expenses	-2.34	50.60	48.86	-1.72	-7.58	-8.48
Extraordinary result	0.00	0.00	0.00	0.00	0.00	0.00
Minority interests	-13.40	73.26	64.95	6.90	-6.09	-6.71
Net result after minorities	**87.51**	**-389.53**	**-250.56**	**229.95**	**24.24**	**27.19**

Balance Sheet	2007	2008	2009	2010e	2011e	2012e
(IFRS, EUR mn, 31/12)						
Intangible assets	67.02	57.07	48.90	48.06	47.11	47.73
Tangible assets	1,984.52	1,575.69	1,307.98	1,192.78	1,064.26	1,148.10
- Investment property	1,564.95	1,211.72	1,072.30	963.79	997.83	1,068.29
- Investment property held for sale	0.00	0.00	0.00	0.00	0.00	0.00
- Development properties	419.58	363.97	235.68	229.00	66.43	79.81
- Other tangible assets	0.00	0.00	0.00	0.00	0.00	0.00
Financial assets	82.18	70.68	32.35	8.07	11.17	16.03
Total fixed assets	**2,133.72**	**1,703.45**	**1,389.24**	**1,248.91**	**1,122.54**	**1,211.86**
Inventories / trading properties	323.70	529.83	482.61	434.54	410.14	438.26
Receivables and other current assets	214.12	139.31	139.35	91.27	105.42	84.09
Cash and cash equivalents	257.98	85.99	57.53	70.34	142.06	100.71
Total current assets	**795.79**	**755.12**	**679.48**	**596.16**	**657.63**	**623.07**
Other assets	13.75	7.35	3.74	3.74	3.74	3.74
TOTAL ASSETS	**2,943.26**	**2,465.92**	**2,072.46**	**1,848.81**	**1,783.92**	**1,838.67**
Shareholders'equity	**736.01**	**306.45**	**56.58**	**316.54**	**340.78**	**368.12**
Minorities	203.82	121.22	48.15	23.66	29.76	36.47
Hybrid capital	0.00	0.00	0.00	0.00	0.00	0.00
Other equity and reserves	0.00	0.00	0.00	0.00	0.00	0.00
Long-term provisions	0.00	0.00	0.00	0.00	0.00	0.00
Interest-bearing LT debts	1,304.54	1,255.92	894.03	949.97	584.32	729.46
Other LT liabilities	283.25	212.45	127.43	131.08	145.99	160.09
Total long-term liabilities	**1,587.78**	**1,468.37**	**1,021.46**	**1,081.05**	**730.31**	**889.55**
Interest-bearing ST debts	175.22	309.84	655.00	208.39	464.35	269.10
Other ST liabilities	240.43	260.06	291.28	219.17	218.72	275.43
Total short-term liabilities	**415.65**	**569.89**	**946.27**	**427.56**	**683.07**	**544.52**
TOTAL LIAB. , EQUITY	**2,943.26**	**2,465.92**	**2,072.46**	**1,848.81**	**1,783.92**	**1,838.67**

Cash Flow Statement	2007	2008	2009	2010e	2011e	2012e
(IFRS,EUR mn, 31/12)						
Cash flow from operating activities	10.33	-64.57	-10.93	93.76	284.20	196.71
Cash flow from investing activities	-858.92	-167.10	28.77	115.33	-6.01	-90.42
Cash flow from financing activities	1,006.70	57.81	-45.17	-196.28	-206.47	-147.64
CHANGE IN CASH , CASH EQU.	**159.63**	**-171.99**	**-28.46**	**12.81**	**71.72**	**-41.35**

Margins & Ratios	2007	2008	2009	2010e	2011e	2012e
ROE	14.7%	-74.7%	-138.0%	123.3%	7.4%	7.7%
Equity ratio	31.9%	17.3%	5.1%	18.4%	20.8%	22.0%
Net debt	1,221.8	1,479.8	1,491.5	1,088.0	906.6	897.8
Loan-to-value (LTV)	51.1%	68.0%	81.8%	66.5%	61.0%	56.0%
Gearing	130.0%	346.0%	1,424.1%	319.8%	244.7%	221.9%

Source: Company data, Erste Group estimates

Company Report – Real Estate Investor – Austria – September 24, 2010

Sparkassen Immobilien Buy

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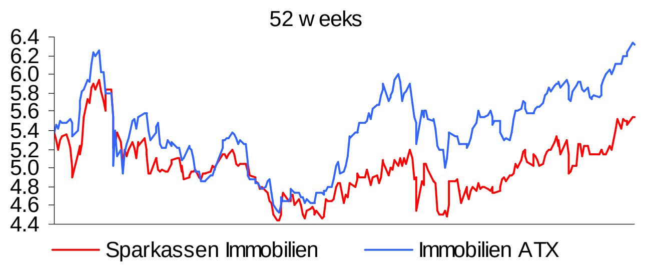
EUR mn	2009	2010e	2011e	2012e
Rental income	87.6	105.1	123.1	127.8
Revaluation result	-97.2	7.5	28.2	36.8
EBIT	-53.1	78.4	117.5	130.4
Net result after min.	-78.6	22.0	47.1	56.0
EPS (EUR)	-1.15	0.32	0.69	0.82
CEPS (EUR)	0.32	0.38	0.58	0.64
BVPS (EUR)	7.0	7.1	8.0	8.8
NAV/share (EUR)	7.4	7.5	8.5	9.5
Div./share (EUR)	0.00	0.00	0.15	0.20
P/E (x)	nm	17.2	8.0	6.8
P/CE (x)	15.5	14.6	9.6	8.7
P/NAV (x)	0.68	0.74	0.65	0.59
EV/EBITDA (x)	32.2	21.1	17.0	16.3
Dividend Yield	0.0%	0.0%	2.7%	3.6%



Performance	12M	6M	3M	1M
in EUR	3.4%	14.7%	16.1%	6.2%

Share price (EUR)	5.55	Reuters	SIAG.VI	Free float	81.0%
Number of shares (mn)	68.1	Bloomberg	SPI AV	Shareholders	s Versich. (VIG) (10.3%)
Market capitalization (EUR mn)	378.1	Div. Ex-date			Tri-Star Cap. Ventures (11.1%)
Enterprise value (EUR mn)	1,708.2	**Target price**	**6.9**	Homepage:	www.sparkassenimmobilienag.at

Long-term prospects still bright

- **Despite our somewhat reduced estimates, we keep our Buy recommendation for Sparkassen Immo and increase our target price to EUR 6.9 (from EUR 6.5). The lowered estimates mainly stem from the non-cash revaluation result. The mid-term forecast for operating cash flow was confirmed by the company and the compounding factor and the again lowered risk-free rate led to the higher target price.**

- **The reported 2Q10 results were weaker than expected. However, the reasons were either temporary or one-off effects. The cash-effective overhead costs were actually better than expected and the mid-term outlook for the cash flow from operations was confirmed.**

- **Sparkassen Immo is about to finalize its remaining four development projects. For future investments, the company mentioned possible acquisitions of standing properties and the development of its own 12ha land bank as target areas.**

- **The company is still considering options for how to deal with the outstanding participation certificates. Our preferred solution would be for the firm to buy a reasonable number of these over the market each year. This would improve the results and shareholders' equity (if bought below its NAV), avoid dilution for shareholders and the refinancing issue at the end of 2017 would be mitigated each year.**

- **We expect the company to start paying a dividend for fiscal year 2011 (to be paid in 2012), which is also included in our projections.**

- **A risk factor for the shares would be another offer to participation certificate holders to switch into shares at the current stock price level.**

2Q10 results

Weak 2Q results, mid-term outlook confirmed

The company reported rather weak 2Q10 results, just managing to break-even on the net level (EUR +0.2mn). 2Q rental income showed a strong y/y increase (+18% y/y), as a result of the finalized development projects. Total sales (incl. hotel operations) were up 6% y/y. The revaluation result was slightly negative (EUR -1.7mn), mainly as a result of negative revaluations in South-East Europe. The mid-term outlook is unchanged and is focused on the cash flow from operations (EUR 49.4mn in 2009). Here, Sparkassen Immo confirmed that it expects a level of EUR >100mn in the next two years. The original target level of EUR 75-85mn for fiscal year 2010 may not be fully achieved, according to the company.

2Q10 results overview

Consolidated, IFRS	Reported			Exp.	Rep. vs.	Reported		
(EUR, mn)	1H 2010	1H 2009	y/y	Erste	Erste	2Q 10	2Q 09	y/y
Total sales rev.	79.36	77.00	3%	86.06	-7.8%	43.78	41.38	6%
Net rental income	48.23	44.68	8%	50.19	-3.9%	26.35	22.42	18%
EBITDA	36.79	33.45	10%	39.84	-7.7%	18.66	17.57	6%
Revaluation result	-1.73	-4.90	-65%	0.00	n.m.	-1.73	-4.90	-65%
EBIT	30.08	23.82	26%	35.14	-14.4%	14.31	10.34	38%
Net result	6.22	3.22	93%	9.84	-36.8%	0.23	2.73	-91%
EPS (EUR)	0.09	0.05	80%	0.14	-35.7%	0.00	0.04	-100%

Source: Company Data, Erste Group Research

Impacts on 2Q results

In summary, the reasons for the weaker 2Q results were (1) a slight delay in renting the new developments, (2) a slightly negative revaluation result (mainly from Bucharest and Sofia), (3) a one-off negative tax effect (EUR 3mn) and (4) elevated direct property costs (commission paid for signing rental agreements). However, on the positive side: (1) administrative expenses were lower than expected, (2) expected selling gains will probably be higher than originally expected, and (3) management clearly confirmed that 2H10 cash flow will be much better than in 1H.

Change in estimates

Adjusted estimates

Following the 2Q10 results release, we had to adjust our estimates. The most important changes relate to

(1) The 2010 fiscal year, where the minor delay in rental income and a more cautious revaluation result estimate led to clearly lower earnings projections. There were plenty of other minor changes.

(2) The revaluation result in general, where we are now somewhat more cautious throughout the projection period.

Change in estimates

Consolidated, IFRS	2010e			2011e			2012e		
(Currency, mn)	Now	Before	*Change*	Now	Before	*Change*	Now	Before	*Change*
Total revenues	153.6	153.6	*0.0%*	196.0	206.6	*-5.1%*	203.2	212.2	*-4.2%*
Net operating income	86.3	100.3	*-14.0%*	110.4	116.9	*-5.6%*	115.3	121.1	*-4.8%*
EBITDA	81.0	90.5	*-10.5%*	99.5	100.1	*-0.6%*	104.0	103.9	*0.1%*
Revaluation result	7.5	15.0	*-49.9%*	28.2	36.9	*-23.6%*	36.8	43.8	*-16.1%*
EBIT	78.4	96.3	*-18.6%*	117.5	127.7	*-8.0%*	130.4	138.4	*-5.7%*
Net result after min.	22.0	33.6	*-34.6%*	47.1	52.2	*-9.7%*	56.0	59.5	*-5.9%*
EPS	0.32	0.49	*-34.6%*	0.69	0.77	*-9.7%*	0.82	0.87	*-5.9%*
BVPS	7.13	7.60	*-6.1%*	7.97	8.36	*-4.7%*	8.79	9.09	*-3.3%*
NAV/share	7.53	8.03	*-6.3%*	8.49	8.94	*-5.0%*	9.46	9.82	*-3.6%*

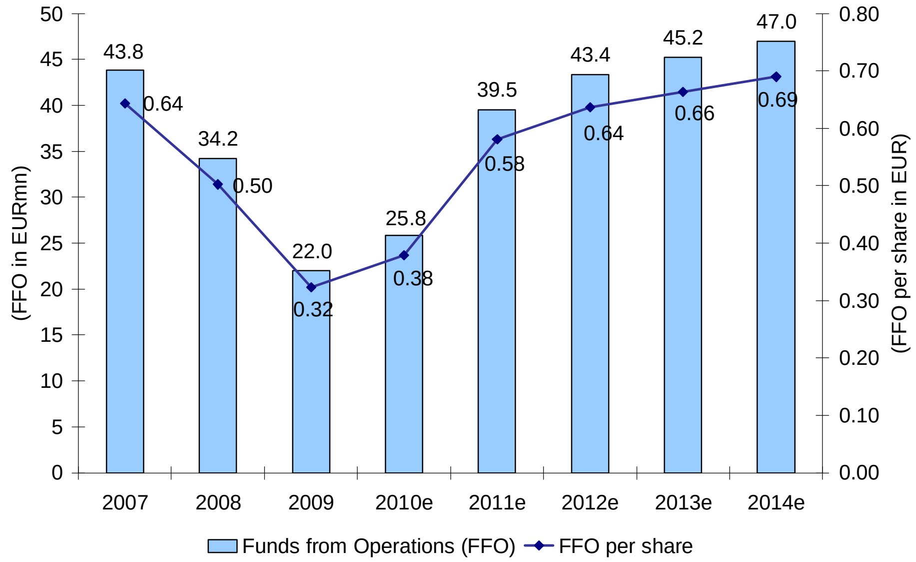
Source: Erste Group Research

As can be seen in the table above, for the projection of 2011 and beyond, the cash-relevant EBITDA estimates were nearly unchanged. This is also in line with the basically confirmed guidance of the company (doubling the operating cash flow in the next two years – compared to the 2009 level). Net income and EPS are obviously significantly affected, but the overall impact on BVPS and NAV/share is mitigated by an expected reversal of the hedging losses that are directly booked against shareholders' equity.

FFO to increase significantly

The funds from operations (FFO – after interest and taxes) are estimated to increase to EUR 25.8mn in 2010 (after EUR 22.0mn in 2009) and to further significantly increase thereafter. In 2010, the retail parts of the two major development projects (Serdika Center and Sun Plaza) have only started to contribute rental income in 2Q, whereas the office parts of both will mainly start to contribute cash flow in 2011. FFO per share (which equals our CEPS definition) is estimated at EUR 0.38 this year and EUR 0.58 in 2011e.

Funds from operations (FFO)

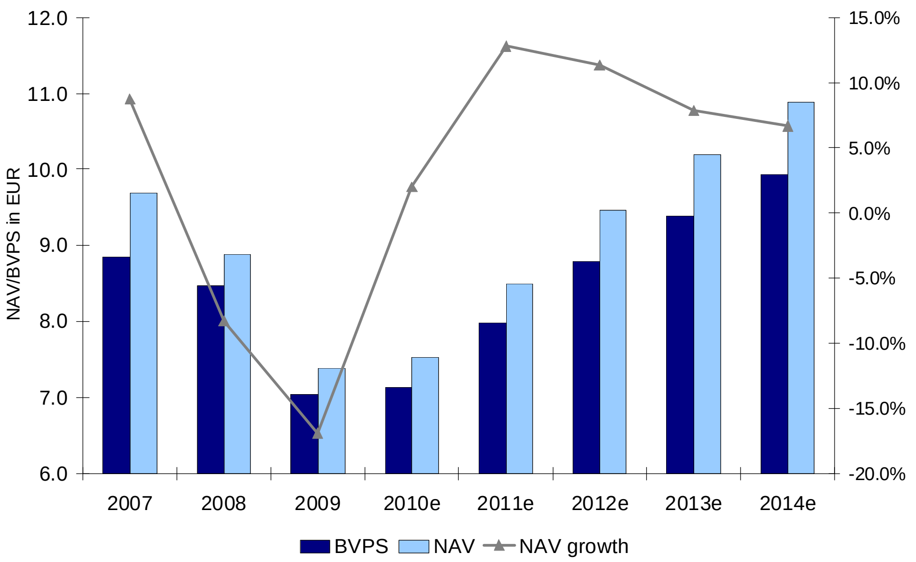


Source: Company data, Erste Group estimates

NAV and BVPS development

The resulting development of the NAV per share and BVPS are shown below. The 2010e increase is strongly burdened by the losses of the interest rate hedging instruments that are booked directly in shareholders' equity and are expected to reverse in 2011e and 2012e. Apart from the improved results themselves, this is also the reason for the expected double-digit increase in NAV and BVPS in these years.

NAV/share and BVPS development



Source: Company data, Erste Group estimates

Participation certificates

Development of certificate NAV

Sparkassen Immo's outstanding participation certificates currently receive a EUR 4.36 per certificate distribution, which is very likely to remain constant in the next few years. The development of the NAV per certificate, which equals the repayment value, is shown in the table below. Investors are entitled to ask for repayment for the first time on December 31, 2017. As the profit share of the certificates is dependent on the whole company's EBIT, the estimates are moderately lower compared to our last report as well (just like the EPS and BVPS estimates). For the first termination deadline on December 31, 2017, we continue to estimate a repayment value of around EUR 85-90 – assuming a constant annual EUR 4.36 distribution until then.

NAV of participation certificate (EUR mn)	2007	2008	2009	2010e	2011e	2012e	2013e	2014e
Book value of certificate at Dec. 31 previous year		297.1	286.9	261.7	260.0	262.4	266.1	269.6
+ Attributable profit of respective year		4.5	-10.0	12.4	16.3	17.8	17.4	16.6
- Distribution paid out		-14.2	-14.1	-14.1	-14.1	-14.1	-14.1	-14.1
+ Hidden reserve allocation		1.7	-1.2	0.0	0.1	0.1	0.1	0.1
- Certificate repurchases		-2.3	0.0	0.0	0.0	0.0	0.0	0.0
Book value of certificates at Dec. 31	**297.1**	**286.9**	**261.7**	**260.0**	**262.4**	**266.1**	**269.6**	**272.3**
No. of certificates outstanding (mn)	3.25	3.22	3.22	3.22	3.22	3.22	3.22	3.22
NAV per certificate outstanding (EUR)	**91.39**	**88.96**	**81.14**	**80.63**	**81.35**	**82.53**	**83.61**	**84.44**

Source: Company data, Erste Group estimates

Options available to deal with certificates

Management's plan to grant certificate holders options for conversion into shares at various points in time did not get the necessary majority at the last AGM. The company has the following options concerning the outstanding certificates:

- Doing nothing and continuing to pay out the EUR 4.36/certificate annually
- Trying to buy back certificates over the market – in the best case below the NAV, with a positive impact on the company's income statement and equity
- Trying once more to find a solution with option granting for exchange into shares that would find the necessary majority at an AGM/EGM
- Offering a convertible bond in exchange for the participation certificates

For shareholders, the best option would be to gradually buy back certificates over the market, which would also gradually reduce the refinancing risk for the company. In case of granting options, the risks of shareholder dilution and a stock overhang remain, especially if a big number of certificate holders were to exercise the option. Convertible bonds could offer an attractive alternative to both shareholders and certificate holders, although a too low exercise value would lead to dilution and a too high exercise value may lead to a scenario in which such bonds would not be converted and the company would again have the same refinancing issue that it wanted to avoid.

Dividend on shares would facilitate solution

Given all the pros and cons involved, a potential solution would be a combination of all of the above-mentioned possibilities, to take into consideration the needs and limitations of the different groups of investors in the participation certificates. In our opinion, one move to facilitate most of the above-mentioned options would be for the company to start paying dividends on the shares as well. So far, there has been no firm statement from the company concerning this topic. In our opinion, the company should go for a gradual repurchase of the certificates on the market, thereby positively affecting both the result and shareholders' equity (if bought below the NAV).

Investment plans

Current development projects

At the presentation of the 2Q10 results, management gave an update on its current development projects and planned future new investments. The current projects are shown below. The critical issues of this pipeline are still the office part of the Serdika Center, where there is still no visible progress on renting it out. For the Sun Plaza office part, management confirmed again that there is lots of interest and there are no worries about this. In the case of the Neutor 1010 project, 27 out of 34 luxury apartments are sold already; the expected profit is expected to be booked in the 4Q10 result. In the office part, the main tenant bene (an Austrian office furniture company) has already moved into the building.

Sparkassen Immo's four current development projects

	SQM split	Project volume	Finalization
Sun Plaza/Bucharest (90,000 sqm)	90% retail/10% office	EUR 200mn	Office: end 2010 Retail: Feb. 2010
Serdika Center/Sofia (80,000 sqm)	70% retail/30% office	EUR 210mn	Office: 2011 Retail: March 2010
Neutor 1010/Vienna (11,000 sqm)	55% res./45% mix. use	EUR 55mn	4Q10
Galvaniho 4/Bratislava (23,700 sqm)	90% office/10% retails	EUR 45mn	4Q10

Sun Plaza office part (Bucharest)

Serdika Center office part (Sofia)

Galvaniho 4 office/shopping (Bratislava)

Neutorgasse office/residential (Vienna)

Source: Sparkassen Immo

Two directions for future investments

Concerning future investment plans, Sparkassen Immo mentioned two directions:

(1) acquisitions of standing properties in all existing markets (Austria, Germany and the CEE region)
(2) development of its own land bank, which currently comprises around 12,000 sqm in the cities of Bratislava, Bucharest, Prague and Sofia

Concerning acquisitions of standing properties, the company seems to be in close negotiations already, as management seemed quite confident that transactions may be presented in the near future. The start of the development of the own land bank is not decided upon yet, but will certainly depend on economic conditions.

Valuation and recommendation

Weighted average of DCF and NAV

Our 12-month target price is – just like in our previous reports – based on 75:25 weights for the DCF result and the NAV per share. Unlike the company's own definition, we do not add the liability booked as a result of the negative fair value of the hedges into our NAV. Our NAV definition includes the shareholders' equity plus deferred tax liabilities minus deferred tax assets plus any hidden reserves in the two own-operated Marriott hotels. Currently, this is clearly the more conservative calculation method. The peer group valuation is shown in the general part of this report and is included for illustrative purposes only. Compared to our last report, we have made the following changes in our DCF valuation:

- Reduced risk-free rate for the detailed planning period (from 3.1% to 3.0%)
- Increased EBITA margin for the terminal value calculation (from 43.5% to 45.0%), due to the improved cost development and refined estimates overall
- Slightly increased terminal value capex outlay

Buy recommend-dation confirmed, new target price at EUR 6.9

In general, all of the above changes are just fine-tuning and not material revisions. However, together with the compounding of the target a couple of months forward, our new DCF target value has moved from EUR 6.1 to EUR 6.7. Concerning the NAV per share that we used in setting our target price, we moved from the reported December 31, 2009, figure to the estimated December 31, 2010, value (i.e. from EUR 7.38 to EUR 7.53) - no material change. Overall, our new target price is increased from EUR 6.5 to EUR 6.9, which means we confirm our Buy recommendation on the stock.

Target price calculation		**Weight**
DCF based 12M target value	6.7	75%
NAV per share (Dec 31, 2010)*	7.5	25%
12M target price (EUR)	**6.9**	

** based on the Erste Group definition*

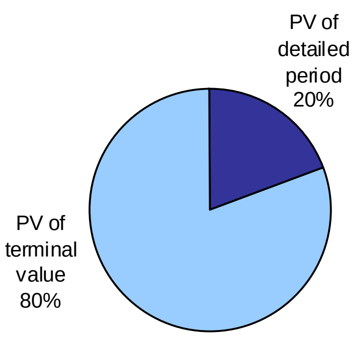
WACC calculation

	2011e	2012e	2013e	2014e	2015e	2016e (TV)
Risk free rate	3.0%	3.0%	3.0%	3.0%	3.0%	4.5%
Equity risk premium	4.9%	4.9%	4.9%	4.9%	4.9%	5.2%
Beta	0.90	0.90	0.90	0.90	0.90	0.90
Cost of equity	**7.4%**	**7.4%**	**7.4%**	**7.4%**	**7.4%**	**9.2%**
Cost of debt	4.4%	4.4%	4.4%	4.4%	4.4%	5.0%
Effective tax rate	10.0%	10.0%	10.0%	10.0%	10.0%	5.0%
After-tax cost of debt	**4.0%**	**4.0%**	**4.0%**	**4.0%**	**4.0%**	**4.8%**
Equity weight	37%	39%	41%	43%	44%	50%
WACC	**5.3%**	**5.3%**	**5.4%**	**5.5%**	**5.5%**	**7.0%**

DCF valuation

(EUR mn)	2011e	2012e	2013e	2014e	2015e	2016e (TV)
Sales growth	*13.9%*	*3.7%*	*2.4%*	*2.4%*	*2.2%*	*1.9%*
EBITA	89.3	93.6	95.9	97.4	100.8	99.8
EBITA margin	*45.6%*	*46.1%*	*46.1%*	*45.7%*	*46.3%*	*45.0%*
Tax rate	*10.0%*	*10.0%*	*10.0%*	*10.0%*	*10.0%*	*5.0%*
Taxes on EBITA	-8.9	-9.4	-9.6	-9.7	-10.1	-5.0
NOPLAT	**80.4**	**84.3**	**86.3**	**87.7**	**90.8**	**94.8**
+ Depreciation	10.1	10.2	10.4	10.6	10.8	11.0
Capital expenditures / Depreciation	*-231.7%*	*186.1%*	*185.3%*	*184.6%*	*183.9%*	*131.8%*
+/- Change in working capital	-0.3	0.8	-11.2	-13.3	-7.2	-1.7
Chg. working capital / chg. Sales	*-1.3%*	*11.3%*	*-228.6%*	*-269.8%*	*-152.2%*	*-40.0%*
- Capital expenditures	23.4	-19.0	-19.3	-19.6	-19.9	-14.5
Free cash flow to the firm	**113.6**	**76.3**	**66.2**	**65.4**	**74.5**	**89.7**
Terminal value growth						*2.0%*
Terminal value						1,844.2
Discounted free cash flow - Dec 31 2010	107.9	68.8	56.7	53.1	57.3	1,418.7
Enterprise value - Dec 31 2010	**1,762.4**					
Minorities	44.8					
Non-operating assets	3.1					
Net debt	1,025.3					
Participation capital	260.0					
Equity value - Dec 31 2010	**435.4**					
Number of shares outstanding (mn)	68.1					
Cost of equity	7.4%					
12M target value per share (EUR)	**6.7**					
Current share price (EUR)	5.6					
Up/Downside	*21.5%*					

Enterprise value breakdown



Sensitivity (per share)

WACC	Terminal value EBITA margin				
	41.0%	**43.0%**	**45.0%**	**47.0%**	**49.0%**
6.0%	9.7	11.0	12.3	13.6	14.9
6.5%	6.9	8.1	9.2	10.4	11.5
7.0%	4.7	5.7	**6.7**	7.8	8.8
7.5%	2.9	3.8	4.7	5.7	6.6
8.0%	1.3	2.2	3.1	3.9	4.8

WACC	Terminal value growth				
	1.50%	**1.75%**	**2.00%**	**2.25%**	**2.50%**
6.0%	9.1	10.6	12.3	14.2	16.4
6.5%	6.6	7.9	9.2	10.7	12.4
7.0%	4.6	5.6	**6.7**	8.0	9.3
7.5%	3.0	3.8	4.7	5.7	6.8
8.0%	1.6	2.3	3.1	3.9	4.8

Source: Erste Group Research

Income Statement	**2007**	**2008**	**2009**	**2010e**	**2011e**	**2012e**
(IFRS, EUR mn, 31/12)	31/12/2007	31/12/2008	31/12/2009	31/12/2010	31/12/2011	31/12/2012
Total revenues	**96.87**	**125.68**	**153.56**	**172.10**	**195.99**	**203.17**
- Rental Income	74.99	85.74	87.55	105.09	123.13	127.84
- Operating costs charged	20.90	23.47	29.11	29.74	34.48	35.79
- Other	0.98	16.47	36.90	37.27	38.38	39.54
Operating expenses	-32.39	-57.78	-90.89	-85.80	-85.60	-87.91
Net operating income	**64.47**	**67.90**	**62.66**	**86.31**	**110.39**	**115.26**
Result from the sale of investment property	12.59	8.32	1.90	7.00	3.00	3.00
Result from the sale of trading property	0.00	0.00	0.00	0.00	0.00	0.00
Total administrative expenses	-17.19	-19.59	-19.53	-16.83	-18.60	-19.19
Other operating result	2.93	2.59	8.25	4.50	4.73	4.96
EBITDA	**62.81**	**59.21**	**53.28**	**80.98**	**99.51**	**104.03**
Revaluation result	41.12	-30.68	-97.24	7.52	28.17	36.79
Depreciation/amortization	-3.89	-4.74	-9.11	-10.10	-10.20	-10.40
Operating profit	**100.04**	**23.79**	**-53.08**	**78.40**	**117.48**	**130.41**
Financial result	-43.25	-15.99	-24.38	-52.56	-61.45	-63.36
Pre-tax profit	**35.40**	**7.80**	**-77.46**	**25.84**	**56.03**	**67.05**
Tax expenses	-6.75	-2.07	-1.41	-3.88	-8.40	-10.06
Extraordinary result	-21.38	0.00	0.00	0.00	0.00	0.00
Minority interests	-2.74	0.09	0.31	0.00	-0.50	-1.00
Net result after minorities	**25.91**	**5.81**	**-78.56**	**21.96**	**47.12**	**55.99**

Balance Sheet	**2007**	**2008**	**2009**	**2010e**	**2011e**	**2012e**
(IFRS, EUR mn, 31/12)						
Intangible assets	0.29	0.30	0.22	0.22	0.22	0.22
Tangible assets	1,533.48	1,818.79	1,913.89	1,879.11	1,926.47	1,982.56
- Investment property	1,209.79	1,378.00	1,253.43	1,709.95	1,763.12	1,824.90
- Investment property held for sale	31.60	0.00	54.30	0.00	0.00	0.00
- Development properties	196.67	281.39	445.78	14.78	14.78	14.78
- Other tangible assets	5.03	11.12	13.07	12.77	12.67	12.67
Financial assets	6.82	3.12	3.11	3.11	3.11	3.11
Total fixed assets	**1,540.59**	**1,822.20**	**1,917.22**	**1,882.44**	**1,929.80**	**1,985.89**
Inventories / trading properties	0.00	11.86	20.48	17.87	20.93	21.73
Receivables and other current assets	62.43	49.99	61.82	61.07	60.20	61.39
Cash and cash equivalents	118.15	243.54	210.15	130.15	130.15	113.34
Total current assets	**180.58**	**305.40**	**292.45**	**209.08**	**211.29**	**196.47**
Other assets	1.58	16.95	25.53	25.53	23.53	21.53
TOTAL ASSETS	**1,722.75**	**2,144.55**	**2,235.19**	**2,117.05**	**2,164.62**	**2,203.89**
Shareholders'equity	**602.91**	**577.00**	**479.00**	**485.97**	**543.09**	**598.86**
Minorities	16.69	26.09	44.83	44.83	45.33	46.33
Hybrid capital	297.09	286.88	261.66	260.02	262.35	266.15
Other equity and reserves	0.00	0.00	0.00	0.00	0.00	0.00
Long-term provisions	34.41	40.57	47.59	50.49	56.06	63.01
Interest-bearing LT debts	544.49	819.56	978.86	948.86	928.86	908.86
Other LT liabilities	31.43	46.81	26.86	27.86	28.86	29.86
Total long-term liabilities	**575.91**	**866.37**	**1,005.72**	**976.72**	**957.72**	**938.72**
Interest-bearing ST debts	148.98	260.46	303.39	209.68	207.72	207.72
Other ST liabilities	46.75	87.19	93.00	89.33	92.35	83.09
Total short-term liabilities	**195.73**	**347.64**	**396.39**	**299.01**	**300.07**	**290.81**
TOTAL LIAB. , EQUITY	**1,722.75**	**2,144.55**	**2,235.19**	**2,117.05**	**2,164.62**	**2,203.88**

Cash Flow Statement	**2007**	**2008**	**2009**	**2010e**	**2011e**	**2012e**
(IFRS,EUR mn, 31/12)						
Cash flow from operating activities	255.55	223.65	57.66	79.70	98.98	90.68
Cash flow from investing activities	-317.61	-254.58	-205.40	25.11	-17.42	-17.81
Cash flow from financing activities	99.62	156.32	114.35	-184.81	-81.56	-89.67
CHANGE IN CASH , CASH EQU.	**37.57**	**125.39**	**-33.39**	**-80.00**	**0.00**	**-16.81**

Margins & Ratios	**2007**	**2008**	**2009**	**2010e**	**2011e**	**2012e**
ROE	4.4%	1.0%	-14.9%	4.6%	9.2%	9.8%
Equity ratio	53.2%	41.5%	35.1%	37.4%	39.3%	41.4%
Net debt	568.5	833.4	1,069.0	1,025.3	1,003.3	1,000.1
Loan-to-value (LTV)	40.0%	50.4%	61.1%	59.6%	56.6%	54.5%
Gearing	62.0%	93.6%	136.1%	129.6%	117.9%	109.7%

Source: Company data, Erste Group estimates

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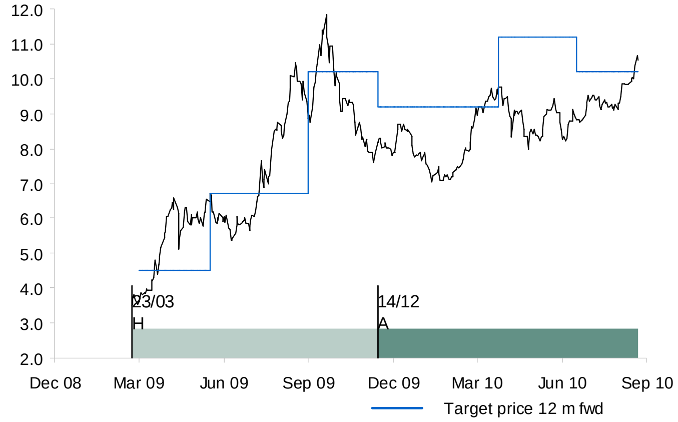
CA IMMO

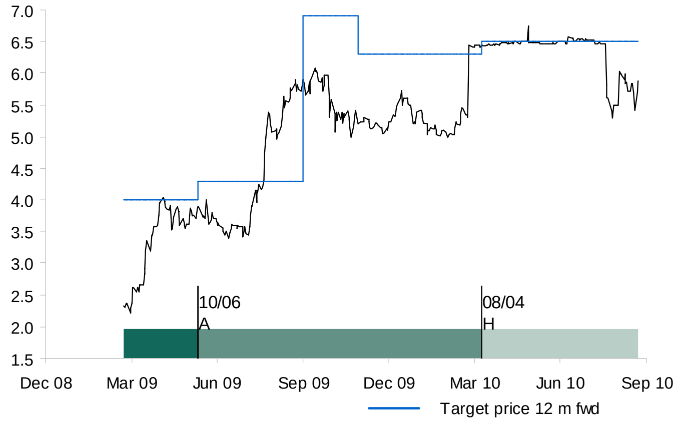


Rating history

Date	Rating	Price	Target Price
14. Dec 09	Accumulate	8.20	9.20
25. Sep 08	Hold	8.78	13.00

Company	**Disclosure**
CA IMMO	

CA IMMO International

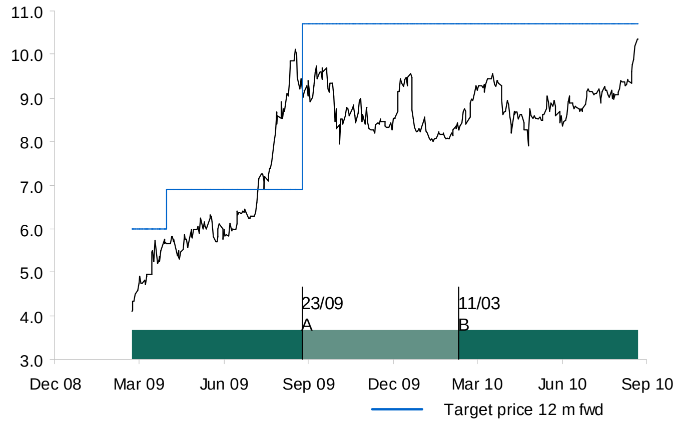


Rating history

Date	Rating	Price	Target Price
08. Apr 10	Hold	6.44	6.50
10. Jun 09	Accumulate	3.89	4.30
25. Sep 08	Buy	4.74	9.70
21. Sep 07	Accumulate	13.30	16.00

Company	**Disclosure**
CA IMMO International	

conwert

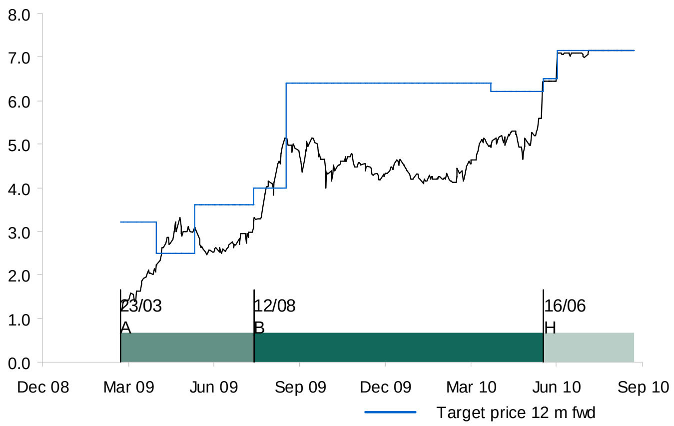


Rating history

Date	Rating	Price	Target Price
11. Mar 10	Buy	8.26	10.70
23. Sep 09	Accumulate	9.19	10.70
05. Mar 09	Buy	3.85	6.00
24. Sep 08	Not rated	9.41	

Company	**Disclosure**
conwert	

ECO Business-Immo

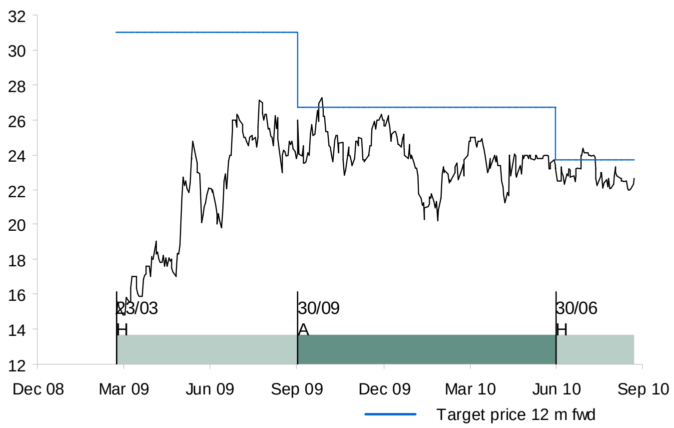


Rating history

Date	Rating	Price	Target Price
16. Jun 10	Hold	6.42	6.50
12. Aug 09	Buy	3.25	4.00
01. Oct 07	Accumulate	10.07	11.60

Company	Disclosure
ECO Business-Immo	

GTC

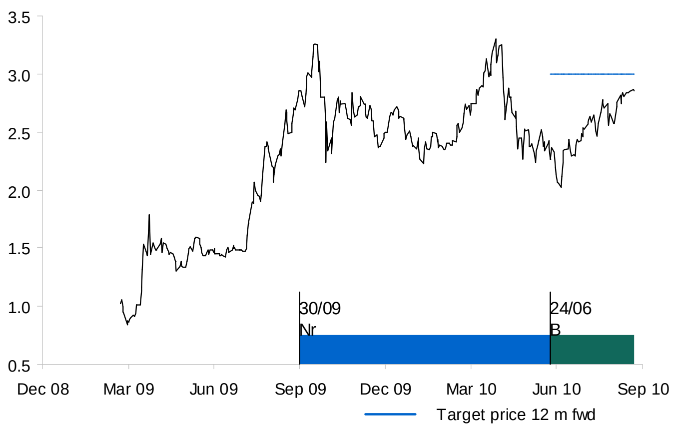


Rating history

Date	Rating	Price	Target Price
30. Jun 10	Hold	23.27	23.70
30. Sep 09	Accumulate	24.10	26.70
25. Sep 08	Hold	23.30	31.00
07. Sep 07	Buy	42.22	57.50

Company	Disclosure
GTC	

Immofinanz



Rating history

Date	Rating	Price	Target Price
24. Jun 10	Buy	2.27	3.00
30. Sep 09	Not rated	2.86	

Company	Disclosure
Immofinanz	

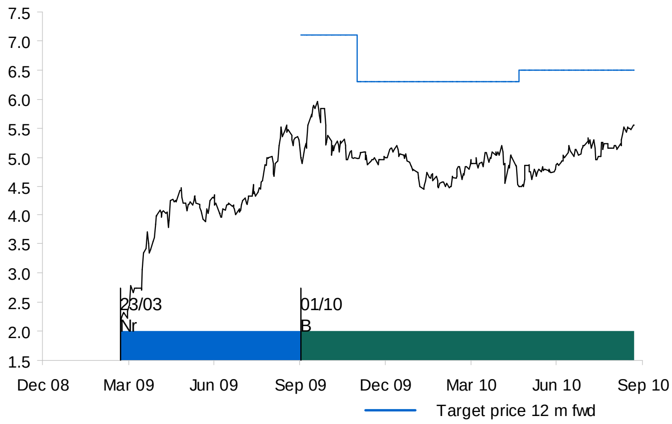
Orco

Rating history

Date	Rating	Price	Target Price
01. Sep 10	Under review	6.24	
03. Apr 09	Reduce	4.07	3.70
28. Nov 08	Under review	7.11	
23. Sep 08	Buy	18.91	41.00
14. Aug 08	Under review	23.05	
01. Oct 07	Buy	108.01	129.00
28. Mar 07	Hold	120.70	132.00
21. Apr 06	Accumulate	100.10	108.80
21. Jan 05	Buy	38.10	48.20

Company	Disclosure
Orco	2, 4

Sparkassen Immobilien



Rating history

Date	Rating	Price	Target Price
01. Oct 09	Buy	5.00	7.10
01. Oct 07	Not rated	8.25	

Company	Disclosure
Sparkassen Immobilien	1, 2, 4, 5

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Buy	> +20% to target price
Accumulate	+10% < target price < +20%
Hold	0% < target price < +10%
Reduce	-10% < target price < 0%
Sell	< -10% to target price

Our target prices are established by determining the fair value of stocks, taking into account additional fundamental factors and news of relevance for the stock price (such as M&A activities, major forthcoming share deals, positive/negative share/sector sentiment, news) and refer to 12 months from now. All recommendations are to be understood relative to our current fundamental valuation of the stock. The recommendation does not indicate any relative performance of the stock vs. a regional or sector benchmark.

Distribution of ratings

	Coverage universe		**Inv. banking-relationship**	
Recommendation	**No.**	**in %**	**No.**	**in %**
Buy	40	25.6	9	64.3
Accumulate	39	25.0	2	14.3
Hold	45	28.8	2	14.3
Reduce	12	7.7	0	0.0
Sell	10	6.4	0	0.0
N.R./UND.REV./RESTR.	10	6.4	1	7.1
Total	**156**	**100.0**	**14**	**100.0**

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