



# ANNUAL REPORT 2010



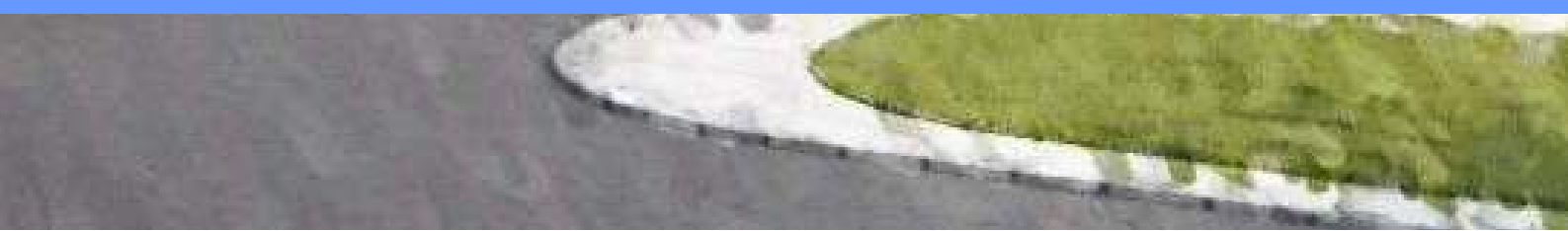
**THE ACTIVITY REPORT OF THE GROUP  
ANNUAL REPORT OF  
CELTIC PROPERTY DEVELOPMENTS S.A.  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2010**

## LIST OF CONTENTS

<b>I.</b>	<b>THE LETTER OF THE PRESIDENT OF THE SUPERVISORY BOARD</b>	<b>3</b>
<b>II.</b>	<b>SUPERVISORY BOARD</b>	<b>5</b>
<b>III.</b>	<b>THE LETTER OF THE PRESIDENT OF THE MANAGEMENT BOARD</b>	<b>8</b>
<b>IV.</b>	<b>BOARD</b>	<b>11</b>
<b>V.</b>	<b>ACTIVITY REPORT OF THE BOARD</b>	<b>13</b>
1.	Genesis	14
2.	Shareholders	15
3.	Corporate Governance	16
4.	Social Responsibility	19
5.	The strategy	20
6.	Structure of the Group	21
7.	Activities	22
8.	Overview of basic volumes, together with the economic and financial events of the unusual nature	29
9.	The risks and threats factors	35
10.	Proceedings	42
11.	Substantial agreements	43
12.	Issue of the securities	45
13.	Description of differences in projected financial results	46
14.	Assessment of the management of financial resources	47
15.	Changes in the governance	48
16.	Agreements with the Management	49
17.	The value of the remuneration of the Supervisory and Management Board members	50
18.	Number of shares in the possession of the members of the Management and Supervisory Board	51
19.	The agreements amending the structure of ownership	52
20.	Structure of consolidated assets and liabilities according to liquidity	53
<b>VI.</b>	<b>MANAGEMENT BOARD STATEMENTS</b>	<b>55</b>
<b>VII.</b>	<b>OPINION OF THE INDEPENDENT AUDITOR, TOGETHER WITH THE REPORT</b>	<b>57</b>
<b>VIII.</b>	<b>ANNUAL CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDING 31 DECEMBER 2010</b>	<b>59</b>
<b>IX.</b>	<b>CONTACT DETAILS</b>	<b>60</b>



## I. SUPERVISORY BOARD PRESIDENT'S LETTER



## **I. THE LETTER OF THE PRESIDENT OF THE SUPERVISORY BOARD TO THE SHAREHOLDERS**

Ladies and Gentlemen

The year 2010 was particularly dynamic for a Celtic group. The operational and financial restructuring and consolidation begun in 2009, ended with registration of the cross-border merger in August 2010, which in turn enabled the start of the process of the Celtic Property Developments SA being a public company. The company debuted on the stock exchange in Warsaw in December 2010.

The Supervisory Board supports the Management Board, both in the process of restructuring and consolidation as well as in the pursuit for entering to the Stock, seeing the long-term benefits of obtaining the status of a public company.

In addition to the extension of the existing group of investors and marketing effects, the Company will be able to achieve its ambitious strategic plans using all forms of financing available to public companies.

Despite having to endure more than two years of adverse market conditions in the development sector, Celtic Group closed the year 2010 with net profits in the amount of 81,8 million, noting an increase in the gross margin in relation to the previous year as well as increase in profit on the sales.

Supervisory Board assess the financial situation of the CPD S.A. in 2010 positively, appreciating the commitment and efforts made in the past year, both by the Management Board, and employees of the Celtic Group.

At the same time, the Supervisory Board believes that the year 2011 will be the continuation of the positive effects of the restructuring of the company to strengthen its competitive position and increase of the value for shareholders.

Particularly important for the implementation of the strategy of the company will be establishing of a zoning plan for city of Warsaw, enabling beginning of the most important project for the Company - Ursus.

Yours sincerely,

Marzena Beata Bielecka  
President of the Supervisory Board





## II. SUPERVISORY BOARD



**II. SUPERVISORY BOARD OF CELTIC PROPERTY DEVELOPMENTS S.A. \*****▪ PRESIDENT OF THE SUPERVISORY BOARD MRS MARZENA BIELECKA (SUPERVISORY BOARD MEMBER MEETING THE REQUIERMENTS OF INDEPENDENT MEMBER OF THE SUPERVISORY BOARD)**

Marzena Bielecka was appointed to the Supervisory Board of First term on September 2, 2010. The term of office of Mrs. Marzena Bielecka expires on February 23, 2012. Marzena Bielecka has higher education, graduated the Polish and Slavonic Faculty in the University of Warsaw (direction: yugoslavonistics). Marzena Bielecka is a graduate of the Advanced Management Programme management study conducted by IESE Barcelona, Universidad de Navarra, Spain.

**▪ VICE PRESIDENT OF THE SUPERVISORY BOARD MR WIESŁAW OLEŚ.**

Mr. Wiesław Oleś was appointed a member of the Supervisory Board of the first term on September 2, 2010. The term of office of Mr Wiesław Oleś expires on February 23, 2012. Mr. Wiesław Oleś has higher legal education, he graduated the Faculty of law and administration of the Jagiellonian University in Kraków (direction: Law). Mr. Wiesław Oles has also a capacity of legal adviser.

**▪ MEMBER OF THE SUPERVISORY BOARD MR COLIN KINGSNORTH.**

Mr. Colin Kingsnorth was appointed a member of the Supervisory Board of the first term on September 2, 2010. The term of office of Mr Colin Kingsnorth expires on February 23, 2012. Mr. Colin Kingsnorth has higher economic education (BSc), graduated from the University of East London NFB (United Kingdom). Mr. Colin Kingsnorth is a member of the British Association of professional Investment Advisers (UK Society of Investment Professionals).

**▪ MEMBER OF THE SUPERVISORY BOARD MR MIROSLAW GRONICKI – (SUPERVISORY BOARD MEMBER MEETING THE REQUIERMENTS OF INDEPENDENT MEMBER OF THE SUPERVISORY BOARD)**

Mr. Mirosław Gronicki was set appointed a member of the Supervisory Board of the first term on September 2, 2010. The term of office of Mr Mirosław Gronicki expires on February 23, 2012. Mr. Mirosław Gronicki has higher economic education, graduated from the Faculty of Economics at the University of Gdansk in maritime transport in Gdańsk (direction: the economics of maritime transport). Mr. Mirosław Gronicki has also PhD in economics at the Faculty of Economics of the Production of the University of Gdansk.

**▪ MEMBER OF THE SUPERVISORY BOARD MR WIESŁAW ROZŁUCKI (SUPERVISORY BOARD MEMBER MEETING THE REQUIERMENTS OF INDEPENDENT MEMBER OF THE SUPERVISORY BOARD).**

Mr. Wiesław Rozłucki was appointed a member of the Supervisory Board of the first term on March 3, 2011. The term of office of Mr Wiesław Rozłucki expires on February 23, 2012. Mr. Rozłucki has higher education, is a graduate of the Warsaw School of Economics (former. SGPiS). He holds also the title of doctor in the field of economic geography. He studied at the London School of Economics. Mr. Rozłucki was President of the Board of Directors of the stock exchange in Warsaw, as well as the Chairman of the Supervisory Board of KDPW S.A. For the period 2006-2010 he was a member of the supervisory boards of PKN Orlen and Polimex-Mostostal. Currently he is a member of the supervisory boards of public companies: TP S.A., Bank BPH, TVN, Wasko; The Supervisory Board of the capital market Education Foundation, as well as set up in 2001, the Committee of good practices.

In 2010 and 2011 has been the following changes in the membership of the Supervisory Board:

- August 27, 2010 the company has received the statements of resignation of Mrs. Elizabeth Wiczowska, Mr Andrew Shepherd and Mr Rhys Jones from their functions as a members of the Supervisory Board. 2nd September with the resolution of EGM Mrs. Iwona Makarewicz and Mr Jarosław Szymański were recalled from the performance of the functions of the members of the Supervisory Board, on the same day Mr. Colin Kingsnorth, Marzena Bielecka, Mr. Wiesław Oleś, Mr. Chris Cichocki and Mr Mirosław Gronicki were appointed to the Supervisory Board.
- 4 February 2011 Mr Krzysztof Cichocki resigned from his functions as a member of the Supervisory Board, to which he was appointed on September 2, 2010. Mr. Krzysztof Cichocki has a higher legal education, he graduated from the Faculty of law and administration at Adam Mickiewicz University in Poznań (direction: Law). Mr. Krzysztof Cichocki graduated from the postgraduate courses in the field of European law, international arbitration, international trade and WTO/GATT conducted by T.M.C Asser Instituut in the Hague (Netherlands) and postgraduate courses in the field of international economic law carried out by the Central European University in Budapest (Hungary), leading to the degree of Master of Laws (LL.M.) in International Business Law at the University of the State of New York (USA). Mr. Krzysztof Cichocki has a capacity of legal adviser.

*\* Status as at 29/04/2011*





### III. MANAGEMENT BOARD PRESIDENT'S LETTER

## **III. THE LETTER OF THE PRESIDENT OF THE MANAGEMENT BOARD**

Warsaw, April 29, 2011

Dear Sirs, Dear Shareholders,

We are pleased to present you our first annual report, which we are publishing as public company quoted on the Warsaw Stock Exchange. 2010 was a very special year for Celtic Property Developments S.A. and provided a very solid foundation for the future development of the Company.

After several months of preparation and restructuring, on August 23<sup>rd</sup>, 2010, the cross-border merger of the parent company of the Group – Celtic Property Developments Plc (Acquired Company) and Poen S.A. (Acquiring Company) was registered in the National Court Register. The merger was done through the transfer of all assets of the Acquired Company to the Acquiring Company. Celtic Property Developments Plc and Poen S.A. shares parity ratio was established at the level which did not influence on the proprietary structure of the Poen S.A. Celtic Property Developments Plc's shareholders became shareholders of the Poen S.A. with the same participation in the share capital of Poen S.A. and the same number of votes at the Shareholders' Meeting as they had in Celtic Property Developments Plc before the merger. Following the merger and starting from September 2nd, 2010 Poen S.A. (Acquiring Company) has changed its name to Celtic Property Developments S.A.

Next milestone in building the Celtic Group was achieved on 23 December 2010, when the Company was for the first time quoted on the Warsaw Stock Exchange. Long-run, premeditated and consistent strategy of building the value of the Group through the acquisition of properties having significant potential to release the additional value through changing the property purpose or building commerce properties or upgrading property's standard or optimizing surface use, resulted in the creation of the group having the market capitalization of PLN 817.6 million in the first day of the quotation on WSE.

The first day of quotation on the Warsaw Stock Exchange was the coronation of several years of our efforts, as well as the commencement of the new era in the Group development. The debut on the WSE has opened to our Company new opportunities to reach a larger range of institutional and individual investors and to access to more flexible sources of capital to finance further Group development.

At the lower corporate level, we have restructured many areas of our activities and holding mechanisms,. The restructuring of underlying SPV's has allowed the release of a significant proportion of a provision for deferred income tax and resulted in PLN 81,8 million net credit to the income of the Group in 2010.

In the same time, we have continued to work on our investment projects. We have finalized some of them, we have sold the others and we have been continuing preparative or project works to be able to start construction as soon as positive signal is generated by the market and administrative decision is done.

In 2010 we have finalized our project Mokotów Plaza, which was sold in July 2010. The amount of transaction of PLN 131 million allowed us to repay banking financing of PLN 85,1 million. As result, the total amount of bank loans has been reduced to PLN 52,5 million at the year end.

Despite the delays arising from the lack of a planning decision by the city authorities regarding urbanisation plan for the ZPC Ursus sites, we are confident that work on the second plan presentation will be completed by mid 2011 and the plan will be confirmed in the last quarter of the year. It should be also noted that real estate management services provided to funds operating in UK and Italy have a positive effect on the Group's cash flow. We believe that it will continue in 2011.

All our achievements of last years, which leaded us to build strong capital group and to introduce it to the Warsaw Stock Exchange, would not be possible without our Employees and advisors. I would like to express my gratitude for their commitment and efforts. I would like also to thanks all our clients, who demonstrate their confidence to the Group by acquiring or renting our properties or employing our services to manage them.

I deeply believe, that the efforts of our Employees and advisors dedicated to all our planned and consequently realized activities, supported by the confidence of our Shareholders and Members of the Supervisory Board will continue in such positive way in 2011, increasing the value of the Company and bringing benefits for all stakeholders of Celtic Property Developments S.A.

Yours sincerely,

Andrew Morrison Shepherd  
The President of the Board of  
Celtic Property Developments S.A





#### IV. MANAGEMENT BOARD



## IV. MANAGEMENT BOARD OF CELTIC PROPERTY DEVELOPMENTS S.A. \*

The persons who act on behalf of Company:

### ▪ THE PRESIDENT OF THE MANAGEMENT BOARD – MR ANDREW MORRISON SHEPHERD.

The function of President of the Management Board is performed by Mr. Andrew Shepherd. Mr. Andrew Shepherd was appointed to the Management Board of 2nd term on 28 August 2010. His term lapses on 21 July 2015. Mr. Andrew Shepherd is university graduate (BSc (Hons)), he completed studies in Land Economics at Paisley University in Scotland in Paisley (Scotland). Mr. Andrew Shepherd has also acquired qualifications of chartered surveyor – and is a member of the Royal Institution of Chartered Surveyors (RICS).

### ▪ MEMBER OF THE MANAGEMENT BOARD - MR ALED RHYS JONES.

The function of Member of the Management Board is performed by Mr. Aled Rhys Jones. Mr. Aled Rhys Jones was appointed to the Management Board of 2nd term on 28 August 2010. His term lapses on 21 July 2015. Mr. Aled Rhys Jones is university graduate (BSc (Hons)), he completed studies in Estate Management at East London Polytechnic in London (UK). Mr. Aled Rhys Jones has also acquired qualifications of chartered surveyor – and is a member of the Royal Institution of Chartered Surveyors (RICS).

### ▪ MEMBER OF THE MANAGEMENT BOARD - MR CHRISTOPHER BRUCE

The function of Member of the Management Board is performed by Mr. Christopher Bruce. Mr. Christopher Bruce Jones was appointed to the Management Board of 2nd term on 28 August 2010. His term lapses on 21 July 2015. Mr. Christopher Bruce is engineering university graduate (BEng (Hons)). He completed studies in Mechanical Engineering with Industrial Management at Liverpool University in Liverpool (UK). Mr. Christopher Bruce also achieved the qualification of chartered accountant after passing the exams of the Institute of Chartered Accountants in England and Wales.

### ▪ MEMBER OF THE MANAGEMENT BOARD - MS ELŻBIETA WICKKOWSKA.

The function of Member of the Management Board is performed by Ms. Elżbieta Wiczkowska. Ms. Elżbieta Wiczkowska was appointed to the Management Board of 2nd term on 28 August 2010. Her term lapses on 21 July 2015. Ms. Elżbieta Wiczkowska is medical graduate, she completed studies at the Physicians Faculty of the Medical Academy in Szczecin. Ms. Elżbieta Wiczkowska also completed MBA at University of Illinois at Urbana-Champaign (USA) and managerial studies Advanced Management Programme at IESE Barcelona – Universidad de Navarra in Spain. Ms. Elżbieta Wiczkowska also holds qualifications of ACCA (The Association of Chartered Certified Accountants).

*\* Status as of 29 April 2011. With resolution of the Supervisory Board August, 28 2010 Mr. Krzysztof Dudek, who served this function from the year 2008, has been recalled from the performance of the functions of the President of the Board of Directors and the membership of the Management Board. 10 August 2010, there was also appointed Board of second term.*



## V. MANAGEMENT BOARD ACTIVITY REPORT

**V. SPRAWOZDANIE ZARZĄDU Z DZIAŁALNOŚCI****1. GENESIS**

The origins of the Group Celtic derive from 1999 when Mr. Andrew Shepherd and Mr Aled Rhys Jones established in Poland Celtic Asset Management sp. z o.o. company. In years 1999-2005 the company's activities focused mainly on building and managing portfolios of real estates for the benefit of external stakeholders including. properties located in Poland, the Czech Republic, Lithuania, Romania, Hungary and in Germany, in Berlin, Düsseldorf and Dortmund. Since 2005 Celtic Asset Management Sp. z o.o. started the development activity in the cooperation with several funds managed by the Laxey Partners. In 2007, the consolidation of the group under the name of Celtic Property Developments SA (BVI) was performed and in 2008 began listing of Celtic Property Developments SA (BVI) on Stock on the open unregulated market (Freiverkehr) in Frankfurt. In the period from 2005 to 2010, the company operated and managed projects mainly in Poland, but also in Montenegro, Hungary, Italy, Belgium, Great Britain, the Netherlands, Germany, Spain. Intensive effort let for the construction of a strong and stable group, which on 23 December 2010, debuted on the stock exchange in Warsaw with capitalization at 817,6 mln PLN.

Currently Celtic Property Developments S.A. is a holding company controlling a group of 44 subsidiaries whose activities are concentrated on the management of development projects in the office and residential segment. The Company's activity consists in purchase of lands, on which it constructs apartments or offices, and in purchase of existing real estate properties with a potential for creation of additional value by change of their intended usage, increase of their standard or optimisation of their area. The Group has offices in Warsaw, London, Milan and Budapest. The main market, in which the Company operates is Warsaw. In addition, the Company has commercial and housing properties in Montenegro and Hungary. The primary role in the activities of the group has been the office segment of the market, however, at present, the Company concentrates its activities on the housing development, mainly through the implementation of its leading project in Warsaw's district of Ursus. In addition to the developers activities the Company still provides the asset management services for commercial real estate portfolio of external entities. Currently the Group manages 265 commercial properties in Belgium, Spain, the Netherlands, Germany, Great Britain, and Italy with a total area of 1,9 million m<sup>2</sup> and the value of ca. 670 million euro. Asset management allows the group to generate important cash flows.

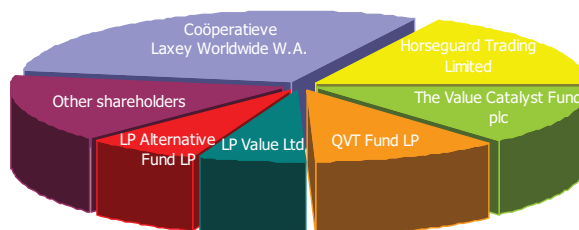
## 2. SHAREHOLDERS

### ▪ CONTROLLING SHARES

In accordance with the information held by the company, the Shareholders who, directly or indirectly through subsidiaries held at least 5% of the total number of votes at a general meeting as of 26 April 2011 are:

Shareholder *	Number of votes	Shares in votes in %	Shares according to number in %
Coöperatieve Laxey Worldwide W.A	10 082 930	29.60 %	29.60%
Horseguard Limited	6 020 615	17.67 %	17.67%
The Value Catalyst Fund plc	4 490 475	13.18 %	13.18%
QVT Fund LP	3 843 635	11,28 %	11,28%
LP Value Ltd	2 198 450	6.45 %	6.45%
LP Alternative Fund LP	2 193 931	6.44 %	6.44%

\* official information



### ▪ SHAREHOLDERS WITH SPECIAL RIGHTS

The company's Shares are ordinary shares to bearer. The statutes of the company does not grant specific rights to shares of the company, including the preferential vote or as to the appointment of the members of the organs of the company. The shareholders of the company does not have shares giving special rights.

### ▪ RESTRICTIONS ON VOTING RIGHTS

Neither lienor nor pledgee have the right to exercise voting rights of shares pledged.

### ▪ RESTRICTIONS REGARDING SHARES TRANSFERS

Shares in Celtic Property Developments S.A. are in free circulation and are not subject to any restrictions, except those arising under the statutes, code of Commercial Companies, law on marketing of financial instruments, the law on public offering, as well as other relevant provisions of the law.

Bearer shares are not subject to the conversion to registered shares. Conversion of registered shares into bearer shares shall be carried out at the request of a shareholder by means of resolution of the Management Board, which should be taken within 7 (seven) days from the date of submission to the Board a written request to convert shares. The request should indicate the number of registered shares covered by the request for conversion, together with an indication of their numbers. In the case of conversion of shares of registered to bearer shares the Management Board places on the agenda of the forthcoming general meeting a point concerning amendment of the statutes in respect of the number of registered shares.



**3. CORPORATE GOVERNANCE****▪ COLLECTION OF RULES**

CPD S.A. is corporately regulated by such documents as Statutes, rules of procedures of the General Assembly, the rules of procedures of the Supervisory Board, the rules of procedures of the Management Board and rules of Corporate Governance.

Principles of corporate governance are contained in document "good practices of companies listed on GPW", accessible on the website <http://www.corpgov.gpw.pl/>, adopted by the WSE Council in its resolution of 19 May 2010, which entered into force on 1 July 2010. In the light of the functioning of the Company not all rules are applied due to the fact that the listing of the company at the WSE began relatively recently. However, the company will be sought within the framework of its possibilities for the implementation of all principles of governance arising from the "good practice Companies listed on the WSE" as soon as possible, because the intention of the company is complying with all principles of corporate governance set out in document "good practices of companies listed on the WSE."

**▪ DEROGATIONS FROM THE PROVISIONS**

The company does not apply the principles of rule I.1. with regard to the transmission of the deliberations of the General Assembly, through the use of the Internet and make it available on the website. In the period to 1 January 2012, the company does not intend to apply the principle IV.10 in relation to transmission and participation in the deliberations of the General Assembly, through the use of the Internet. This principle should be applied at the latest as from 1 January 2012.

Transparency of information policy relating to the General Assembly is secured by performing by the Company of all the responsibilities of the information provided for by regulation of the Minister of Finance on the current and periodic information to be transmitted by the issuers of securities. Pursuant to the abovementioned Regulation, the company publishes information about the date and place of Meetings, agendas, draft resolutions, for each shareholder, or any other person interested in attending. Also after the end of the Meeting, the Company immediately forwards to the public, content of resolutions and other relevant information taken by the Assembly. In the assessment of the Management Board, the Company uses its reasonable diligence and the regulations are sufficient to ensure the company's transparent and effective information policy on enrollment of agenda's Meeting with existing, this is the traditional method of registration of the Assembly.

**▪ SYSTEMS OF INTERNAL CONTROL AND RISK MANAGEMENT**

The Management Board is responsible for the internal control system in the company and its effectiveness in the process of preparation of financial statements and periodic reports to be prepared and published in accordance with the principles of Regulation of 19 February 2009 on current and periodic information to be transmitted by the issuers of securities.

The assumption of an effective system of internal control of the company in financial reporting is to ensure the adequacy and accuracy of financial information contained in the financial statements and periodic reports. An effective system of internal control and risk management in the process of financial reporting was built through adequately determined scope of financial reporting, well defined division of responsibilities and organization of work in the process of financial reporting, what is more, the Management Board regularly reviews the results of the company using the applicable financial reporting.

The company applies the principle of an independent review of the published financial reporting resulting from the provisions of the law. Published half-yearly and annual

financial statements and financial reports as well as financial data that are the basis for this reporting are reviewed by the auditor of the Company.

In addition, in accordance with the (adopted by the Management Board and accepted by the General Meeting of Shareholders) principles of corporate governance, the company has an Audit Committee which is comprised of all the members of the Supervisory Board.

In further mitigation of the exposures of the company to market risk a detailed assessment of the ongoing development of all projects on the comparison to developed investment models is carried out regularly. In order to reduce the risks associated with the real estate projects and rental agreements, the company obtains from sub-contractors and tenants guarantees or insurance policies covering the most common risks associated with the development or to secure rental income.

Risk management procedure is subject to periodic updates by the Management Board with participation of key executives and outside consultants.

### ▪ MANAGEMENT, SUPERVISORY BOARD AND AUDIT COMMITTEE

The Management Board works on the basis of the provisions of the commercial code of companies, the provisions of the articles of association, open and available to the public, rules of procedure of the Management Board, approved by resolution of the Supervisory Board and in accordance with the principles of good practice of Companies listed on a stock exchange in Warsaw S.A.

The Supervisory Board acts in accordance with the provisions of the commercial code of companies, the provisions of the articles of association, adopted by the open and accessible to the public, the rules of procedure of the Supervisory Board, specifying its organizations and the implementation of the activities and the principles of good practice of companies listed on a stock exchange in Warsaw S.A. The Supervisory Board is the collegiate body and consists of 5 (five) to 7 (seven) members. The number of members of the Supervisory Board in accordance with the provisions of the preceding sentence shall be determined by the General Assembly.

The Supervisory Board is a permanent body supervising the company in all areas of activity. Board of Directors acts or delivers opinions in matters reserved to its competence in accordance with the provisions of the Statute of the company and in accordance with the procedure provided for in accordance with the provisions of the Constitution or relevant laws. The supervisory board meets the condition having at least two independent members in its making in accordance with the criteria of independence adopted in the statutes of the company. The remuneration of the members of the Supervisory Board established in a transparent manner does not constitute a relevant item of the cost of the company affecting the financial result. The amount approved by resolution of the General Assembly has been disclosed in the annual report.

In the framework of the Supervisory Board the Audit Committee was created. The composition of the Audit Committee shall consist of three to five members, including at least one Member must be an independent member of the Board and at the same time fulfill the conditions of independence and have qualifications in the field of accounting or auditing. At the moment, all the members of the Supervisory Board are also members of the Audit Committee.

### ▪ APPOINTMENT, DISSMISSAL OF THE MANAGEMENT BOARD AND ITS POWERS

The Management Board is appointed and dismissed by the Supervisory Board. The current term of the Management Board runs from 21 July 2010, this is from the date of completion of the regular session of the General Assembly for the year 2009 and the appointment of a Management Board of a II term and ends on 21 July 2015. The term

of the current Management Board is mutual and lasts 5 years (§ 13 paragraph 1 of the statutes). Revocation or suspension of a member of the Board may take place only when significant reasons. Article. 368 § 4 of Commercial Companies Code also provides for a right of appeal or the suspension of a member of the Board by the General Assembly.

The competence to conduct the business of the company is determined by the rules of procedure of the Management Board approved by resolution of the Supervisory Board. The Management Board is the managing and executive body of the company and as such it runs the company business and oversees the overall activities, manages the company and represents it externally. To the rights and duties of the Management Board, we in particular include:

- setting a date, the agenda and the convening of general meetings,
- submitting to the General Assembly the proposals along with Supervisory Board opinions in the matters governed by order of its deliberations,
- introducing the Supervisory Board the financial report and the written report of the Management Board on its activities during the accounting period and the proposal on the allocation of profit or of recovering losses which are subject to the consideration of the Ordinary General Meeting,
- adopting the rules of organization procedures of the company and other internal acts of the Company governing its work,
- creating and adopting of yearly and interim strategy plans for the Company,
- establishing attorneys in facts and powers of attorney,
- applying to the Supervisory Board for convening its meetings,
- applying to the Supervisory Board for the approval of the rules of procedure of the Management Board, the rules of the organization of the company, annual budgets and development plans of the company.

Members of the Management Board are obliged to participate in the general meeting in the composition which enables to provide substantive answers to the questions asked in the course of the General Assembly.

#### ▪ AMENDMENTS TO THE STATUE – DESCRIPTION

The Commercial Companies Code regulates in detail the amendment of the statutes of a public limited-liability company in chapter 4, 5 and 6 of the public limited-liability company articles (article 430 KSH et seq.). Amendment of the articles of Association requires decisions taken by the GM.

#### ▪ THE GENERAL MEETING

The general meeting of the General Assembly is the highest authority of the Company. The General Assembly acts in accordance with the principles set out in the Commercial Companies Code, the statutes of the company ([www.celtic.pl](http://www.celtic.pl)) and the rules of procedures of the General Assembly ([www.celtic.pl](http://www.celtic.pl)). The General Assemblies can be ordinary or extraordinary. The General Assembly is summoned by the competent authorities or persons whose entitlement derives from the provisions of the law or the statutes and are held at the place and time which facilitates the widest circle of Shareholders to participate in the meeting. Shareholders of the company entitled according to inscribed shares and temporary certificates or lienors and users, which have the right to vote, if registered in the limited-liability book at least one week before the holding of the General Assembly are entitled to participate in the General Meeting. The most important powers of the General Assembly include decisions on the issue of shares with warrants, the day of the determination of rights to dividends and dividend payments, the appointment and dismissal of members of the Supervisory Board, determination of their remuneration, as well as the taking of decisions on matters indicated in Commercial Companies Code.

## 4. SOCIAL RESPONSIBILITY

Our activity is not only creating a new space and new quality of life for residents and users of our buildings but also responsibility for our environment which we create through actions aiming at building of social fabric by promoting various social organisations.

In the years 2009-2010 we supported financially the Park Foundation in the field of repair of Maria Konopnicka Children's University Clinical Hospital Oncology Branch No. 4 in Łódź. We believe that in new, merry interiors, better adapted to the needs of sick children, small patients easier forget the hardships of treatment, and return faster to health and to their families.

In the year 2010 we supported a number of cultural initiatives and artistic works, both honouring important events as well as initiatives relating to our current reality. Our largest projects in this field, which we treat as a the long-term one, is multi-annual promotion of the activities of "Ursus the house of culture in Ursus supported by collection of nominal amounts for rental of the property. House of culture Ursus, situated at the area of former tractor factory, has for many years offered a rich cultural programme addressed to both younger and older residents of the district. We believe that the active support of the activities of the house of culture is an essential element in building a new space following the closing of ZPC Ursus.

In relation to other cultural initiatives in 2010 we have supported such events as:

- Exhibition of Ireneusza Barski photography "Ursus yesterday and today", organized in spring of 2010. It was an exhibition, which, thanks to the opportunity to present it in different places in both the district and in Warsaw, covered a wide range of visitors, showing the past and present times of Ursus;
- Commemoration with a plaque of pre-WWII established phonographic record company in which Mieczysław Fogg recorded
- Concert of classical music commemorating the 66th anniversary of the Warsaw Uprising, organised in Ursus by the Faculty of Culture and Promotion
- Concert of entertainment music -The Best of Broadway, organized on August 28, 2010, to remind the listeners the greatest Broadway hits;
- Concert Small to the Smallest, which is sponsored and lit the first candles on the Christmas tree on December 3, 2010.

Convinced of the validity of saying "healthy body healthy mind", we actively support actions to promote the sport, in particular team sports. From 5 years we regularly donate to the rugby team Frogs and Co introducing this relatively unknown sport (in Poland) to the Polish public. In 2010, a team of young players from Motor Lubawa Junior Club was sponsored by us.

In 2011 we will pursue further social projects and treating them as an investment, rather than cost, and believing that they will bring tangible results both to direct beneficiaries and communities in which they are carried out in order to build a new quality of life through the creation of a modern space in a multi-dimensional format.



## 5. STRATEGY

Celtic Property Developments S.A. focuses on carrying out development projects in office and residential segment by managing a group of subsidiaries. The Group specializes in the acquisition of real estate with an additional potential for creation by change of their intended usage. The construction of buildings or refurbishment to increase their standard to creates added value, which releases at the time of the sale of investment projects, In addition, the company continues to provide portfolio management services of commercial real estate for other external groups.

The current Celtic Group strategy assumes an increase in the scale of the operation thanks to the substantial land bank with residential, office, commercial and service sectors potential. So far the principal role in the activities of the group has been played by the an office sector, however, current plans are to expand its current status as a mixed developer and so, in addition to the office projects, will carry out housing projects, through its main project in the Warsaw district of Ursus. The company is always looking for further opportunities to expand business and invest in a portfolio of commercial real estate resources located in large cities in Poland

Group strategy assumes in the years 2011-2014 putting into use ca. 40,000. m2 of the commercial area and beginning in the second half of 2011 first phase of the housing project in Ursus, which will be the beginning of realization of this complex project with potential for construction up to 779,000 m2 of apartments. The implementation of the strategy is to ensure an increase in the value of the assets of the group in subsequent years.

At the same time, the group still intends to continue and develop its activities in the business of the provision of management services of investment real estate portfolios of the other groups.

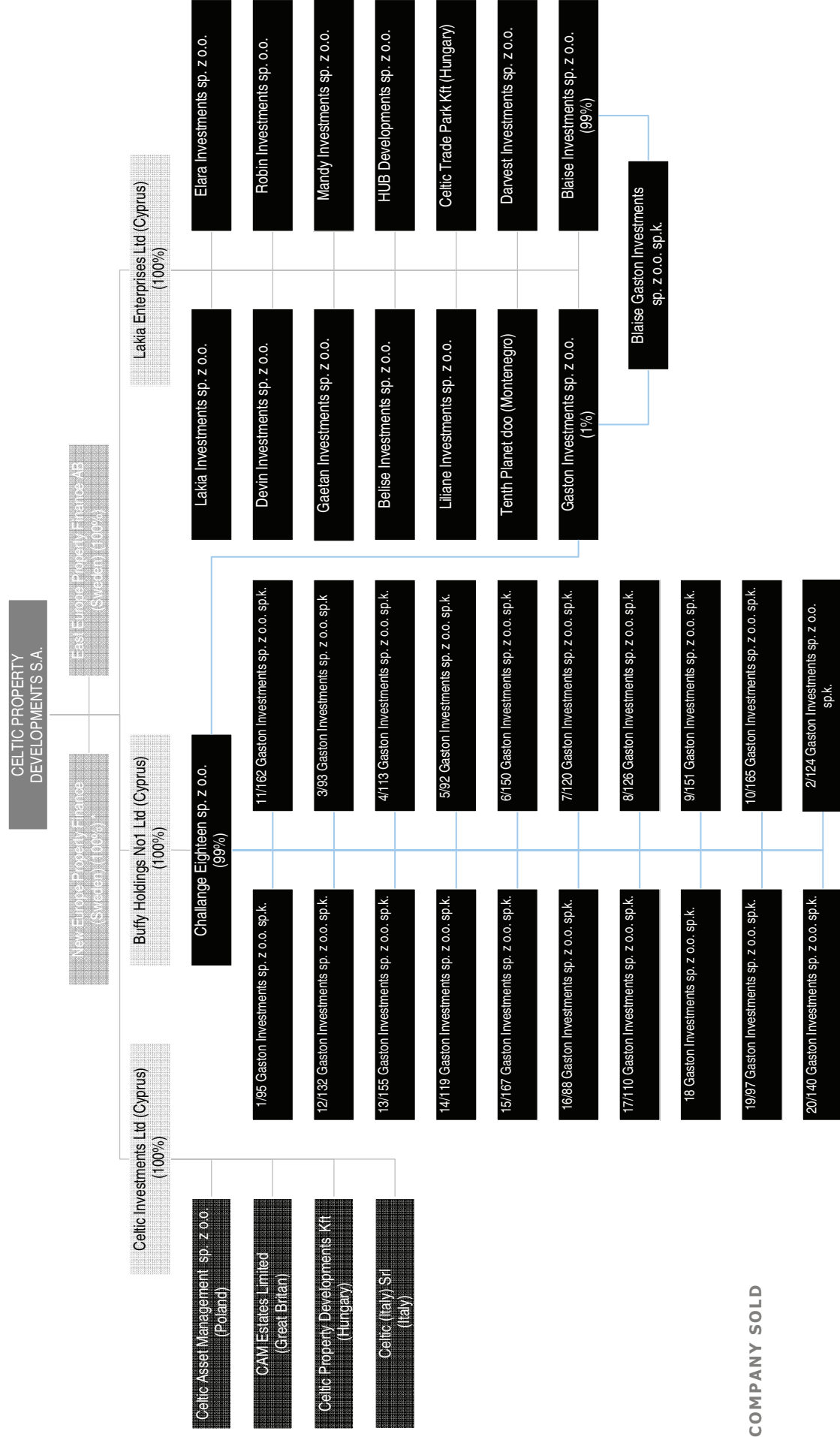
Strategic plans of the company assume organic development based on the development of the land bank. Nevertheless, the Company does not exclude that in future will be interested in acquisitions of other operators in the development sector. Potential objectives of acquisitions will be primarily companies holding land in interesting locations and/or leading projects that match to the image group.

So defined overall strategy determines the guidelines for the various areas of activity of the group in the next few years to provide our shareholders with long-term increase in value of the company by offering our customers high quality services.

# CELTIC PROPERTY DEVELOPMENTS S.A.

ANNUAL REPORT FOR 2010

## 6. GROUP STRUCTURE



\* COMPANY SOLD

### 7. ACTIVITY

#### ■ PRODUCTS INFORMATION

The Capital Group possesses a significant land bank of more than 100 ha, which enables construction – according to the reports of Savills Sp. z o.o. (on condition of acquisition of all necessary construction permits) – of ca. 647,000 m<sup>2</sup> of apartments and ca. 245,000 m<sup>2</sup> of offices and warehouses. Moreover, as of 31 December 2010, the Company's portfolio consisted of two completed buildings with a total floor area of 11,000 m<sup>2</sup>.

At present, the Company's largest project is construction of a residential complex with ancillary office and retail in Ursus, a district of Warsaw, on land previously owned by ZPC Ursus. The land in Ursus of 582,000 m<sup>2</sup> was purchased the Company's own funds in second half of 2006. The Company's architectural concept, compliant with the local zoning scheme, provides for construction of 779,000 m<sup>2</sup> of usable area, including ca. 10,500 apartments. The concept anticipates division of Ursus Project into 18 smaller projects, to be realised by stages. The target group of end users of the project is middle income individuals. The local zoning scheme is expected to become lawful in turn of 2010 and 2001. The Ursus project has huge potential, which will be realized over several years.

The group is experienced in development and restructure of office buildings, with eight completed projects in past years. The Company's present strategy for office projects anticipates parallel handling of several office projects in each year, depending on market trends. In its subsequent office projects the Company plans to construct from 5 to 15 thousand m<sup>2</sup> of usable area per year. The intention is the long-term rental to companies of good covenant strength and later – if yields are attractive – profitable sale of that building or holding company. The Company's strategy consists of undertaking office projects in office and commercial districts outside of city centres in order that attractive rental levels may be offered to a wide variety of possible users.

In addition to the development of land and buildings owned by the group, the Group provides property management services to third parties in the commercial sector. The Group provides property management services of commercial portfolios to large investment funds. The Group charges a commission for these services, along with a fixed fee which is not influenced by market fluctuations. The Group's business also includes disposal of its clients' assets. The Group identifies purchasers and manages the sale process from start to finish. The Group's fee is a percentage of the transaction value. If the return on investment exceeds the expected rate, the Group receives an additional fee that is a percentage of the extra return. The strategy for management assumes continuation of co-operation with the present funds and an increase of the number of clients/ managed properties. This will constitute a source of cashflow for the Group.

The Company provides Asset Management Services in, Spain, the Netherlands, Germany, Belgium, United Kingdom and Italy. At present, the Company manages 265 commercial properties of total area 1,9 million m<sup>2</sup> worth ca. EUR 630 million.

### ▪ INFORMATION ABOUT MARKETS

The Company operates mainly in the territory of Poland, focusing primarily on the Warsaw area. Moreover, the Company possesses residential real estate in Montenegro and investment assets in Hungary. Geographical breakdown of the assets of the CPD investment group shows that the share of investments carried out in Poland represents approximately 100% of all finished investments. Foreign investment assets accounted for less than 0.1% of the total value of the assets of the investment of Celtic group.

Clients of the Company and the Group are divided into two groups closely associated with the type of projects carried out by the Group: specialist real estate funds and individual customers. Commercial projects are ultimately sold to institutional specialized investors operating in the real estate market. The Group works with such funds as: Deka Immobilien and Azora. Smaller projects are sold to individual investors. Prior to sale the Company shall make the commercialization of the building. Therefore, the tenants of commercial space are also the indirect recipients.

Due to the use of part of the portfolio for housing, the consumers of the Group are also individuals looking for a new apartments. Characteristics of target customers depends on the individual projects. Up to the the end of 2010 CPD capital group implemented projects aimed at customers with higher purchasing potential, as such as Wilanow project or the one on Koszykowa Street. In connection with the expected launch of a housing project in Ursus, the Company will expand the customer base for those seeking housing segment of popular housing at affordable prices. It is expected that the share of this group of customers in the Company's portfolio will be steadily increasing.

As the real estate portfolio manager the Celtic Group provides services to outside recipients like specialized institutional investors holding a real estate investment funds or portfolios of properties used for their own needs.

Due to the nature of the business, the main suppliers to the Company and the Group are employed general contractors, construction companies, engineering firms, design offices and architects, property management companies, real estate agencies, law firms and other external companies involved in the preparation and implementation of the development process in the investments.

The Company or Group was not in the past 2 years, a party to agreements or does not contain currently contracts with customers and suppliers, institutional which meets the criteria of the agreement relevant to the Regulation of the Minister of Finance dated 19 February 2009 on current and periodic information disclosed by issuers of securities and the conditions for recognition as equivalent to the information required by the laws of a non-Member State (OJ No 33, item. 259, as amended.).

### ▪ EVENTS AFFECTING BUSINESS RESULTS

Throughout the last accounting period, the financial situation of the Company and its Group was generally influenced by positive events for the group. The most important events affecting the financial situation of the Company are described below

### ▪ CROSS BORDER MERGER

On 22 June 2010 at the Extraordinary General meeting of Celtic Property Developments Plc (hereinafter referred to as the CPD Plc), a resolution on cross-border merger of Celtic Property Developments Plc and Poen S.A. Following registration on the day of the 23 August 2010 CPD Plc company no longer exists and Poen S.A. became the parent of the group. As a result of the merger the shareholders of CPD Plc became 100% shareholders of Poen S.A., and in addition Poen S.A. acquired by the General succession,



to remit, the shares from the CPD Plc. The parity of the exchange of shares, of CPD Plc, Poen S.A., was adopted at a level which did not cause changes in the structure of ownership of Poen S.A. The Shareholders of Celtic Property Developments Plc became eventually, after the redemption of own shares, the shareholders of Poen S.A. with the same share in the capital and the total number of Poen's votes held at a general meeting. In addition, on September 2, 2010, the extraordinary general meeting took a resolution to change the name of the company Poen S.A. on Celtic Property Developments S.A.

### ▪ BUY BACK OF SHARES

On 2 September 2010, the Extraordinary General Meeting of the Company resolved to authorise the Management Board to buy the Company's Stocks of B series for redemption (buy back of own stocks) at 6 euros per stock. As a result of the procedure having been performed by virtue of the above resolution, the Management Board received from the stockholders selling offers in respect of 765,043 Stocks of B series. Consequently, the Extraordinary General Meeting, on 20 September 2010 resolved on redemption of 765,043 Series B shares and on decreasing the equity and amending the Articles of Association. By virtue of this resolution the Company's equity now amounts to PLN 3,406,825.20. The value of the share redemption programme amounts to PLN 17,9 mln. As of the Prospectus approval date, the Company held 765.043 Series B own stocks. 14 January 2011 the decrease of the company's capital was registered and currently amounts to 3.406.825,20.

### ▪ RESTRUCTURING OF URSUS PROJECT

In connection with the restructuring of Ursus project from March to October 2010 was created 21 partnerships subsidiaries. In the case of 20 partnerships companies the stakeholders are Gaston Investments Sp. z o.o. as general partner and Challenge Eighteen Sp. z o.o. as a limited partner. In the case of one company a limited partnership company was Blaise Investments Sp. z o.o. and general partner was Gaston Investments Sp. z o.o. As a consequence of further action there was apportionment of assets held by the Challenge Eighteen SP. z o.o. and Blaise Investments SP. z o.o. (investment property) to the companies and an increase in the equity of partnerships. At the same time increased the tax value of the properties and it caused the reduction of deferred tax liabilities commitments for transferred land amounting to PLN 80,1 million.

### ▪ THE REVALUATION OF THE PROPERTIES

In accordance with real estate valuation reports made by Savills at 31.12.2010 the total value of investment real estate compared to 31.12.2009, increased by the amount of 16,1 million. PLN, which had a positive impact on the value of the assets of the company revaluing the investment property, whose value at the end of the year 2010 amounted to PLN 754,2 million.

### ▪ DEVELOPING OF ASSET MANAGEMENT SERVICES

2010 is the year of intensive development of the asset management segment within the group. In 2010, the group accounted revenues amounting to EUR 10,2 million PLN for this segment of their business. at the same time the company intensively seeks for successive contracts which allow increase of revenues from asset management in future.

### ▪ SALES OF DEVELOPED MOKOTÓW PLAZA I

28 July 2010, the Group sold the special-purpose company which owns the office building Mokotów Plaza for the amount of 38,6 million PLN including liabilities to subsidiaries. Within a transaction investment property has been disposed of a value of PLN 131 million and bank loan liabilities of 85,1 ml PLN. One of the important effects of this transaction was a decrease in bank loan liabilities of PLN 10,9 million.

### ▪ COMPLETION OF SALES OF HOUSING PROJECT IN WILANÓW AND JÓZEFOSŁAW

In 2010, the group completed the sales of single houses, in Wilanów and building land in Józefosław. Total revenues realized for the above projects in 2010 were ca. PLN 6 mln

### ▪ SALES OF MAGDALENKA AND KOSZYKOWA PROJECTS

The company is at the stage of sale the following projects in the portfolio: land for single housing construction in Magdalenka, and suites in an apartment house in Koszykowa street in Warsaw. It is expected that these projects will be realized in 2011.

### ▪ DESCRIPTION OF CAPITAL INVESTMENTS

The CPD Company makes majority of investments in real estate investment. Investments in tangible and intangible assets accounted a small share of total investment.

#### ▪ CYBERNETYKI 7

Eight storey office building B + class of 5,792 m<sup>2</sup> was built in 1998. The refurbishment in 2008 was conducted, including the main entrance, lobby, lifts and reception and façade. At the end of the year the building was leased, i.a., such tenants as: Beko, Berlin Chemie, Akzo, Liqy Moly, ZPUE, Bard Poland, Styropol.

#### ▪ AQUARIUS OFFICE PARK

The Aquarius Office Park complex consists of five storey B class office building with a total surface of 5,184 m<sup>2</sup>, leased to companies as VB Leasing, Betacom, Fly Away, Asseco, and investment land with valid building permit for the construction of A class office building with surface of 2,267 m<sup>2</sup>, and finally investment land of an area of approximately 10,000 m<sup>2</sup> intended for the construction of the office warehouse complex.

#### ▪ IRIS

Office building, to be developed at 9 Cybernetyki Street in Mokotów. Construction will begin in mid-2011 and will last 18 months. The building occupation permit is planned for the IV quarter of 2012. The building will offer a total of 14,300 m<sup>2</sup> of the office space to rent located on six levels and including 233 surface and underground parking spaces.

#### ▪ JANA KAZIMIERZA

The property at the Jana Kazimierza Street in Warsaw located in Wola district, near the by pass route to Poznań. The property includes the area 8 707 m<sup>2</sup>, which will be demolished and replaced with a modern building. From the date of acquisition the existing area was temporarily rented in order to cover the costs of maintaining the property. In accordance with the building conditions an existing building can be developed into to office building with an area of approximately 18 607 m<sup>2</sup>. The lowest floor of the building are designated to be a commercial area. Good communication location and the proximity of the city centre and major transport routes (Warsaw bypass, East-West highway) and the absence of modern office space in this location enhance its attractiveness. Design works are currently underway to optimize the project prepared in previous years.

#### ▪ ŁOPUSZAŃSKA 22

Łopuszańska project consists of of 4,5 ha land located at 22 Łopuszańska Street, Włochy District of Warsaw. Within its land Celtic is also co-owner of the roads surrounding the principal investment area. The main entries to the property are located from Łopuszańska Street. The property also has entry from Bakalarska Street.

Łopuszańska 22 is continuing project in the area of office premises for Celtic. Celtic has a final WZiZT for the phase of the project as a whole. The project assumes development of the business park and supply ca 66,000 m<sup>2</sup> of offices on the market in several stages. First stage of investment involves the construction of the building in the first line of the Łopuszańskiej Street, which will offer, ca. 29,000 m<sup>2</sup> of gross rental area.

**▪ URSUS**

Ursus is a long-term, multi-purpose, comprehensive project, with a predominance of residential features, located around 9 km west from the Centre of Warsaw, in well communicated district of Ursus, in areas that previously belonged to the ZPC Ursus factory. Land was acquired in two stages 100% from its own resources. The process of purchasing of real estate, ended the second half of 2006.

Old buildings and warehouse, operated previously by the ZPC Ursus (demolitions carried out currently) are located at the area. The company plans to build on the above premises office and educational complex along with residential buildings consisting mainly of 35-55 m<sup>2</sup> flats. Apartments built under the project shall be intended primarily for young, working people or families looking for their first flat.

There is a convenient public transport thanks to locating in the investment of three suburban rail stops Ursus North Ursus and Gołębki, and a dense network of bus lines. In the light of the above, the price of a flat adapted to moderate earnings and easy and convenient access to the Centre of Warsaw have a particular advantage of the project for the target clients.

Complex implementation of the project is scheduled for the period of several years. Current market trends show a large market demand for small area flats for reasonable prices. Ursus project is so designed that its products perfectly fit into market needs therefore the company expects a large demand for flats provided.

**▪ KOSZYKOWA**

In January 2007 the Company purchased a four-storey tenement house, located in Warsaw at Koszykowa Street, in the centre of Warsaw. The tenement house was renovated and expanded at a cost of PLN 3,5 mln. From 2010 high standard residential, commercial and business premises are available for sale.

**▪ MONTENEGRO**

The Group also owns real estate in Montenegro which was purchased in order to take advantage of the growing tourist industry in that country. The Company owns properties in: the locality of Zagora – 4 323 square meters of the land on which three properties with areas of 51 square meters, 83 square meters and 98 square meters are located, in the locality of Risan – land with an area of 81 796 square meters and in the locality of Dobrota – apartment with an area of 117 square metres

**▪ ALSONEMEDI**

In 2009 the Company purchased land near Budapest with an area of 42 495 square meters to develop warehouse space. The real estate is situated in a good logistics location: 20 km to the south of Budapest and in the vicinity of main roads.

The Company plans to construct a warehouse complex with ancillary office space. The first building will comprise 9 794 square meters of warehouse space and 1 576 square meters of office space should be delivered in 2011. Work should start on the second building at the turn 2012.

**▪ WOLBÓRZ**

The real estate of the area of 99 594 square meters is located in Wolbórz, neighbouring the Auchan Distribution Centre and E67 road from Warsaw to Krakow and Katowice. The real estate was purchased in September 2006. In accordance with the applicable zoning decision there is potential to construct a logistics and distribution centre with an area of 32 700 square meters. The Company intends to sell the undeveloped land together with its plans and specifications to a property developer. The Company does not plan to construct the logistics centre on its own.

### ▪ ASSESMENT OF INVESTMENT POSSIBILITIES

Celtic Group, developing projects finances them both using funds from the capital, and bank loans. In future, the Group assumes the implementation of projects through SPVs subordinate or jointly controlled companies, and the financing of these development and investment activities (purpose loans) would be acquired directly by those companies or through Celtic Property Developments S.A.

### ▪ CONDITIONS ESSENTIAL FOR DEVELOPMENT

The decline in valuation of properties in 2008 forced CPD to change its strategy until satisfactory reversal of the situation on the real property market the completed commercial projects remained in the company's portfolio and generated rental profits. The crisis on the real property market also decelerated realisation of subsequent projects by the Company.

Elements of governmental, economic, fiscal or monetary policy or other economic factors that will directly or indirectly impact future operating activity of the CPD capital group:

### ▪ INTERNATIONAL ECONOMIC SITUATION

Positive macro-economic data from the main world economies should improve investors' moods and should decrease their aversion to risk.

### ▪ MACRO-ECONOMIC SITUATION IN THE MAIN MARKET OF ACTIVITY

Improvement of the macro-economic situation in Poland with acceleration of economic growth and decrease in unemployment will exert a positive influence on the company's activity. That influence will be visible in increased demand for office space and greater possibilities and readiness to buy new apartments by potential clients.

### ▪ BANKS' CREDIT POLICY

Banks' credit policy exerts a twofold influence on the Company's activity. To realise new development projects the Company uses bank financing. Financial terms, such as credit margin and equity contribution, determine the Company's return on its own capital invested in any project. Availability of bank financing also constitutes a key factor that determines the level of demand for apartments, which must be taken into consideration when residential projects are launched by the Capital Group. On the other hand, banks' credit policy depends on macro-economic factors and the monetary policy followed by the central bank.

### ▪ CONDITION OF FINANCIAL MARKETS

Availability of financial sources exerts a direct influence on institutional investors' interest in investment projects, as they also realise many of their investments through debt financing.

### ▪ VAT RATE FOR APARTMENTS

According to governmental plans available as of the Prospectus date, VAT charged on the purchase of apartments will increase to 8% at the start of 2011. The level of VAT may constitute one of the factors determining the demand for new apartments.

### ▪ GOVERNMENTAL POLICY FOR SUPPORT TO THE CONSTRUCTION INDUSTRY

The factor that intensifies social demand for apartments, especially in the company's target group of clients, is the governmental programme "Family on its Own". According to by-laws of that programme as of the Prospectus date, the programme will operate until December 2012.

### ▪ ADMINISTRATIVE DECISIONS ON LANDS

The possibility to realise the company's intended development projects depends on inclusion of its lands in zoning schemes and on obtaining several permits from local administration. All legislative initiatives intended to accelerate adoption of zoning schemes and/or simplification of construction procedures will exert a positive influence on CPD's operating activity.



## 8. OVERVIEW OF BASIC ECONOMIC AND FINANCIAL MARKERS ALONG WITH UNUSUAL EVENTS

Celtic Group closed the year 2010 with net profits in the amount of PLN 81,9 million.

Revenue from the sales of the Group amounted to EUR 46,6 million PLN. The highest - 50% share of the revenue from the sale were advisory services in the field of property management, which doubled compared with the previous year and were generated by the companies of the group in Italy and Great Britain. The next item in the structure of the revenue from the sales was the amount of PLN 11 million resulting from the sale of the project in Józefosław, a settlement of houses in Wilanów and more than 30% of the flats in Koszykowa 69 project in Warsaw.

Compared to last year, revenue from rental decreased and amounted to PLN 10 million representing 22% of the revenue of the company. 20% decrease in rental income in relation to the year 2009 was the result of the sale of shares in one of the subsidiaries of the Group-Mokotów Plaza Sp. z o.o. Although sales revenues in terms of accounting were lower by 25% from last year, it should be noted that the company sold in 2010, shares in the company Mokotów Plaza Sp. z o.o. of PLN 131 million value. This transaction is included in section "result from the sale of subsidiaries".

AMOUNT IN PLN THOUSANDS.	PLN 31 DECEMBER 2010	PLN 31 DECEMBER 2009	EUR 31 DECEMBER 2010	EUR 31 DECEMBER 2009
Revenues from sales	46 616	62 237	11 771	15 149

Reduction in cost of sales of the group, whose share in relation to the proceeds of the sale fell from 68% in 2009 to 52% in 2010, has contributed to an increase in gross margin. These factors have a positive impact on profit on sales of the group, which amounted to 22,5 mln PLN and was 12,5% higher than a year earlier.

AMOUNT IN PLN THOUSANDS.	PLN 31 DECEMBER 2010	PLN 31 DECEMBER 2009	EUR 31 DECEMBER 2010	EUR 31 DECEMBER 2009
Cost of Sales	(24 158)	(42 270)	(6 100)	(10 289)

In 2010, the group reached a negative operating result of PLN 14,9 million. The operating expenses had the greatest impact on the operating result, which amounted to PLN 50 million and the result of the valuation of real estate investment, which was positive and amounted to 16,1 million PLN. 2010 Group operating expenses increased by 15% over the previous year. This increase was due mainly to the costs associated with the reorganization of the group to release the company's shares to official listing on a stock exchange in Warsaw S.A. and increasing employment in connection with the commencement of the provision of services for the Spazio Fund from Pirelli Group in Italy which had a significant positive impact on the revenues from the sale.

# CELTIC PROPERTY DEVELOPMENTS S.A.

ANNUAL REPORT FOR THE YEAR 2010

AMOUNT IN PLN THOUSANDS.	PLN 31 DECEMBER 2010	PLN 31 DECEMBER 2009	EUR 31 DECEMBER 2010	EUR 31 DECEMBER 2009
OPERATING PROFIT/(LOSS)	(14 890)	138 132	(3 560)	33 623

The above factors and positive exchange differences in the amount of 18 million PLN as well received dividends amounting to 4 million PLN enabled a group to achieve profit before tax of PLN 3 million.

AMOUNT IN PLN THOUSANDS.	PLN 31 DECEMBER 2010	PLN 31 DECEMBER 2009	EUR 31 DECEMBER 2010	EUR 31 DECEMBER 2009
Profit before taxes	3 000	141 090	758	34 344

The Group has achieved net income of 81,9 mln PLN in the year 2010. Obtaining of such a result was possible thanks to the restructuring of Ursus project. In connection with land contribution, by subsidiary Challenge Eighteen Sp. z o.o., to the newly created partnership companies increased the tax value of the property. At the same time commitments from deferred tax have reduced on the paid-up capital of the land.

AMOUNT IN PLN THOUSANDS.	PLN 31 DECEMBER 2010	PLN 31 DECEMBER 2009	EUR 31 DECEMBER 2010	EUR 31 DECEMBER 2009
Net Profit	81 847	109 051	20 667	26 545

A positive impact on the value of the assets of the Group had a revaluation of investment property with a total of 16,1 million PLN. This change largely reflected in the increase in the value amount of the Łopuszańska 22 of project to 17,2 million PLN, and Ursus for 14,2 mln PLN. The value of the Jana Kazimierza office project after redesigning in the assessment of valuers, is reduced of the amount of PLN 5.8 million, however, in the judgement of the Management Board redesigning is of vital importance for the success of the project and was necessary despite the reduction of value in the valuers view. What is more, the sale of shares in one of the subsidiaries of the group, Mokotów Plaza Sp. z o.o. reduced the value of the assets of the group to the amount of PLN 813,6 million.

AMOUNT IN PLN THOUSANDS.	PLN 31 DECEMBER 2010	PLN 31 DECEMBER 2009	EUR 31 DECEMBER 2010	EUR 31 DECEMBER 2009
Total Assets	951 755	1 096 397	240 324	266 880

Reduction in long-term commitments to amount 103,8 million PLN was mainly due to the restructuring of the Group, as a result deferred tax commitments were reduced.

# CELTIC PROPERTY DEVELOPMENTS S.A.

ANNUAL REPORT FOR THE YEAR 2010

AMOUNT IN PLN THOUSANDS.	PLN 31 DECEMBER 2010	PLN 31 DECEMBER 2009	EUR 31 DECEMBER 2010	EUR 31 DECEMBER 2009
Long term Liabilities	103 756	216 373	26 199	52 669

In contrast, reduction of liabilities to the amount of PLN 22,5 million was mainly due to the disposal of construction loan of 85,1 mln PLN, as a result of the sale of shares in the company of Mokotów Plaza Sp. o. o

AMOUNT IN PLN THOUSANDS.	PLN 31 DECEMBER 2010	PLN 31 DECEMBER 2009	EUR 31 DECEMBER 2010	EUR 31 DECEMBER 2009
Short term Liabilities	22 521	105 134	5 687	25 591

On 1 January 2010, CPD PLC was the parent company of the Group, having the core capital of PLN 1 197 085. While on 23 August 2010 in the national register of legal proceedings has been registered cross-border connection with existing parent of the group, i.e.. Celtic Property Developments Plc (the company being acquired) and Poen SA (acquiring company) through the transfer of all the assets of the company being acquired to the acquiring company, in return for the newly created shares of the acquiring company. The process of connections was made on the basis of the plan, which assumed the acquisition of Celtic Property Developments Plc by Poen SA 100% subsidiary of Celtic Property Developments Plc. As a result of the merger the existing shareholders of the Celtic Property Developments Plc became 100% shareholders of Poen S.A. and furthermore Poen S.A. acquired by general succession, the shares from Celtic Property Developments Plc. The parity of Exchange of Celtic Property Developments Plc shares to Poen S.A. shares, was adopted at a level which did not cause changes in the structure of ownership of Poen S.A.

For the purposes of the clearance of the above transactions in ledgers Poen S.A. acquired components do not constitute undertakings within the meaning of the definition contained in IFRS 3. In accordance with order of this standard this transaction has been treated as acquisition of a set of assets and liabilities in exchange for payment in the form of own shares with a value of 3,5 million PLN. In consequence acquired assets and liabilities have been valued at their fair values at the moment of merger and such values are included in the books of the acquiring company.

The shareholders of the Celtic Property Developments Plc became eventually, after redemption of own shares, shareholders of Poen S.A. with the same share in the capital and the total number of Poen S.A. votes at a general meeting, that they had in Celtic Property Developments Plc before the merger.

AMOUNT IN PLN THOUSANDS.	PLN 31 DECEMBER 2010	PLN 31 DECEMBER 2009	EUR 31 DECEMBER 2010	EUR 31 DECEMBER 2009
Share Capital	3 483	1 197 085	879	291 389

The change of the parent, has the nature of a restructuring of the activities of the Group and has not been recorded in the consolidated financial statements as a business combination. In the light of the above this did not affect the value of the consolidated net assets of the group. Changing the parent was reflected in the structure of the group equity. In lieu of share capital

# CELTIC PROPERTY DEVELOPMENTS S.A.

ANNUAL REPORT FOR THE YEAR 2010

of Celtic Property Developments Plc as the share capital of the group after the merger is shown capital of Celtic Property Developments S.A. (former name Poen S.A.). The effect of this change was credited to accumulated profit (loss) and amounted to PLN 825,5 million.

AMOUNT IN PLN THOUSANDS.	PLN 31 DECEMBER 2010	PLN 31 DECEMBER 2009	EUR 31 DECEMBER 2010	EUR 31 DECEMBER 2009
Total Equity	825 478	774 890	208 434	188 620

Capital presented in the report of the total income as at 31 December 2010, includes 34 833 000 units of shares having a par value PLN 0.10 each.

20 September 2010 the Extraordinary General meeting took a resolution to remit 765.043 own shares of B series with a par value PLN 0.10 each. At the same time the reduction in the share capital of the CPD S.A company from 3.483.329,50 PLN to 3.406.825,20 PLN on the amount of 76.504,30 PLN was passed by a resolution. On 14 January 2011 withdrawal of shares of B series has been registered in the KRS (National Companies Register).

AMOUNT IN THOUSANDS.	31 DECEMBER 2010	31 DECEMBER 2009	31 DECEMBER 2010	31 DECEMBER 2009
Number of shares	34 833	6 950	34 833	6 950

Reporting period for the year 2010 began on the cash status in the amount of 50,1 million and ended the with 37,3 million.

AMOUNT IN PLN THOUSANDS.	PLN 31 DECEMBER 2010	PLN 31 DECEMBER 2009	EUR 31 DECEMBER 2010	EUR 31 DECEMBER 2009
Cash and cash equivalents	37 306	50 119	9 420	12 200

The Group noted in 2010, an outflow of cash for an amount of PLN 25 million on operations. The main changes related to net cash flow from operating activities is the increase in the receivables of 7,2 mln PLN which simultaneous decrease in stocks of 10,4 million PLN. The increase in trade and other liabilities by EUR 0,4 mln PLN should also be mentioned on and the payment of income tax in the amount of 1,6 million.

AMOUNT IN PLN THOUSANDS.	PLN 31 DECEMBER 2010	PLN 31 DECEMBER 2009	EUR 31 DECEMBER 2010	EUR 31 DECEMBER 2009
Cash generated from operations	(25 083)	3 169	(6334)	771

Changes in net cash flows from investing activities were mainly due to the impact from the sale of shares in the company Mokotów Plaza Sp. z o.o. which generated positive financial cash flow of PLN 44 million, while investment in projects decreased net cash flow from investing activities to 34,6 million PLN.



# CELTIC PROPERTY DEVELOPMENTS S.A.

ANNUAL REPORT FOR THE YEAR 2010

AMOUNT IN PLN THOUSANDS.	PLN 31 DECEMBER 2010	PLN 31 DECEMBER 2009	EUR 31 DECEMBER 2010	EUR 31 DECEMBER 2009
Net cash received/used in investing activities	34 626	(25 153)	8743	(6123)

On financial activities, the company noted in 2010, an outflow of cash in the amount of PLN 22,4 million. Above amount consist of gratification of 17,9 million paid to shareholders of redemption of 765 043 own B series shares and simultaneous reduction of the share capital of the company and the repayment of loans in the amount of PLN 4,4 million.

AMOUNT IN PLN THOUSANDS.	PLN 31 DECEMBER 2010	PLN 31 DECEMBER 2009	EUR 31 DECEMBER 2010	EUR 31 DECEMBER 2009
Net cash used in financing activities	(22 356)	7 030	(5645)	1711

Change in cash at the end of the year 2010 compared to 2009 with the amount of 12,8 mln PLN has emerged largely from the payment of remuneration to shareholders amounting to 17,9 million PLN due to the redemption of 765 043 own shares of series B.

AMOUNT IN PLN THOUSANDS	PLN 31 December 2010	PLN 31 December 2009	EUR 31 December 2010	EUR 31 December 2009
Revenue	46 616	62 237	11 641	14 338
Cost of Sales	(24 158)	(42 270)	(6 033)	(9 738)
Operating (Loss)/profit	(14 890)	138 132	(3 718)	31 823
Profit before tax	3 000	141 090	749	32 504
Net Profit	81 847	109 051	20 439	25 123
Total Assets	951 755	1 096 397	240 324	266 880
Long term liabilities	103 756	216 373	26 199	52 669
Short term liabilities	22 521	105 134	5 687	25 591
Share capital	3 483	1 197 085	879	291 389
Equity	825 478	774 890	208 438	188 620
Number of shares (000's)	34 833	6 950		

## CELTIC PROPERTY DEVELOPMENTS S.A.

ANNUAL REPORT FOR THE YEAR 2010

Net cash generated from operations	(25 083)	3 169	(6 334)	771
Net cash used in investing activities	34 626	(25 153)	8 743	(6 123)
Net cash used in financing activities	(22 356)	7 030	(5 645)	1 711
Cash and cash equivalents at the end of the year	37 306	50 119	9 420	12 200

**9. RISK FACTORS AND THREATS**

The Group's operations are exposed to different types of financial risks, including changes in market prices of debt and equity, currency fluctuations and interest rates. The overall risk management program by the Group focuses on the unpredictability of financial markets and seeks to minimize the potential.

Certain types of risk arising alone or in connection with other circumstances may have material adverse effect on the business activity carried out by the Company and its Capital Group, its financial position, development perspectives or results generated by the Company or its Capital Group and may also affect the market rate of the Company's Stocks. The risks identified below do not make for a complete and full list and, therefore, should not be considered to be the sole risks which the Company may be exposed to. Additional risks, of which the Company is not aware at the moment or which the Company is not considering at the moment to be material may also have significant adverse impact on the Company's or its Capital Group's operations, financial position, perspectives or results of the Company or its Capital Group

▪ **RISK RELATING TO THE MACROECONOMIC SITUATION OF THE MARKETS ON WHICH THE COMPANY AND ITS CAPITAL GROUP OPERATE**

The overall macroeconomic situation of Polish and other markets on which the Company and its Capital Group operate, including such factors as: GDP growth rate, inflation and interest rate levels, investments in economy, and unemployment rate have direct influence on the level of wealth and purchasing power of people and the financial position of companies. Consequently, these factors affect also the demand for products and services offered by the Company and its Capital Group and may influence their financial position.

As a result of the latest economic crises the economic growth rate slowed down and was hindered in many countries, including Poland. While the latest forecasts of the National Bank of Poland for 2010-2011 provide for the growth of Polish GDP to attain 2.7% and 3.3%, respectively, we cannot exclude that the GDP growth rate in these years will be lower. If the GDP growth rate is slowed down, the demand for products offered by the Company and its Capital Group may drop, which, in turn, may lead to a drop in prices of residential and commercial real estate and adversely affect the Company's and its Capital Group's financial condition

▪ **RISK RELATING TO AMENDMENTS TO THE PROVISIONS OF LAW AND OTHER REGULATIONS AFFECTING THE SCOPE OF BUSINESS OPERATIONS CARRIED OUT BY THE COMPANY AND ITS CAPITAL GROUP AND INSTABILITY OF THE LEGAL SYSTEM**

From the very beginning of economic changes in Poland, one of the essential elements of risk for business operations conducted in this country has been the legal system lacking stability. No uniform laws, frequent amendments, inherently inconsistent legal norms, in a number of cases have resulted in the appearance of economic uncertainty. The Polish accession to the European Union and the related obligation to harmonise the unstable and unclear Polish legal system with the European regulations contributed to the concerns faced by entrepreneurs in connection with appropriate application of law (including the possibility of suffering a sanction for breaches resulting from an erroneous interpretation of the provisions of law).

Inconsistency, lack of uniform construction of the provisions of law, and frequent amendments trigger the risk of erroneous interpretation of legal regulations. We cannot exclude that amendments to the provisions of law, if any, may affect the scope of business operations conducted by the Company and its Capital Group.

### ▪ **RISK RELATING TO THE PROCESS OF OBTAINING ADMINISTRATIVE DECISIONS, THE POSSIBILITY OF APPEAL AND THE NON-EXISTENCE OF MASTER PLANS**

The developer's business activity conducted by the Company and its Capital Group triggers the necessity of obtaining numerous administrative decisions enabling implementation of building projects, for example decisions on the investment location, zoning and development decisions (if there is no master plan for a given area), building permits, occupancy certificates for the newly built investments, environmental decisions.

The obligation to obtain the above administrative decisions triggers the risk of inability to complete or delay in completing the building projects implementation if the decisions are not obtained or the relevant procedures are protracted.

Moreover, the Company cannot rule out the risk that the decisions already issued will be appealed against by the parties to the administrative procedures or repealed, which would adversely affect the ability to further conduct or complete the current building projects and, consequently, the business operations, financial position and the results of the Celtic Capital Group.

Furthermore, there is also the risk of inability to implement building projects within the areas where master plans were not adopted and where the chances to obtain a zoning decision are prevented or hindered to a great extent.

### ▪ **RISK RELATING TO THE COMPETITION**

The Company, while focussing on the developer's activity in the housing and office sector, faces strong competition on the part of domestic and foreign developers. The competition may create obstacles for the Company in acquiring appropriate land at attractive prices for new investments. The increasing competition may also lead to increasing supply of housing and commercial real estate and, therefore, to the stagnation of, or drop in, prices of flats and lease rents. Such a situation may adversely translate into the results generated by the Celtic Capital Group.

### ▪ **RISK RELATING TO THE IMPLEMENTATION OF DEVELOPMENT PROJECTS**

The efficient implementation of the development projects depend on a number of factors, some of which are not directly controlled by the Company. At the project preparation stage the Company may, for instance, not obtain administrative permits required to commence the construction works (e.g. passing and adoption of the master plan for the post-industrial area next to the Orłów Piastowskich street in the Ursus District) or may face obstacles in obtaining appropriate firms for their implementation. Also, a number of factors exist that might cause the general contractor or subcontractors fail to comply with the construction completion deadlines. The most important factors are, among others, weather conditions, unforeseeable technical difficulties, shortage of building materials or equipment, failure to obtain permits enabling the buildings to be delivered for use as well as amendments to the provisions of law regulating the use of land. Should any of the above described risks occur, the development project completion may be delayed, the costs may increase, funds invested in land rendered illiquid, and also, in extreme cases, the investment completion totally disabled. The above described situations which, should they arise, may also adversely affect the Company's goodwill, which fact would impair its ability to implement further projects.

### ▪ **RISK RELATING TO LOCATION OF THE REAL ESTATE**

The assessment of the location of land for development projects is one of the most material criteria determining the expected income from the project. Inaccurate assessment of the location for its proposed use, may hinder or disable the sale of flats contained in such



property at the price assumed by the Company, or the rent of office spaces at expected rates. In such a situation the risk exists that the Celtic Capital Group fails to generate the expected income from sales; or, if construction works are contracted earlier, the Company will generate margins at a level lower than predicted. Moreover, if the office space is not rented and the sale of flats delayed – the Company will be reliant on external financing to a greater extent.

▪ **RISK RELATING TO INABILITY TO BUY LAND ATTRACTIVE FROM THE COMPANY'S PERSPECTIVE**

The Company's and its Capital Group's capacity to purchase land of hidden potential at moderate prices to a great extent determines business activity and profitability of the Capital Group. Due to enhancing competition and the limited number of pieces of land showing appropriate investment parameters, the Company may not exclude that in the nearest future it will not be able to acquire the desired number of projects at attractive prices. The purchase of land at high prices or in less attractive locations may trigger a drop in the profitability of the Company's development investments. The above factors may adversely affect the Company's and its Capital Group's business operations and financial results.

▪ **RISK RELATING TO LACK OF LIQUIDITY OF REAL ESTATE INVESTMENTS**

Compared to other types of investments, development projects may be characterised as having a low level of liquidity. This concerns in particular the projects implemented in the office building sector. The extended period for selling real estate assets may lead to funds being frozen in the project, which – in turn – may trigger a greater need for debt financing in the Celtic Capital Group and other projects being suspended or renounced. The low level of liquidity of real estate assets may also result in the necessity to decrease the selling price. The above described factors may to a significant extent adversely affect the operations, financial position and results of the Group.

▪ **RISK RELATING TO A GEOGRAPHICAL CONCENTRATION OF THE COMPANY'S AND THE CAPITAL GROUP'S PROJECTS**

The concentration of the majority of real estate, including a housing project in the Ursus District in Warsaw, exposes the Company to the risk of changes in the local market and business environment higher than that faced by other development companies with greater geographical diversification of their property portfolio.

Other markets, on which the Company's business operations is focussing include: Central and Eastern European markets, including Hungary and Montenegro, which are characterised with political and economic instability. One cannot exclude that lack of economic and political stability in these countries may have an adverse effect on the implementation of the Company's and its Group's development strategy as well as their business operations, financial standing or results.

▪ **RISK RELATING TO THE INCREASED COSTS OF THE DEVELOPMENT PROJECT CONSTRUCTION**

During the implementation of the development project the costs of the project may increase. This increase may result from: changes introduced in the building permit design, increased material costs, increased labour costs, sub-contractor costs, land/facility use fees, taxes and other administrative fees. Consequently, the Company may fail to achieve the expected return on investment, which, in turn, may cause financial results worse than it was planned. The Company is endeavouring to mitigate the above described risk through striving to enter into contracts with general contractors and subcontractors providing for lump sum fees. The increased labour and material costs may also adversely translate into profitability of future development projects.

### ▪ **RISK RELATING TO UNFAVOURABLE SOIL CONDITIONS**

This risk concerns unforeseen situations where, despite a detailed technical analysis of the land to be acquired, during the project implementation phase, it may appear that there is some groundwater, the soil is unstable or archaeological findings or blinds have been come across, or any other unpredictable situation arises. Such situations may cause a material increase in the project costs, delay or even totally prevent its implementation, which, in turn, can affect the financial results of the Celtic Capital Group.

### ▪ **RISK OF UNFAVOURABLE WEATHER CONDITIONS**

Progress in construction works depends, to a large extent, on the weather conditions in which the construction is conducted. The Company strives to select such building companies, which thanks to modern building technologies are able to carry out work during unfavourable weather conditions. Nonetheless, this measure does not eliminate the risk of delayed construction works due to extreme weather phenomena, such as, for instance, long and frosty winter with temperatures falling below -20 C degrees or strong winds. One also cannot exclude financial damage occurring at sites due to weather conditions. Any delays connected with bad weather conditions may result in time schedules of the projects being delayed and, consequently, in cost increases

### ▪ **RISK RELATING TO CHANGES IN THE SELLING PRICES OF FLATS AND LEASE RENT RATES**

The Company's profitability largely depends on the price levels of flats and on rental rates for office space in the cities, where the Company operates or intends to operate as a developer, as well as on market yields for the purchase of commercial real estate. Should the prices of flats or lease rates drop, the Company will not be able to guarantee that it will be selling apartments or offices at the expected prices. If, in turn, the capitalisation rates applied for commercial real estate valuation increase, the Company may be unable to sell the commercial real estate at the assumed price, which, consequently, may have a material adverse effect on the Group's business operations, its financial position or results..

### ▪ **RISK RELATING TO LEGAL DEFECTS IN THE REAL ESTATE AND THE RISK OF EXPROPRIATION**

The Company and other members of its Group conduct relevant analyses and reviews of the legal situation of real estate prior to purchase, however this does not completely rule out the risk of legal defects, which may emerge during the investment implementation process, e.g. in the form reprivatization claims. There is also the risk of expropriation of real estate held by the Company, to the benefit of the State Treasury or local government units, for public purposes. In such a situation (legal defects, reprivatization claims, expropriation procedure) the results and business operations of the Company and its Capital Group may be materially affected. In extreme situations, such risk may lead even to loss of the real estate.

### ▪ **RISK RELATING TO ENVIRONMENTAL LIABILITY**

The Company and other members of its Capital Group hold under perpetual usufruct post-industrial real estate which has been audited in respect of hazardous substances and pollution/contamination, which, however, does not totally preclude the risk of liability under environmental regulations. In accordance with Polish law, the entities that use the land with hazardous substances or other pollution/contamination, may be obliged to remediate the land or to pay penalties for contamination/pollution or to be held liable in some other way. One cannot exclude that the Company or its Group members will not be in the future charged with the costs of remediation or monetary penalties in connection with the pollution/contamination of the environment in respect of the real estate used, which fact may adversely affect the business operations, financial standing or development perspectives of the Company and/or its Capital Group.

### ▪ **RISK RELATING TO CONSTRUCTION CONTRACTS**

For the implementation of its development projects, the Group uses services of specialised construction contractors, who often employ subcontractors. The Company cannot exclude the risk relating to non performance or improper performance of the obligations of such contractors and subcontractors, which may adversely affect the performance of construction projects and, consequently, the business operations, financial standing and results of the Group.

Moreover, given joint and several liability of the investor and the contractor for payment of fees to subcontractors, the Company may not exclude the risk relating to incapacity of the contractor to pay those fees and, therefore, the occurrence of liability on the part of the Company or its subsidiary, acting as the investor. The above risk will be limited by allocating individual projects to individual companies. Additionally, the payment for services provided by the general contractor is dependent on its timely payments to subcontractors. The Company, on a day to day basis, monitors payments made by the general contractors to their subcontractors. .

### ▪ **RISK RELATING TO LEASE AGREEMENTS**

The value of real estate to be rented depends on the time left to the lapse of the lease term and on the financial standing of the lessees. If the Company and its Group members are not able to prolong, on favourable conditions, the agreements which are due to expire in the near future, or gain and maintain appropriate lessees having good financial standing and willing to enter into long-term lease agreements, this may adversely affect the market value of the real estate portfolio. The financial situation of a lessee may deteriorate in the short or long term, which, in turn, may lead the lessee to bankruptcy or inability to pay its liabilities arising out of the lease agreement. Any of the above factors, should they occur, may have a material negative effect on the Company's financial results..

### ▪ **RISK RELATING TO FAILURE TO ATTAIN ASSUMED STRATEGIC GOALS**

The Company may not guarantee that its assumed strategic goals will be attained, specifically the expected significant extension of its business operations scale. The implementation of strategy is dependent on many factors determining the real estate market situation, which fall outside the Company's control. The Company endeavours to build its strategy on the basis of the current market situation. The Company may not ensure, however, that the strategy has been grounded on a complete and accurate analysis of current and future trends of the market. One cannot exclude that the activities undertaken by the Company will appear insufficient or mistaken from the point of view of implementation of the assumed strategic goals. An erroneous assessment of market tendencies and any erroneous decisions by the Company may have a significant adverse effect on its financial results. .

### ▪ **RISK RELATING TO THE MANAGERIAL STAFF**

The business activity of the Celtic Capital Group and its further development are largely dependent on knowledge, experience and qualifications of the managerial staff and key employees. It is the competence of the managerial staff which determines success of all milestones of the development project implementation. If key employees leave the company the risk may be faced relating to inability to employ equally experienced and qualified experts who would be able to continue the Company's strategic implementation, which may materially and adversely affect the Company's financial results.

### ▪ **RISK RELATING TO FINANCING DEVELOPMENT WITH BANK LOANS AND OTHER DEBT INSTRUMENTS**

Normally, development projects are implemented with the use of significant debt financing. Thus, the Company and its Capital Group are exposed to the risk of increasing interest rates and more significant costs of handling the loan on one part and on the other part, if the demand for the Company's products decreases, in an extreme situation, the company implementing the investment may be unable to service the debt. Thus, if the loan agreements providing funds for construction projects are breached there is the risk of the lender taking over those assets of the CELTIC capital group members which secure the repayment of the loans. The Company may neither exclude the risk of impaired access to debt financing or material rise in the costs of debt due to a change in bank lending policy. This may hinder the Company's opportunities to begin new projects and, therefore, materially affect its financial results to be generated in the future.

### ▪ **FOREIGN EXCHANGE RISK**

The debt of CPD Capital Group denominated in foreign currencies amounted as at 31 December 2010 to PLN 52,5 million. Also in the future the Company and its Capital Group do not exclude any further foreign currency loans, denominated mainly in euro. Due to the above, the Company and its Capital Group is exposed to the risk of Polish zloty depreciation in respect to the currencies in which the loans have been and will be taken out, which fact may adversely affect the Company's financial standing. This risk is partly mitigated by the fact that the income from the lease and the sale of office projects are settled in foreign currencies.

### ▪ **RISK RELATING TO ACCESS OF PROSPECTIVE CLIENTS OF THE CELTIC CAPITAL GROUP TO LOANS**

On 23 August 2010 the regulations entered into force contained in the so-called recommendation T drawn up by the Financial Supervision Commission, based on which banks may require that their future borrowers interested in the purchase of real estate provide higher collateral, of at least 20% of own contribution or for the loan repayment insurance.

As regards collateral for the loans, in accordance with the above recommendation, in practice, in case of foreign currency loans, the client's own contribution should amount to at least 10 percent when the loan is granted for up to 5 years and to at least 20 percent if the loan is granted for more than 5 years. Moreover, if the client is not able to ensure the contribution of such amount, the loan repayment will have to be insured or another collateral specified, e.g. another piece of real estate. The purpose of this recommendation is to ensure appropriate security. Such security may be provided in the form of an appropriate, in the bank's view, insurance, provided that it ensures reimbursement of the engaged loan amount including interest and commissions if the loan is not repaid.

The above regulations, which may materially limit accessibility of loans designated to fund the purchase of the real estate, may cause a drop in demand for apartments and houses and, consequently, also a lower level of interest in development projects of the Celtic Capital Group.

Given popularity of foreign currency mortgage loans, the significant risk for the Company may also result from the deteriorated value of Polish zloty in respect of foreign currencies, specifically EUR and FFR. The depreciation of PLN exchange rate may prevent potential buyers from taking loans in foreign currencies. The above circumstances and events may adversely affect the Company's operations and its financial position.

### ▪ **RISK RELATING TO LIQUIDITY**

Liquidity risk is the risk that arises when the maturities of assets and liabilities do not overlap. This potentially raises a profit, but also increases the risk of losses. Celtic Group uses procedures whose purpose is to minimize such losses by maintaining an adequate level of cash and other assets easy to liquidate, as well as through adequate access to loans. Celtic Group's liquidity level is constantly monitored by the Board



- **RISK RELATING TO PRICE CHANGES**

The Celtic Group is exposed on price risk connected with the value of the properties and rental income, which are not financial risks.

- **RISK RELATED TO CHANGES OF INTERESTS RATES**

Interest rate risk is the risk to which the Celtic Group is exposed, arising from changes in market interest rates. In the case of the Celtic Group risk of changes in interest rates is associated with long-term bank loans. Loans with variable rates expose the Group to the risk of fluctuations in the CPD future cash flows. Celtic Group does not hedge against changes in interest rates. Management continuously observe fluctuations in interest rates and act as appropriate.

## **10. PROCEEDINGS**

The issuer, or any dependent entity is not a party to any pending courts or arbitration authority proceedings or a public authority, which have a combined value of more than 10% of the equity of the issuer.

**11. SUBSTANTIAL AGREEMENTS**

Neither the Company nor any other Group companies in the reporting year were a party to contracts whose value exceeds 10% of the Company's equity. The following is a contract (both those that can be classified as concluded in the normal course of business, as well as those which may be classified as a contract concluded outside the normal course of business), which are considered essential to the Company and its Group for their item.

**▪ SIGNIFICANT TRANSACTIONS BETWEEN RELATED PARTIES**

During the reporting period the company did not conclude any transactions with related parties on terms other than at market rates. Detail of transactions with related parties are described in Note 25 to the Financial Statements.

**▪ LOANS AGREEMENTS**

Information raised from agreements on loans and credits are described in Note 13. During 2010, the Capital group has been a party to two agreements of significant value on financing the property development activity. Please find below the summary of loan agreements in force and effect at that time.

Loan agreement for financing the property development project of 4 December 20 executed with Bank Zachodni WBK S.A. and Mokotów Plaza sp. z o.o. and Gaston Investments sp. o.o. (as the property developer), which at the time of execution of the Agreement were the subsidiaries of Celtic and were members of Celtic Capital Group. The Bank granted to Mokotów Plaza sp. z o.o. the loan in the amount of EUR 15,150,000.00 and in the PLN equivalent of EUR 2,400,000.00. The loan was intended for financing the capital expenditure relating to stage I of "Mokotów Plaza" investment project in Warsaw later increased with an Annex to the Agreement dated 18 June 2008 to amount of 25,455,000.00 EUR. The parties agreed that the maturity date of the loan together with interest and other costs will fall on 2 August 2010. The real estate whereon stage I of "Mokotów Plaza" investment project was located was the collateral for the loan. On 28 July 2010 a current subsidiary of Lokia Enterprises Ltd and Celtic Property Developments Plc (Cyprus) – as a guarantor, executed a stock sale agreement of Mokotów Plaza sp. z o.o. (the borrower), therefore for the time being nor the Company neither any Capital Group company is a party to the Agreement and has no obligations arising out of the loan agreement. It follows from the information held by the Company that the above loan was fully repaid. This Agreement was a material agreement due to its value of EUR 27,850,000.00.

Loan agreement for financing development undertakings of 7 July 2009 executed with the HSBC consortium. The above agreement was executed to constitute a uniform text of a loan agreement of 21 December 2006, which was amended in the course of performance of the same. The following are the parties to the above Agreement: the Company and Lokia Enterprises Ltd (Cyprus) as guarantors Blaise Investments sp. z o.o., Devin Investments sp. o.o., Lokia Investments sp. z o.o., Mandy Investments sp. z o.o. and Robin Investments sp. z o.o. Under this Agreement the Bank extended to the Borrowers a loan in the amount of EUR 14,000,000.00. The loan is intended for financing the capital expenditure relating to the Capital Group investment projects. The parties agreed that the maturity date of the loan together with interest and other costs will fall on 27 March 2012. The Capital Group companies are jointly and severally obliged to pay the mandatory instalments in the amount of EUR 375,000.00 on the following dates: 27 June 2010 (instalment paid), 27 December 2010 (instalment paid), 27 June 2011, and 27 December 2011. The Borrower's debt to the Bank is collateralised, among other, by joint ceiling mortgages up to the amount of EUR 21,000,000.00 established on the real estate held by the following Company's subsidiaries

being the parties to the mentioned along with registered pledges on 100% of stocks of each of the following Company's subsidiaries. The principal was bearing variable interest rate on annual basis. The interest rate as of the execution date was equal to the amount of the variable rate of EUROLIBOR for one-month interbank deposits in PLN, increased by the Bank's premium. In the cases specified in the Agreement the Bank may terminate the same in whole or in part. This Agreement is a material agreement due to its value of EUR 14,000,000.00.

#### ▪ LOAN AGREEMENTS GRANTED

Neither the Company nor any other Group companies in the reporting year were not a party to contracts whose value exceeds 10% of the equity of the Company, nor have they been in the past year a party to contracts whose value exceeded 10% of the equity of the Company. Below is presented a summary of loans granted to related parties of the issuer:

Lender	Borrower	Date of Agreement	CCY	Maximum loan amount	Rate	Balance at 31-12-2010
CPD SA	Lakia Enterprises Ltd	2010-06-30	PLN	100 000 000	3M WIBOR + 0.50%	13 423 557
EEPF AB	CPD SA	2009-12-31	PLN	350 000 000	3M WIBOR + 1.55%	347 276 805
CPD Kft	CPD SA	2010-07-30	PLN	1 000 000	3M WIBOR + 0.75%	205 322
Buffy Holdings no1	CPD SA	2010-07-30	PLN	145 000 000	3M WIBOR + 0.75%	141 091 284
Celtic Investments Ltd	CPD SA	2010-07-30	EUR	5 000 000	3M LIBOR + 0.75%	1 724 091
Tenth Planet doo	CPD S.A.	2005-01-12	EUR	5 500 000	4% p.a.	884 077
Tenth Planet doo	CPD S.A.	2007-06-26	EUR	200 000	3M LIBOR + 0,75%	198 295

Loans are payable on Lessor request.

#### ▪ GRANTS AND GUARANTEES

In the period covered by this report, there were no significant contingent liabilities of the issuer or its subsidiaries whose total value exceeds the estimated 10% of the equity of the issuer. Above under the item on loan guarantees were included those with a significant value.

### **12. SECURITIES ISSUE**

Following the merger of Poen SA acquired free of charge, by a succession of general, own shares in the total number of 5,000,000 ordinary registered shares of series A with a nominal value of PLN 0.10 each for subsequent redemption.



**13. DESCRIPTION OF FORECASTED FINANCIAL RESULTS**

The Celtic Group does not publish forecasts of consolidated financial results.

### **14. EVALUATION OF MANAGEMENT OF FINANCIAL RESOURCES**

Celtic Capital Group finances its operations primarily through equity. In 2010, the financial resources are used in accordance with the plan, purpose, and current needs. There were no events of losses due to poor allocation of resources. The Group took up all its liabilities incurred as the contractors, banks and mandatory charges to the State. Commitments are not a threat to the health of the Group. Liquidity ratios are of good quality, which allows for meeting liabilities. Supplementary source of financing activities of the group are CPD credits and loans. At the end of the year 2010, the total value of loans and bank loans amounted to 52.5 million as compared to PLN 140.9 mln PLN in 2009. The change involves the sale of the subsidiary company Mokotów Plaza Sp. Ltd., which had drawn a loan for the project Mokotów Plaza I. Included in obligations of credits and loans Celtic is shown commitments to finance leases, which is mainly the company's commitment for perpetual use of land.

## **15. CHANGES IN MANAGEMENT POLICIES**

In 2010, there were no major changes in the basic management principles. Development of the organization enforces improvement of management procedures in force in both the Celtic Property Developments SA as well as in the other Group entities.

## **16. AGREEMENTS WITH CORPORATE EXECUTIVES - COMPENSATION**

Members of the Board are not employed by the Company under contracts of employment..

### 17. VALUE OF REMUNERATION OF THE MANAGEMENT BOARD AND SUPERVISORY BOARD

- The remuneration paid to Board Members in 2010 due to his function in the CPD Plc \* \*

Name	CCY	Amount	Date	Comments
Andrew Shephard	EUR	7 656,78	2010-08-26	to 23/08/10
Aled Rhys Jones	EUR	5 187,46	2010-08-26	to resignation period in CPD Plc
Christopher Bruce	EUR	10 188,20	2010-08-26	plus 2009 r
Elżbieta Donata Wiczowska	USD	38 911,23	2010-11-29	from 10/2007- to resignation in CPD Plc

\* for CPS S.A. (POEN) remuneration Has not been paid (not agreed by SB)

- The remuneration paid to Board Members in 2010 for consulting services for the Group Celtic

Name	CCY	Amount
Andrew Shephard	EUR	1 198 395
Aled Rhys Jones	EUR	1 198 395
Christopher Bruce	EUR	773 024
Elżbieta Wiczowska	EUR	-

- The remuneration paid in 2011 for 2010 to Supervisory Board Members from CPD S.A.

Name	CCY	Amount	Date	Comment
Marzena Bielecka	PLN	28 000	2011-03-31	
Krzysztof Cichocki	PLN	20 000	2011-03-31	
Mirosław Gronicki	PLN	20 000		
Colin Kingsnorth		-		
Wiesław Oleś	PLN	20 000	2011-03-31	
Wiesław Rozłucki		-		

- The remuneration paid to Board Members in 2010 for consulting services for the Celtic Group

Name	CCY	Amount
Marzena Bielecka	PLN	60 000
Krzysztof Cichocki	PLN	-
Mirosław Gronicki	PLN	-
Colin Kingsnorth	PLN	-
Wiesław Oleś	PLN	199 274
Wiesław Rozłucki	PLN	-



### **18. NUMBER OF SHARES IN POSSESSION OF THE MANAGEMENT AND SUPERVISORY BOARD**

Mr. Christopher Bruce, Member of the Board of the Company currently holds 37,949 shares of the Company Series B (shares representing 0.11% of share capital and giving 0.11% of the votes at the General Meeting of the Company) constitutes a change to the previous state of 499 shares.

## **19. AGREEMENTS CHANGING OWNERSHIP STRUCTURE**

According to the best of our knowledge there are no agreements, which could result in future the proportions of shares held by existing shareholders..

**20. CONSOLIDATED - THE STRUCTURE OF ASSETS AND LIABILITIES BY LIQUIDITY**

Structure of the Group's assets at 31 December 2010 and changes compared with the end of 2009.

	31 December 2010	31 December 2009	Percentage of Assets	Change 2010/2009
<b>Non-current Assets</b>				
Investment property	754 216	861 876	79,2%	-14,3%
Other fixed assets	1 067	1 224	0,1%	-14,7%
Intangible assets excluding goodwill	321	513	0,0%	-59,8%
Investments in subsidiaries	34	-	0,0%	100,0%
Goodwill	49 504	51 353	5,2%	-3,7%
Deferred income tax assets	7 884	21 639	0,8%	-174,5%
Long term receivables	553	-	0,1%	100,0%
	<b>813 579</b>	<b>936 605</b>	<b>85,5%</b>	<b>-15,1%</b>
<b>Current Assets</b>				
Inventory	76 298	93 298	8,0%	-22,3%
Trade and other receivables	23 046	15 526	2,4%	32,6%
Income tax receivables	1 526	849	0,2%	44,4%
Cash and cash equivalents	37 306	50 119	3,9%	-34,3%
	<b>138 176</b>	<b>159 792</b>	<b>14,5%</b>	<b>-15,6%</b>
<b>Total Assets</b>	<b>951 755</b>	<b>1 096 397</b>	<b>100,0%</b>	<b>-15,2%</b>

The structure of equity and liabilities of the Group as at 31 December 2010 and changes compared with the end of 2009.

	As at		Percentage of Assets	Change 2010/2009
	31 December 2010	31 December 2009		
<b>Capital and reserves attributable to the company's shareholders</b>				
Share Capital	3 483	1 197 085	0,4%	-34269,4%
Translation reserve	(8 946)	58 125	-0,9%	749,7%
Accumulated Profits (Losses)	830 941	(480 320)	87,3%	157,8%
<b>Total Equity</b>	<b>825 478</b>	<b>774 890</b>	<b>86,7%</b>	<b>6,1%</b>
<b>Long term liabilities</b>				
Trade and other payables	134	1 532	0,0%	-1043,3%
Borrowings including finance leases	78 173	84 577	8,2%	-8,2%
Deferred income tax liabilities	25 449	130 264	2,7%	-411,9%
	<b>103 756</b>	<b>216 373</b>	<b>10,9%</b>	<b>-108,5%</b>
<b>Short term liabilities</b>				
Trade and other payables	18 725	16 954	2,0%	9,5%
Current income tax liabilities	712	321	0,1%	54,9%
Borrowings including finance leases	3 084	87 859	0,3%	-2748,9%
	<b>22 521</b>	<b>105 134</b>	<b>2,4%</b>	<b>-366,8%</b>
<b>Total Equity and Liabilities</b>	<b>126 277</b>	<b>321 507</b>	<b>13,3%</b>	<b>-154,6%</b>



## VI. MANAGEMENT BOARD STATEMENT



### VI. STATEMENTS OF THE MANAGEMENT BOARD

WARSAW, 29 APRIL 2010

The Management Board confirms that the consolidated financial statements of the Group Celtic Property Developments SA ("Group") for the year ended 31 December 2010 and comparative figures have been prepared in accordance with applicable accounting principles (IFRS) and give a true and fair financial and asset situation of the Group and its financial results and annual report activities of the Group includes the true situation of the achievements and the situation of the Group including the threats and risks.

The Management Board confirms that the entity authorized to audit the annual consolidated financial statements was selected in accordance with the law, both the entity and the auditors who audited meet the conditions required by law to issue an independent opinion on the audited annual consolidated financial statements in accordance with applicable regulations and professional standards.

Financial statements for 2010 shall be reviewed and audited by audit firm PricewaterhouseCoopers. z o. o. based in Warsaw. The remuneration of the auditor for the year ended 31.12.2010 is 370 thousand. PLN, of which 280 thousand PLN for the examination of the consolidated annual report. The agreement was concluded on 13.12.2010. For 2009 a contract for the audit was concluded February 20, 2010, and amounted to PLN 349 thousand, of which 280 thousand PLN was for the audit.

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**ANDREW MORRISON SHEPHERD**  
PRESIDENT OF THE BOARD

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**ALED RHYS JONES**  
MEMBER OF THE BOARD

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**CHRISTOPHER BRUCE**  
MEMBER OF THE BOARD

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**ELŻBIETA DONATA WICKOWSKA**  
MEMBER OF THE BOARD



## VII. AUDITORS' OPINION



**VI. OPINION OF INDEPENDENT AUDITOR**



<b>TRANSLATORS' EXPLANATORY NOTE</b>
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<p>The following document is a free translation of the registered auditor's opinion and report of the below-mentioned Polish Company. In Poland statutory accounts must be prepared and presented in accordance with Polish legislation and in accordance with the accounting principles and practices generally used in Poland.</p>
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<p>The accompanying translated report has not been reclassified or adjusted in any way to conform to accounting principles generally accepted in countries other than in Poland, but certain terminology current in Anglo-Saxon countries has been adopted to the extent practicable. In the event of any discrepancy in interpreting the terminology, the Polish version is binding.</p>
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## **Independent Registered Auditor's Opinion**

### **To General Shareholders' Meeting and the Supervisory Board of Celtic Property Developments S.A.**

We have audited the accompanying consolidated financial statements of the Celtic Property Developments S.A. (hereinafter called "the Group"), of which Celtic Property Developments S.A. is the parent company (hereinafter called "the Parent Company"), with its registered office in Warsaw, Rondo ONZ 1, which comprise:

- (a) the consolidated statement of financial position as at 31 December 2010, showing total assets and total liabilities & equity of PLN 951,755 thousand;
- (b) the consolidated statement of comprehensive income for the period from 1 January to 31 December 2010, showing a total comprehensive income of PLN 65,077 thousand;
- (c) the consolidated statement of changes in equity for the period from 1 January to 31 December 2010, showing an increase in equity of PLN 50,588 thousand;
- (d) the consolidated statement of cash flows for the period from 1 January to 31 December 2010, showing a net decrease in cash and cash equivalents of PLN 12,813 thousand;
- (e) additional information on adopted accounting policies and other explanatory notes.

The Management Board of the Parent Company is responsible for preparing the consolidated financial statements and a Directors' Report for the Group in accordance with the applicable regulations.

The Management Board and members of the Supervisory Board of the Parent Company are required to ensure that the financial statements and the Director's Report meets the requirements set out in the Accounting Act of 29 September 1994 (uniform text, *Journal of Laws* of 2009, No. 152, item 1223 with further amendments, hereinafter referred to as "the Act").

Our responsibility was to express an opinion on the consolidated financial statements based on our audit.

We conducted our audit in accordance with the following:

- (a) the provisions of Chapter 7 of the Act;
- (b) national standards of auditing issued by the National Chamber of Registered Auditors.

## **Independent Registered Auditor's Opinion**

### **To General Shareholders' Meeting and the Supervisory Board of Celtic Property Developments S.A. (cont.)**

Our audit was planned and performed to obtain reasonable assurance that the consolidated financial statements were free of material misstatements and omissions. The audit included examining, on a test basis, accounting documents and entries supporting the amounts and disclosures in the consolidated financial statements. The audit also included an assessment of the accounting policies applied by the Group and significant estimates made in the preparation of the consolidated financial statements as well as an evaluation of the overall presentation thereof. We believe that our audit provided a reasonable basis for our opinion.

In our opinion, and in all material respects, the accompanying consolidated financial statements:

- (a) have been prepared in accordance with the applicable accounting principles (policies) on the basis of properly maintained consolidation documentation;
- (b) comply in form and contents with the relevant laws applicable to the Group;
- (c) give a fair and clear view of the Group's financial position as at 31 December 2010 and of the results of its operations for the year then ended, in accordance with the International Financial Reporting Standards as adopted by the European Union.

The information in the Directors' Report for the year ended 31 December 2010 has been prepared in accordance with the provisions of the Decree of the Minister of Finance dated 19 February 2009 concerning the publication of current and periodic information by issuers of securities and the conditions of acceptance as equal information required by the law of other state, which is not a member state (*"the Decree"* – Journal of Laws No. 33, item 259) and is consistent with the information presented in the audited financial statements.

Conducting the audit on behalf of PricewaterhouseCoopers Sp. z o.o., Registered Audit Company No. 144:

Wojciech Maj

Key Registered Auditor  
No. 6128

Warsaw, 29 April 2011



# **Celtic Property Developments S.A. Group**

## **Report on the consolidated financial statements for the year ended 31 December 2010**

<b>TRANSLATORS' EXPLANATORY NOTE</b>
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<p>The following document is a free translation of the registered auditor's opinion and report of the above-mentioned Polish Company. In Poland statutory accounts must be prepared and presented in accordance with Polish legislation and in accordance with the accounting principles and practices generally used in Poland.</p>
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<p>The accompanying translated report has not been reclassified or adjusted in any way to conform to accounting principles generally accepted in countries other than Poland, but certain terminology current in Anglo-Saxon countries has been adopted to the extent practicable. In the event of any discrepancy in interpreting the terminology, the Polish language version is binding.</p>
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**Report on the audit of the consolidated financial statements  
To General Shareholders' Meeting and the Supervisory Board of Celtic  
Property Developments S.A.**

**This report contains 24 consecutively numbered pages and consists of:**

	<b>Page</b>
I. General information about the Group	2
II. Information about the audit	10
III. The Group's results and financial position	11
IV. Discussion of financial statement components	14
V. The independent registered auditor's statement	22
VI. Final notes and comments	24

**Celtic Property Developments S.A. Group**  
**Report on the consolidated financial statements**  
**as at and for the year ended 31 December 2010**

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**I. General information about the Group**

(a) Celtic Property Developments S.A. (the Parent Company) began operating on 23 February 2007. The Parent Company was formed on the basis of a Notarial Deed drawn up on 23 February 2007 at the Notary Public's Office of Dorota Mika in Cracow and registered with Rep. No. 863/2007. On 23 March 2007 the District Court in Warsaw, XII Business Department of the National Court Register entered the Parent Company into the Register of Businesses with the KRS number 0000277147. On 2 September 2010 the General Shareholders' Meeting adopted a resolution changing the Company's name from Poen S.A. to Celtic Property Developments S.A.

(b) On 23 August 2010 the National Court Register recorded cross-border merger of Celtic Property Developments Plc (Acquired Company, former parent company in Celtic Group) and Poen S.A. (Acquiring Company) by transfer of all assets and liabilities of the Acquired Company to the Acquirer in exchange for newly issued shares of Acquiring Company.

On 14 December 2010 the prospectus of Celtic Property Developments S.A. with its registered office in Warsaw was approved by Polish Financial Supervision Authority. The shares were registered in the National Depository of Securities ("KDPW") and on 23 December 2010 they entered the market in the continuous trading system (detailed description of the Company's listing on Warsaw Stock Exchange is included in point (h)).

(c) On 22 March 2007 the Parent Company was assigned a tax identification number (NIP) 677-22-86-258 for making tax settlements. On 6 March 2007 the Parent Company was assigned a REGON number 120423087 for statistical purposes.

(d) As at 31 December 2010, the Parent Company's registered share capital amounted to PLN 3,483,300 and consisted of 34,833,000 shares, each of PLN 0.10 par value. On 20 September 2010 Extraordinary General Shareholders' Meeting adopted resolution redeeming 765,043 shares, series B, each of PLN 0.10 par value. At the same time Extraordinary General Shareholders' Meeting adopted resolution decreasing the share capital of Celtic Property Developments S.A. from PLN 3,483,329.50 to PLN 3,406,825.20, that is by PLN 76,504.30.

(e) In the audited period, the Group's business activities comprised:

- Property development
- Asset management
- Leasing of the properties

(f) During the year, the following people were on the Parent Company's Management Board:

- Andrew Morrison Shepherd – Chairman of the Board from 28 August 2010
- Aled Rhys Jones – Board Member from 28 August 2010
- Christopher Bruce – Board Member from 28 August 2010
- Elżbieta Donata Wiczowska – Board Member from 28 August 2010
- Krzysztof Ryszard Dudek - Chairman of the Board to 28 August 2010

**Celtic Property Developments S.A. Group**  
**Report on the consolidated financial statements**  
**as at and for the year ended 31 December 2010**

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**I. General information about the Group (cont.)**

(g) The following people were on the Company's Supervisory Board during the financial year:

- Colin Kingsnorth – from 2 September 2010
- Wiesław Piotr Oleś – from 2 September 2010
- Marzena Beata Bielecka – from 2 September 2010
- Mirosław Jerzy Gronicki – from 2 September 2010
- Krzysztof Edward Cichocki – from 2 September 2010 to 3 March 2011
- Elżbieta Donata Wiczowska – to 27 August 2010
- Aled Rhys Jones – to 27 August 2010
- Andrew Morrison Shepherd - to 27 August 2010
- Iwona Ewa Makarewicz - to 2 September 2010
- Jarosław Szymański - to 2 September 2010

(h) After the financial year from 3 March 2011 Wiesław Rozłucki became a member of Supervisory Board.

# **Celtic Property Developments S.A. Group** **Report on the consolidated financial statements** **as at and for the year ended 31 December 2010**

## **I. General information about the Group (cont.)**

(i) As at 31 December 2010, Celtic Property Developments S.A. Group comprised the following entities:

Entity name	Nature of equity relationship (%) shareholding)	Consolidation method	Auditor	Type of opinion	Balance sheet date 31.12.2010
Celtic Property Developments S.A.	Parent Company	Acquisition accounting	PricewaterhouseCoopers Sp. z o.o.	unqualified	31 December 2010
Mandy Investment Sp. z o.o.	Subsidiary 100%	Acquisition accounting	Not applicable	Not applicable	31 December 2010
Lakia Enterprises Limited	Subsidiary 100%	Acquisition accounting	Not applicable	Not applicable	31 December 2010
Lakia Investments Sp. z o.o.	Subsidiary 100%	Acquisition accounting	PricewaterhouseCoopers Limited – registered in Cyprus	unqualified	31 December 2010
Darvest Investments Sp. z o.o.	Subsidiary 100%	Acquisition accounting	Not applicable	Not applicable	31 December 2010
Gaetan Investments Sp. z o.o.	Subsidiary 100%	Acquisition accounting	Not applicable	Not applicable	31 December 2010
Liliane Investments Sp. z o.o.	Subsidiary 100%	Acquisition accounting	PricewaterhouseCoopers Sp. z o.o.	unqualified	31 December 2010
Blaise Investments Sp. z o.o.	Subsidiary 100%	Acquisition accounting	Not applicable	Not applicable	31 December 2010
Robin Investments Sp. z o.o.	Subsidiary 100%	Acquisition accounting	Not applicable	Not applicable	31 December 2010
Devin Investments Sp. z o.o.	Subsidiary 100%	Acquisition accounting	Not applicable	Not applicable	31 December 2010
East Europe Property Financing AB	Subsidiary 100%	Acquisition accounting	PricewaterhouseCoopers AB – Registered in Sweden	(*)	31 December 2010
Hub Developments Ltd Sp. z o.o.	Subsidiary 100%	Acquisition accounting	Not applicable	Not applicable	31 December 2010
Elara Investments Sp. z o.o.	Subsidiary 100%	Acquisition accounting	Not applicable	Not applicable	31 December 2010
Celtic Investments Limited	Subsidiary 100%	Acquisition accounting	PricewaterhouseCoopers Limited – registered in Cyprus	unqualified	31 December 2010
Celtic Asset Management Sp. z o.o.	Subsidiary 100%	Acquisition accounting	Not applicable	Not applicable	31 December 2010
Gaston Investments Sp. z o.o.	Subsidiary 100%	Acquisition accounting	Not applicable	Not applicable	31 December 2010

**Celtic Property Developments S.A. Group**  
**Report on the consolidated financial statements**  
**as at and for the year ended 31 December 2010**

**I. General information about the Group (cont.)**

Entity name	Nature of equity relationship (%) shareholding)	Consolidation method	Auditor	Type of opinion	Balance sheet date 31.12.2010
Buffy Holdings No 1 Ltd	Subsidiary 100%	Acquisition accounting	PricewaterhouseCoopers Limited – registered in Cyprus	Unqualified	31 December 2010
Challange Eighteen Sp. z o.o.	Subsidiary 100%	Acquisition accounting	Not applicable	Not applicable	31 December 2010
Celtic Trade Park Kft	Subsidiary 100%	Acquisition accounting	Not applicable	Not applicable	31 December 2010
Tenth Planet doo	Subsidiary 100%	Acquisition accounting	Not applicable	Not applicable	31 December 2010
Celtic Property Developments Kft.	Subsidiary 100%	Acquisition accounting	Not applicable	Not applicable	31 December 2010
Celtic Italy	Subsidiary 100%	Acquisition accounting	Not applicable	Not applicable	31 December 2010
CAM Estates Ltd	Subsidiary 100%	Acquisition accounting	Not applicable	Not applicable	31 December 2010
Blaise Gaston Investments Sp. z o.o. Sp.k.	Challange Eighteen Sp. z o.o. 99% Gaston Investments Sp. z o.o. 1%	Acquisition accounting	Not applicable	Not applicable	31 December 2010
1/95 Gaston Investments Sp. z o.o. Sp.k.	Challange Eighteen Sp. z o.o. 99% Gaston Investments Sp. z o.o. 1%	Acquisition accounting	Not applicable	Not applicable	31 December 2010
2/124 Gaston Investments Sp. z o.o. Sp.k.	Challange Eighteen Sp. z o.o. 99% Gaston Investments Sp. z o.o. 1%	Acquisition accounting	Not applicable	Not applicable	31 December 2010
3/93 Gaston Investments Sp. z o.o. Sp.k.	Challange Eighteen Sp. z o.o. 99% Gaston Investments Sp. z o.o. 1%	Acquisition accounting	Not applicable	Not applicable	31 December 2010



**Celtic Property Developments S.A. Group**  
**Report on the consolidated financial statements**  
**as at and for the year ended 31 December 2010**

**I. General information about the Group (cont.)**

Entity name	Nature of equity relationship (%) shareholding	Consolidation method	Auditor	Type of opinion	Balance sheet date 31.12.2010
4/113 Gaston Investments Sp. z o.o. Sp.k	Challenge Eighteen Sp. z o.o. 99% Gaston Investments Sp. z o.o. 1%	Acquisition accounting	Not applicable	Not applicable	31 December 2010
5/92 Gaston Investments Sp. z o.o. Sp.k.	Challenge Eighteen Sp. z o.o. 99% Gaston Investments Sp. z o.o. 1%	Acquisition accounting	Not applicable	Not applicable	31 December 2010
6/150 Gaston Investments Sp. z o.o. Sp.k.	Challenge Eighteen Sp. z o.o. 99% Gaston Investments Sp. z o.o. 1%	Acquisition accounting	Not applicable	Not applicable	31 December 2010
7/120 Gaston Investments Sp. z o.o. Sp.k.	Challenge Eighteen Sp. z o.o. 99% Gaston Investments Sp. z o.o. 1%	Acquisition accounting	Not applicable	Not applicable	31 December 2010
8/126 Gaston Investments Sp. z o.o. Sp.k.	Challenge Eighteen Sp. z o.o. 99% Gaston Investments Sp. z o.o. 1%	Acquisition accounting	Not applicable	Not applicable	31 December 2010
9/151 Gaston Investments Sp. z o.o. Sp.k.	Challenge Eighteen Sp. z o.o. 99% Gaston Investments Sp. z o.o. 1%	Acquisition accounting	Not applicable	Not applicable	31 December 2010
10/165 Gaston Investments Sp. z o.o. Sp.k.	Challenge Eighteen Sp. z o.o. 99% Gaston Investments Sp. z o.o. 1%	Acquisition accounting	Not applicable	Not applicable	31 December 2010
11/162 Gaston Investments Sp. z o.o. Sp.k.	Challenge Eighteen Sp. z o.o. 99% Gaston Investments Sp. z o.o. 1%	Acquisition accounting	Not applicable	Not applicable	31 December 2010

**Celtic Property Developments S.A. Group**  
**Report on the consolidated financial statements**  
**as at and for the year ended 31 December 2010**

**I. General information about the Group (cont.)**

Entity name	Nature of equity relationship (%) shareholding)	Consolidation method	Auditor	Type of opinion	Balance sheet date 31.12.2010
12/132 Gaston Investments Sp. z o.o. Sp.k.	Challenge Eighteen Sp. z o.o. 99% Gaston Investments Sp. z o.o. 1%	Acquisition accounting	Not applicable	Not applicable	31 December 2010
13/155 Gaston Investments Sp. z o.o. Sp.k.	Challenge Eighteen Sp. z o.o. 99% Gaston Investments Sp. z o.o. 1%	Acquisition accounting	Not applicable	Not applicable	31 December 2010
14/119 Gaston Investments Sp. z o.o. Sp.k.	Challenge Eighteen Sp. z o.o. 99% Gaston Investments Sp. z o.o. 1%	Acquisition accounting	Not applicable	Not applicable	31 December 2010
15/167 Gaston Investments Sp. z o.o. Sp.k.	Challenge Eighteen Sp. z o.o. 99% Gaston Investments Sp. z o.o. 1%	Acquisition accounting	Not applicable	Not applicable	31 December 2010
16/88 Gaston Investments Sp. z o.o. Sp.k.	Challenge Eighteen Sp. z o.o. 99% Gaston Investments Sp. z o.o. 1%	Acquisition accounting	Not applicable	Not applicable	31 December 2010
17/110 Gaston Investments Sp. z o.o. Sp.k.	Challenge Eighteen Sp. z o.o. 99% Gaston Investments Sp. z o.o. 1%	Acquisition accounting	Not applicable	Not applicable	31 December 2010
18 Gaston Investments Sp. z o.o. Sp.k.	Challenge Eighteen Sp. z o.o. 99% Gaston Investments Sp. z o.o. 1%	Acquisition accounting	Not applicable	Not applicable	31 December 2010
19/97 Gaston Investments Sp. z o.o. Sp.k.	Challenge Eighteen Sp. z o.o. 99% Gaston Investments Sp. z o.o. 1%	Acquisition accounting	Not applicable	Not applicable	31 December 2010

**Celtic Property Developments S.A. Group**  
**Report on the consolidated financial statements**  
**as at and for the year ended 31 December 2010**

**I. General information about the Group (cont.)**

Entity name	Nature of equity relationship (% shareholding)	Consolidation method	Auditor	Type of opinion	Balance sheet date 31.12.2010
20/140 Gaston Investments Sp. z o.o. Sp.k.	Challange Eighteen Sp. z o.o. 99% Gaston Investments Sp. z o.o. 1%	Acquisition accounting	Not applicable	Not applicable	31 December 2010
Belise Investments Sp. z o.o.	Subsidiary 100%	Acquisition accounting	Not applicable	Not applicable	31 December 2010

(\*) As at the date of issuing this report, the audit of the financial statements of the particular company has not been finalized and the opinion was not issued.

**Celtic Property Developments S.A. Group**  
**Report on the consolidated financial statements**  
**as at and for the year ended 31 December 2010**

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**I. General information about the Group (cont.)**

- (j) As of 31 December 2010 the Parent Company is an issuer of securities admitted for trading on the Warsaw Stock Exchange. On 14 December 2010, the prospectus of Celtic Property Developments S.A. with its registered office in Warsaw was approved. On 17 December 2010 the Board of KDPW granted to the Company status of participant of KDPW, type ISSUER, registered 24,068,252 Company's ordinary shares, series B with a nominal value of PLN 0.10 each and marked them with code PLCELPD00013. Three days later, the shares were admitted to trading on the parallel market. The shares were registered in the National Depository and on 23 December 2010 they entered the market in the continuous trading system. In accordance with the Accounting Act the Parent Company prepares its consolidated financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. The financial statements of Celtic Group for previous year prepared by Celtic Property Developments Plc registered in British Virgin Islands were in accordance with IFRSs as adopted by the European Union.

**Celtic Property Developments S.A. Group**  
**Report on the consolidated financial statements**  
**as at and for the year ended 31 December 2010**

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**II. Information about the audit**

- (a) PricewaterhouseCoopers Sp. z o.o. was appointed registered auditor to the Group by Resolution No. I/12/2010 of the Supervisory Board of Celtic Property Developments S.A. passed on 15 December 2010 in accordance with paragraph 11 of the Company's Memorandum of Association.
- (b) PricewaterhouseCoopers Sp. z o.o. and the key registered auditor conducting the audit are independent of the Group entities within the meaning of art. 56, clause 2-4 of the Act on registered auditors and their council, entities entitled to provide audit of financial statements and public supervision of 7 May 2010 (Journal of Laws 2009, No. 77, item 649).
- (c) The audit was conducted in accordance with an agreement signed on 13 December 2010 in the period from:
  - interim audit from 15 December 2010 to 23 December 2010;
  - final audit from 7 February 2011 to 29 April 2011.

**Celtic Property Developments S.A. Group**  
**Report on the consolidated financial statements**  
**as at and for the year ended 31 December 2010**

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**III. The Group's results and financial position**

- The observations below are based on knowledge obtained during the audit of the consolidated financial statements.
- The consolidated financial statements do not take account of inflation. The consumer price index (on a December to December basis) amounted to 3.1 % in the audited year (3.5% in 2009).
- Celtic Property Developments S.A. is the Parent Company of the Group which, in the audited year, comprised 44 subsidiaries (including 44 consolidated subsidiaries). In the year before the audited year the Group comprised 26 subsidiaries (including 26 consolidated subsidiaries). Changes in the Group's structure and their impact on the consolidated financial statements for the year ended 31 December 2010 were described in Additional notes and explanations to the consolidated financial statements no. 2.2, 26 and 27.
- During the audited year due to the restructuring process the Parent Company of the Celtic Group has changed. On 23 August 2010, the National Court Register recorded cross-border merger of Celtic Property Developments Plc (Acquired Company, former parent company in Celtic Group) and Poen S.A. (Acquiring Company) by transfer of all assets and liabilities of the Acquired Company to the Acquirer in exchange for newly issued shares of Acquiring Company.
- Shareholders of Celtic Property Developments Plc became, after the redemption of company's shares, shareholders of Celtic Property Developments S.A. having the same stake in Celtic Property Developments S.A. and in the total number of votes at the General Meeting of Celtic Property Developments SA, which they had in Celtic Property Developments Plc at the date of the merger. As a result Celtic Property Developments S.A. became the parent company of the Celtic Group.
- The described change was considered as restructuring of the Group's operations and was not accounted for in the consolidated financial statements as business combination. Thus it did not influence the value of consolidated net assets of the Group. The change of the parent company impacted the structure of the Group's equity. Share capital of Celtic Property Developments Plc was replaced with the share capital of Celtic Property Developments S.A. that constituted Group's share capital after the merger. The effects of described change were recognized in the retained earnings. The impact of the restructuring on the consolidated financial statements of Celtic Property Developments S.A. as at 31 December 2010 was described in Note 26 of Additional notes and explanations to the consolidated financial statements.
- One of the consequences of the merger of Celtic Property Developments Plc and Celtic Property Developments S.A. was a change of the parent company in the Group, and thus the change of presentation currency of the consolidated financial statements of Celtic Group from EUR to PLN. The influence of changes of the presentation currency on the consolidated financial statements of Celtic Property Developments S.A. as at 31 December 2010 was described in Note 2.4 of Additional notes and explanations to the consolidated financial statements.



**Celtic Property Developments S.A. Group**  
**Report on the consolidated financial statements**  
**as at and for the year ended 31 December 2010**

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**III. The Group's results and financial position (cont.)**

The factors described below had a significant impact on the Group's results of operations and on its financial position as at the balance sheet date.

- As at the end of the financial year, the Group's assets amounted to PLN 951,755 thousand. During the year, total assets decreased by PLN 144,642 thousand, i.e. by 13%. The consolidated statement of comprehensive income for the year ended 31 December 2010 showed total comprehensive income of PLN 65,077 thousand. It was generated mainly from release of provisions for deferred tax liabilities, in the amount of PLN 71,633 thousand, due to increase of the tax value of properties that were contributed in-kind to new subsidiaries during 2010.
- The decrease of the carrying value of investment properties by PLN 107,660 thousand from PLN 861,876 thousand as at the end of the previous year to PLN 754,216 thousand as at the end of the audited year resulted mainly from the sale of properties in the amount of PLN 131,050 thousand.
- The value of inventories as at the end of the audited year amounted to PLN 76,298 thousand, which means a decrease in comparison to previous year by PLN 17,000 thousand. Inventories comprised mainly goods for resale and work in progress – position related to a property under construction named "Iris" (previously "Mokotów Plaza II"). Finished goods comprised properties for sale in the ordinary course of business.
- Operations of the Group were financed mainly by equity and non-current liabilities. Non-current liabilities decreased from PLN 216,373 thousand as at 31 December 2009 to PLN 103,756 thousand as at balance sheet date. The current liquidity ratio was at the level of 6.1 as at 31 December 2010 (in comparison to 1.5 in previous year) while quick ratio amounted to 2.7 (in comparison to 0.6 in previous year).
- Current liabilities amounted to PLN 22,521 thousand and decreased by PLN 82,613 thousand in comparison to previous year mainly due to decrease of borrowings.
- Due to the changes of liabilities structure, the level of gearing ratio improved from 29% as at 31 December 2009 to 13% as at 31 December 2010.
- The Group's revenues in the audited year decreased in comparison to previous year by PLN 15,621 thousand to the amount of PLN 46,616 thousand, i.e. by 25%. It mainly resulted from decrease in the sales of inventory by PLN 25,084 thousand which was partially compensated with an increase of revenues from asset management services by PLN 14,109 thousand.
- The costs of inventories and services sold decreased in comparison to previous year by 43% to level of PLN 24,158 thousand. Due to lower sale costs the Group improved its gross profit by PLN 2,491 thousand to the level of PLN 22,458 thousand. The net profit margin amounted to 176% and stayed at the similar level as in previous year.
- During the audited year the Group noted a significant decrease of financial costs in comparison to previous year (from PLN 11,494 thousand in 2009 to PLN 6,075 thousand in the audited year). The main reason of such a decrease was lower interest expenses as the Group sold a subsidiary with its borrowings in 2010.

**III. The Group's results and financial position (cont.)**

- Group's profit for the year ended 31 December 2010 included the amount of PLN 80,3 millions that resulted mainly from the fact that Challenge Eighteen Sp. z o.o., the owner of investment properties located in Ursus, contributed in-kind particular Ursus plots to its twenty newly created subsidiaries (Limited Partnership). Due to the contribution-in-kind the tax value of the properties increased, and as a consequence deferred tax liabilities related to the contributed properties decreased.

**Celtic Property Developments S.A. Group**  
**Report on the consolidated financial statements**  
**as at and for the year ended 31 December 2010**

**IV. Discussion of consolidated financial statement components**

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION as at 31 December 2010**

	Note	31.12.2010 PLN'000	31.12.2009 PLN'000	Change PLN'000	Change (%)	31.12.2010 Structure (%)	31.12.2009 Structure (%)
<b>ASSETS</b>							
<b>Non-current assets</b>							
Investment property	1	754 216	861 876	(107 660)	(12.5)	79.3	78.6
Property, plant and equipment		1 067	1 224	(157)	(12.8)	0.1	0.1
Intangible assets, excluding goodwill		321	513	(192)	(37.4)	0.0	0.0
Non-current financial assets in subsidiaries not consolidated		34	0	34	-	0.0	0.0
Goodwill		49 504	51 353	(1 849)	(3.6)	5.2	4.7
Deferred income tax assets		7 884	21 639	(13 755)	(63.6)	0.8	2.0
Non-current receivables		553	0	553	-	0.1	0.0
		<u>813 579</u>	<u>936 605</u>	<u>(123 026)</u>	<u>(13.1)</u>	<u>85.5</u>	<u>85.4</u>
<b>Current assets</b>							
Inventories	2	76 298	93 298	(17 000)	(18.2)	8.0	8.5
Trade and other receivables	3	23 046	15 526	7 520	48.4	2.4	1.4
Current income tax receivables		1 526	849	677	79.7	0.2	0.1
Cash and cash equivalents	4	37 306	50 119	(12 813)	(25.6)	3.9	4.6
		<u>138 176</u>	<u>159 792</u>	<u>(21 616)</u>	<u>(13.5)</u>	<u>14.5</u>	<u>14.6</u>
<b>Total assets</b>		<b><u>951 755</u></b>	<b><u>1 096 397</u></b>	<b><u>(144 642)</u></b>	<b><u>(13.2)</u></b>	<b><u>100.0</u></b>	<b><u>100.0</u></b>

**Celtic Property Developments S.A. Group**  
**Report on the consolidated financial statements**  
**as at and for the year ended 31 December 2010**

**IV. Discussion of consolidated financial statement components (cont.)**

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION as at 31 December 2010 (cont.)**

	Note	31.12.2010 PLN'000	31.12.2009 PLN'000	Change PLN'000	Change (%)	31.12.2010 Structure (%)	31.12.2009 Structure (%)
<b>EQUITY</b>							
Share capital	5	3 483	1 197 085	(1 193 602)	(99.7)	0.4	109.2
Translation reserve		(8 946)	58 125	(67 071)	(115.4)	(1.0)	5.3
Retained earnings/(accumulated losses)		830 941	(480 320)	1 311 261	(273.0)	87.3	(43.8)
		825 478	774 890	50 588	6.5	86.7	70.7
<b>LIABILITIES</b>							
<b>Long-term liabilities</b>							
Trade and other payables		134	1 532	(1 398)	(91.3)	0.0	0.1
Borrowings, including financial lease	6	78 173	84 577	(6 404)	(7.6)	8.2	7.7
Deferred income tax liabilities	6	25 449	130 264	(104 815)	(80.5)	2.7	11.9
		103 756	216 373	(112 617)	(52.0)	10.9	19.7
<b>Current liabilities</b>							
Trade and other payables	7	18 725	16 954	1 771	10.4	2.0	1.5
Current income tax payable		712	321	391	121.8	0.1	0.0
Borrowings, including financial lease	7	3 084	87 859	(84 775)	(96.5)	0.3	8.1
		22 521	105 134	(82 613)	(78.6)	2.4	9.6
		126 277	321 507	(195 230)	(60.7)	13.3	29.3
		951 755	1 096 397	(144 642)	(13.2)	100.0	100.0
<b>Total equity and liabilities</b>							

**Celtic Property Developments S.A. Group**  
**Report on the consolidated financial statements**  
**as at and for the year ended 31 December 2010**

**IV. Discussion of consolidated financial statement components (cont.)**

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**  
**for the year ended 31 December 2010**

	Note	2010 PLN'000	2009 PLN'000	Change PLN'000	Change (%)	2010 Structure (%)	2009 Structure (%)
Sales	15	46 616	62 237	(15 621)	(25.1)	71.6	68.4
Cost of sales	16	(24 158)	(42 270)	18 112	(42.8)	(37.1)	(46.4)
<b>Gross profit</b>		<b>22 458</b>	<b>19 967</b>	<b>2 491</b>	<b>12.5</b>	<b>34.5</b>	<b>22.0</b>
Administrative expenses - property related	17	(29 022)	(26 446)	(2 576)	9.7	(44.6)	(29.1)
Administrative expenses - other	19	(20 961)	(16 909)	(4 052)	24.0	(32.2)	(18.6)
Selling and marketing expenses		(957)	(361)	(596)	165.1	(1.5)	(0.4)
Other income	18	2 840	11 784	(8 944)	(75.9)	4.4	13.0
Net gain from fair value adjustments on investment property	5	16 077	146 436	(130 359)	(89.0)	24.7	161.0
Net gain on sales of subsidiaries	27	(5 325)	3 661	(8 986)	(245.5)	(8.2)	4.0
<b>Operating profit (loss)</b>		<b>(14 890)</b>	<b>138 132</b>	<b>(153 022)</b>	<b>(110.8)</b>	<b>(22.9)</b>	<b>151.9</b>
Finance income	20	23 965	14 452	9 513	65.8	36.8	15.9
Finance costs	20	(6 075)	(11 494)	5 419	(47.1)	(9.3)	(12.7)
<b>Profit before income tax</b>		<b>3 000</b>	<b>141 090</b>	<b>(138 090)</b>	<b>(97.9)</b>	<b>4.6</b>	<b>155.1</b>
Income tax expense		78 847	(32 039)	110 886	(346.1)	121.2	(35.2)
<b>Net profit</b>		<b>81 847</b>	<b>109 051</b>	<b>(27 204)</b>	<b>(24.9)</b>	<b>125.8</b>	<b>119.9</b>
Currency translation adjustment		(16 770)	(18 109)	1 339	(7.4)	(25.8)	(19.9)
<b>Comprehensive income</b>		<b>65 077</b>	<b>90 942</b>	<b>(25 865)</b>	<b>(28.4)</b>	<b>100.0</b>	<b>100.0</b>

## Celtic Property Developments S.A. Group

### Report on the consolidated financial statements as at and for the year ended 31 December 2010

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#### IV. Discussion of consolidated financial statement components (cont.)

##### Selected ratios characterizing the Group's financial position and results

The following ratios characterize the Group's activities, results of operations during the audited year and its financial position as at the balance sheet date compared with previous year:

	2010	2009
Asset ratios		
- receivables turnover	87 days	37 days
- inventory turnover	3 156 days	1 201 days
Profitability ratios		
- net profit margin	176%	175%
- gross margin	(46)%	(32)%
- return on capital employed	10%	15%
Liability ratios		
- gearing ratio	13%	29%
- payables turnover	36 days	99 days
	<b>31.12.2010</b>	<b>31.12.2009</b>
Liquidity ratios		
- current ratio	6,1	1,5
- quick ratio	2,7	0,6

**IV. Discussion of consolidated financial statement components (cont.)**

**Consolidated statement of financial positions at 31 December 2010**

**1. Investment properties**

As at 31 December 2010 investment properties amounted to PLN 754,216 thousand and decreased by PLN 107,660 thousand in comparison to the previous year. It resulted mainly from the sale of the subsidiary Mokotów Plaza, together with its property amounted to PLN 131,050 thousand as well as gain from fair value adjustments on investment properties of PLN 16,077 thousand.

**2. Inventories**

As at 31 December 2010 inventories amounted to PLN 76,298 thousand and decreased by PLN 17,000 thousand in comparison to the previous year. Inventories comprised mainly finish goods and good for resale (mainly residential projects for sale in the ordinary course of business) with a total amount of PLN 47,309 thousand and work in progress of PLN 28,989 thousand.

**3. Trade and other receivables**

Current trade and other receivables amounted to PLN 23,046 thousand as at the balance sheet date and comprised mainly trade receivables in the amount of PLN 7,880 thousand, other receivables in the amount of PLN 5,620 thousand and prepayments in the amount of PLN 4,869 thousand.

Increase of current receivables in comparison to the previous period resulted mainly from the growth of other receivables and related to the sale of the Parent Company's shares to one of its shareholders.

**4. Cash and cash equivalents**

Cash and cash equivalents amounted to PLN 37,306 thousand as at the balance sheet date and decreased by PLN 12,813 thousand in comparison to the previous period. The cash and cash equivalents comprised cash on bank accounts and cash in hand.

**5. Share capital of the Parent Company**

In the audited year the registered share capital changed and amounted to PLN 3,483 thousand.



**Celtic Property Developments S.A. Group**  
**Report on the consolidated financial statements**  
**as at and for the year ended 31 December 2010**

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**IV. Discussion of consolidated financial statement components (cont.)**

As at 31 December 2010, the Company's shareholders were: (\*)

Stakeholder	No. of shares	Nominal value of shares	Type of shares	% of vote rights
Cooperatieve Laxey Worldwide W.A.	10 082 930	1 008 293	<i>ordinary</i>	29,60%
Horseguard Trading Ltd	6 020 615	602 061	<i>ordinary</i>	17,67%
The Value Catalyst Fund plc	4 490 475	449 047	<i>ordinary</i>	13,18%
QVT Fund LP	3 843 635	384 364	<i>ordinary</i>	11,28%
LP Value Ltd	2 198 450	219 845	<i>ordinary</i>	6,45%
LP Alternative Fund LP	2 193 931	219 393	<i>ordinary</i>	6,44%
Shareholders with stakes under 5%	5 238 216	523 822	<i>ordinary</i>	15,38%
<b>Total Soares</b>	<b>34 068 252</b>	<b>3 406 825</b>		<b>100%</b>

The above shareholder's structure is based on the number of shares registered as of date of approval of the Prospectus i.e. 13 December 2010. It does not comprise 765,043 shares, series B, which were redeemed after registering the decrease of share capital on 14 January 2011.

**6. Non-current liabilities**

Non-current liabilities amounted to PLN 103,756 thousand as at the balance sheet date and decreased by PLN 112,617 thousand in comparison to the previous period i.e. by 52%.

As at 31 December 2010 non-current liabilities comprised mainly bank credits and leasing liabilities in the total amount of PLN 78,173 thousand. Decrease of non-current liabilities resulted mainly from decrease of deferred tax liabilities that as at the balance sheet date amounted to PLN 25,449 thousand which indicate a decrease by PLN 104,815 thousand i.e. by 81%.

**7. Current liabilities**

Current liabilities amounted to PLN 22,521 thousand as at the balance sheet date and decreased by PLN 82,613 thousand in comparison to the previous period i.e. by 79%.

As at 31 December 2010 current liabilities comprised mainly accrued liabilities in the amount of PLN 14,013 thousand as well as bank credits in the amount of PLN 3,017 thousand. Other material positions included in current liabilities related to trade and other liabilities that amounted to respectively PLN 2,093 thousand and PLN 1,933 thousand.

#### **IV. Discussion of consolidated financial statement components (cont.)**

Decrease of current liabilities during the reporting period resulted mainly from decreased of bank credits (total decrease of short-term and long-term credits of PLN 91,179 thousand) as a consequence of sale of shares in one of the subsidiaries Mokotów Plaza Sp. z o.o.

#### **8. Sales and operating expenses**

Sales revenues generated in the audited year amounted to PLN 46,616 thousand and decreased in comparison to previous year by 25%.

The revenues were generated mainly from:

- Asset management services, that in the audited period amounted to PLN 20,491 thousand (in 2009: PLN 6,382 thousand)
- Sale of inventory, that in 2010 amounted to PLN 11,326 thousand (2009: PLN 36,410 thousand)
- Rent of storage and office areas that in 2010 amounted to PLN 10,300 thousand decreased by PLN 2,504 thousand compared to 2009, i.e. by 20%. Revenues from leasing of office area were denominated in EUR and the decrease resulted mainly from the fluctuations of the exchange rate EUR / PLN during the audited period.

Cost of sales was mainly comprised of:

- Cost of provided services in the amount of PLN 8,763 thousand related mainly to cost of advisory services of PLN 6,571 thousand
- Cost of inventories sold that represented the book value of the inventories as at the selling date and amounted to PLN 9,674 thousand, compared to PLN 35,561 in previous period.

#### **9. Net gain from fair value adjustments on investment property**

Net gain from the fair value adjustment on investment properties amounted to PLN 16,077 thousand, compared to PLN 146,436 thousand in 2009. The valuation reports were prepared by the independent international valuer, based on current market prices for similar contracts, where possible.

#### **10. Finance cost and income**

During the audited year the profit on financial activity amounted to PLN 17,890 thousand, compared to PLN 2,958 thousand in the previous period. Fluctuations of result on financial activity resulted mainly from changes in exchange rates of foreign currencies (mainly EUR). Additionally, the Group's financial activity during the audited period was impacted by preferential dividends received for project management of Spazio Industriale and decrease of borrowing costs related to the sale of bank credit (as a consequence of sale of shares in Mokotów Plaza).

**IV. Discussion of consolidated financial statement components (cont.)**

Finance income of the Group for the audited period amounted to PLN 23,965 thousand and increased by PLN 9,513 thousand in comparison to the previous period mainly as a result of exchange rate differences of PLN 18,074 thousand and received dividends of PLN 3,969 thousand.

Financial costs of the Group comprised mainly borrowing costs of PLN 3,161 thousand and interests on finance lease of PLN 2,214 thousand. Decrease of finance costs in comparison to 2009 resulted mainly from lower interest costs.

**Celtic Property Developments S.A. Group**  
**Report on the consolidated financial statements**  
**as at and for the year ended 31 December 2010**

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**V. The independent registered auditor's statement**

- (a) The Management Board of the Parent Company provided all the information, explanations, and representations required by us in the course of the audit and provided us with a representation letter confirming the completeness of the information included in the consolidation documentation and the disclosure of all contingent liabilities and post-balance-sheet events which occurred up to the date on which that letter was signed.
- (b) The scope of the audit was not limited.
- (c) The consolidation documentation was complete and accurate and it is stored in a manner ensuring its proper safeguarding.
- (d) The accounting policies and disclosures specified by the Parent Company's Management complied with the International Financial Reporting Standards as adopted by the European Union in all material respects. Changes to accounting policies and their implications were correctly disclosed in the notes to the consolidated financial statements.
- (e) The consolidation of equity items was carried out properly in all material respects.
- (f) The elimination of mutual balances (receivables and payables) and transactions (revenue and costs) of the consolidated entities were carried out in accordance with the IFRSs as adopted by the European Union in all material respects.
- (g) Eliminations of gains/losses unrealized by the consolidated entities included in the value of assets and in respect of dividends were conducted in accordance with the IFRSs as adopted by the European Union in all material respects.
- (h) The impact of the disposal or partial disposal of shares in subordinated entities was accounted for properly in all material respects.
- (i) The Notes to the consolidated financial statements present all the material information required by the IFRSs as adopted by the European Union.
- (j) The information in the Directors' Report for the year ended 31 December 2010 has been prepared in accordance with the provisions of the Decree of the Minister of Finance dated 19 February 2009 concerning the publication of current and periodic information by issuers of securities and the conditions of acceptance as equal information required by the law of other state, which is not a member state (Journal of Laws No. 33, item 259) and is consistent with the information presented in the audited financial statements.
- (k) The consolidated financial statements for the previous year were audited by PricewaterhouseCoopers Sp. z o.o. The independent registered auditor issued an unqualified opinion.

**Celtic Property Developments S.A. Group**  
**Report on the consolidated financial statements**  
**as at and for the year ended 31 December 2010**

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**V. The independent registered auditor's statement (cont.)**

- (l) As at 31 December 2009 Parent Company of the Group had a registered office in British Virgin Islands, and as at the date of signing of the consolidated financial statements for the year ended 31 December 2009 the Parent Company had its registered office in Cyprus. Thus, the Group had no obligation to either file the consolidated financial statements in National Court Register or to publish it in Monitor Polski B.

## **VI. Final notes and comments**

This report has been prepared in connection with our audit of the consolidated financial statements of the Celtic Property Developments S.A. Group, of which Celtic Property Developments S.A. with its registered office in Warsaw, Rondo ONZ 1 is the Parent Company. The audited consolidated financial statements comprised:

- (a) the consolidated statement of financial position as at 31 December 2010, showing total assets and total liabilities & equity of PLN 951,755 thousand;
- (b) the consolidated statement of comprehensive income for the period from 1 January to 31 December 2010, showing a total comprehensive income of PLN 65,077 thousand;
- (c) the consolidated statement of changes in equity for the period from 1 January to 31 December 2010, showing an increase in equity of PLN 50,588 thousand;
- (d) the consolidated statement of cash flows for the period from 1 January to 31 December 2010, showing a net decrease in cash and cash equivalents of PLN 12,813 thousand;
- (e) additional information on adopted accounting policies and other explanatory notes.

The consolidated financial statements were signed by the Management Board of the Parent Company on 29 April 2011. This report should be read in conjunction with the Independent Registered Auditor's Opinion to the General Shareholders' Meeting and the Supervisory Board of the Celtic Property Developments S.A. Group, signed on 29 April 2011, concerning the above-mentioned financial statements. The opinion is a general conclusion drawn from the audit and involves assessing the materiality of individual audit findings rather than being a sum of all the evaluations of individual consolidated financial statement components. This assessment takes account of the impact of the facts noted on the truth and fairness of the consolidated financial statements as a whole.

Conducting the audit on behalf of PricewaterhouseCoopers Sp. z o.o., Registered Audit Company No. 144:

Wojciech Maj

Key Registered Auditor  
No. 6128

Warsaw, 29 April 2011





## VIII. ANNUAL CONSOLIDATED FINANCIAL STATEMENT

Celtic Property Developments S.A.

**Consolidated financial statements**

for the year ended 31 December 2010

**Celtic Property Developments S.A.**
**Consolidated financial statements for the period from 1 January 2010 to 31 December 2010**


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**Consolidated financial statement**

Consolidated statement of comprehensive income	5
Consolidated statement of financial position	6
Consolidated statement of changes in equity	7
Consolidated cash flow statement	8
Notes to the consolidated financial statements	9
1 General information	9
1.1 Information about parent entity	9
1.2 Information about the Capital Group	10
2 Summary of significant accounting policies	11
2.1 Basis of preparation	11
2.2 Consolidation	17
2.3 Change in the Group structure	19
2.4 Foreign exchange translation	19
2.5 Investment property	21
2.6 Property, plant and equipment	21
2.7 Leases	22
2.8 Intangible assets, excluding goodwill	22
2.9 Goodwill	22
2.10 Impairment of non-financial assets	23
2.11 Financial assets	23
2.12 Inventories	23
2.13 Assets held for sale	24
2.14 Share capital	24
2.15 Trade payables	24
2.16 Borrowings	24
2.17 Borrowings costs	25
2.18 Deferred income tax	25
2.19 Employee benefits	25
2.20 Provisions	25
2.21 Revenue recognition	25
2.22 Expenses	26
2.23 Dividend distribution	26
2.24 Interest expenses	26
3 Financial risk management	27
3.1 Financial risk factors	27
3.2 Capital risk management	28
4 Critical accounting estimates and judgments	29
5 Investment properties	32
6 Fair value of securities	33
7 Goodwill	33
8 Trade and other receivables	33
9 Inventories	34
10 Cash and cash equivalents	35
11 Share capital	35
12 Trade and other payables	36
13 Borrowings (including finance lease)	36
14 Deferred income tax	38

**Celtic Property Developments S.A.****Consolidated financial statements for the period from 1 January 2010 to 31 December 2010**


---

15	Revenues	40
16	Cost of sales	40
17	Administrative expenses - property related	41
18	Other income	41
19	Administrative expenses - other	41
20	Finance income and costs	42
21	Income tax expense	42
22	Cash generated from operations	44
23	Contingencies	44
24	Contractual liabilities (commitments)	44
25	Related party transactions	45
26	Change of the parent company of the Group	46
27	Disposal of subsidiaries	46
28	Events after the balance sheet date	46
29	Dividend distribution	46
30	Earnings per share - basic and diluted	47
31	Reporting segments	47

## Celtic Property Developments S.A.

## Consolidated financial statements for the period from 1 January 2010 to 31 December 2010

(All amounts in PLN thousand unless otherwise stated)

## Consolidated property portfolio

## INVESTMENT PROPERTY (Note 6)

Property	Company	As at	
		31 December 2010	Fair value
Aquarius	Robin Investments		31 445
Viterra	Lakia Investments		31 603
Jana Kazimierza	Mandy Investments		25 742
Ursus	Blaise Gaston Investments		69 330
Ursus	Challange Eighteen		20 870
Ursus	1/95 Gaston Investments *)		48 070
Ursus	2/124 Gaston investments *)		42 430
Ursus	3/93 Gaston investments *)		43 340
Ursus	4/113 Gaston Investments *)		66 400
Ursus	5/92 Gaston Investments *)		47 550
Ursus	6/150 Gaston Investments *)		18 480
Ursus	7/120 Gaston Investments *)		21 020
Ursus	8/126 Gaston Investments *)		27 680
Ursus	9/151 Gaston Investments *)		7 270
Ursus	10/165 Gaston Investments *)		14 930
Ursus	11/162 Gaston Investments *)		13 510
Ursus	12/132 Gaston Investments *)		27 630
Ursus	13/155 Gaston Investments *)		23 160
Ursus	14/119 Gaston Investments *)		11 720
Ursus	15/167 Gaston Investments *)		9 720
Ursus	16/88 Gaston Investments *)		3 210
Ursus	17/110 Gaston Investments *)		22 250
Ursus	18 Gaston Investments *)		12 420
Ursus	19/97 Gaston Investments *)		11 370
Ursus	20/140 Gaston Investments *)		12 700
Łopuszańska	Devin Investments		59 206
Wolbórz	HUB Developments		2 490
Capitalised rights of perpetual usufruct of land			28 669
			<b>754 215</b>

\* investment properties belonged to Challange Eighteen as at 31 December 2009 and as at 31 December 2010 were valued assuming, that Group controlled the entire investment.

## INVENTORIES (Note 9)

Property	Company	As at	
		31 December 2010	
		Carrying amount	Fair value
IRIS (former Mokotów Plaza II)	Belise Investments	28 989	28 989
Magdalenka (Lesznawola)	Gaetan Investments	8 416	12 210
Koszykowa	Elara Investments	13 530	13 530
Wilanów	Liliane Investments	1 908	2 310
		<b>52 843</b>	<b>57 039</b>
Land in Risan	Tenth Planet	9 901	9 901
Villa in Donja Lastva	Tenth Planet	7 723	7 723
Land in Zagora	Tenth Planet	485	772
Apartament in Dobrota	Tenth Planet	1 188	1 188
Alsonemedi	Celtic Trade Park	4 158	4 158
		<b>23 455</b>	<b>23 742</b>
		<b>76 298</b>	<b>80 781</b>
Total fair value of property portfolio			<b>834 996</b>

## Celtic Property Developments S.A.

## Consolidated financial statements for the period from 1 January 2010 to 31 December 2010

(All amounts in PLN thousand unless otherwise stated)

## Consolidated statement of comprehensive income

		12 months ended	12 months ended
	Note	31 December 2010	31 December 2009
Revenue	15	46 616	62 237
Cost of sales	16	(24 158)	(42 270)
<i>Including: Costs of inventories sold</i>		<i>(9 674)</i>	<i>(35 561)</i>
<i>Inventory impairment</i>		<i>(5 721)</i>	<i>(5 222)</i>
<i>Cost of services sold</i>		<i>(8 763)</i>	<i>(1 487)</i>
<b>GROSS PROFIT</b>		<b>22 458</b>	<b>19 967</b>
Administrative expenses - property related	17	(29 022)	(26 446)
Administrative expenses - other	19	(20 961)	(16 909)
Selling and marketing expenses		( 957)	( 361)
Other income	18	2 840	11 784
Net gain from fair value adjustments on investment property	5	16 077	146 436
Net gain / (loss) on sale of subsidiaries	27	(5 325)	3 661
<b>OPERATING PROFIT (LOSS)</b>		<b>(14 890)</b>	<b>138 132</b>
Finance income	20	23 965	14 452
Finance costs	20	(6 075)	(11 494)
<b>PROFIT BEFORE INCOME TAX</b>		<b>3 000</b>	<b>141 090</b>
Income tax expense	21	78 847	(32 039)
<b>PROFIT FOR THE YEAR</b>		<b>81 847</b>	<b>109 051</b>
<b>OTHER COMPREHENSIVE INCOME</b>			
Currency translation adjustment		(16 770)	(18 109)
<b>TOTAL COMPREHENSIVE INCOME</b>		<b>65 077</b>	<b>90 942</b>
<b>Profit attributable to:</b>			
Equity holders of the Group		<b>81 847</b>	<b>109 051</b>
<b>Total comprehensive income attributable to:</b>			
Equity holders of the Group		<b>65 077</b>	<b>90 942</b>
<b>BASIC AND DILLUTED EARNINGS PER SHARE (PLN)</b>	30	2.36	3.13

Total comprehensive income for the period are entirely attributable to shareholders of the Group

\_\_\_\_\_  
 Andrew Morrison Shepherd  
*Chairman of the Board*

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 Aled Rhys Jones  
*Board Member*

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 Christopher Bruce  
*Board Member*

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 Elżbieta Donata Wiczowska  
*Board Member*



## Celtic Property Developments S.A.

## Consolidated financial statements for the period from 1 January 2010 to 31 December 2010

(All amounts in PLN thousand unless otherwise stated)

**Consolidated statement of financial position**

		As at	
	Note	31 December 2010	31 December 2009
<b>ASSETS</b>			
<b>Non-current assets</b>			
Investment properties	5	754 216	861 876
Property, plant and equipment		1 067	1 224
Intangible assets, excluding goodwill		321	513
Investment in subsidiaries		34	0
Goodwill	7	49 504	51 353
Deferred income tax assets	14	7 884	21 639
Long term receivables	8	553	0
		<b>813 579</b>	<b>936 605</b>
<b>Current assets</b>			
Inventory	9	76 298	93 298
Trade and other receivables	8	23 046	15 526
Current income tax receivables		1 526	849
Cash and cash equivalents	10	37 306	50 119
		<b>138 176</b>	<b>159 792</b>
<b>Total assets</b>		<b>951 755</b>	<b>1 096 397</b>
<b>EQUITY</b>			
<b>Capital and reserves attributable to the parent Company's equity holders</b>			
Share capital	11	3 483	1 197 085
Translation reserve		(8 946)	58 125
Retained earnings/(accumulated losses)		830 941	(480 320)
<b>Total equity</b>		<b>825 478</b>	<b>774 890</b>
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Trade and other payables	12	134	1 532
Borrowings, including finance leases	13	78 173	84 577
Deferred income tax liabilities	14	25 449	130 264
		<b>103 756</b>	<b>216 373</b>
<b>Current liabilities</b>			
Trade and other payables	12	18 725	16 954
Current income tax liabilities		712	321
Borrowings, including finance leases	13	3 084	87 859
		<b>22 521</b>	<b>105 134</b>
<b>Total liabilities</b>		<b>126 277</b>	<b>321 507</b>
<b>Total equity and liabilities</b>		<b>951 755</b>	<b>1 096 397</b>

\_\_\_\_\_  
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*Board Member*

Explanatory notes set out on pages from 1 to 48 comprise the part of these consolidated financial statements.

**Celtic Property Developments S.A.**
**Consolidated financial statements for the period from 1 January 2010 to 31 December 2010**

(All amounts in PLN thousand unless otherwise stated)

**Consolidated statement of changes in equity**

	Share capital CPD PLC	Share capital CPD SA/ POEN SA	Translation reserve	Retained earnings	Total
<b>Balance at 1 January 2009</b>	<b>1 200 563</b>	<b>0</b>	<b>76 234</b>	<b>(589 371)</b>	<b>687 426</b>
Own shares repurchased	(3 478)	0	0	0	(3 478)
	(3 478)	0	0	0	(3 478)
Currency translation differences	0	0	(18 109)	0	(18 109)
Profit for the year (restated)	0	0	0	109 051	109 051
Total comprehensive income	0	0	(18 109)	109 051	90 942
<b>Balance at 31 December 2009</b>	<b>1 197 085</b>	<b>0</b>	<b>58 125</b>	<b>(480 320)</b>	<b>774 890</b>

	Share capital CPD PLC	Share capital CPD SA/ POEN SA	Translation reserve	Retained earnings	Total
<b>Balance at 1 January 2010</b>	<b>1 197 085</b>	<b>0</b>	<b>58 125</b>	<b>(480 320)</b>	<b>774 890</b>
Own shares sold	3 478	0	0	0	3 478
Issuance of shares	0	3 483	0	0	3 483
Acquisition of own shares due to merger	0	500	0	0	500
Redemption of shares (registered)	0	( 500)	0	0	( 500)
Payment on account of redemption of shares (unregistered)	0	0	0	(17 967)	(17 967)
Change of the parent company	(1 200 563)	0	(50 301)	1 247 381	(3 483)
	(1 197 085)	3 483	( 50 301)	1 229 414	( 14 489)
Currency translation differences	0	0	(16 770)	0	(16 770)
Profit for the year	0	0	0	81 847	81 847
Total comprehensive income	0	0	(16 770)	81 847	65 077
<b>Balance at 31 December 2010</b>	<b>0</b>	<b>3 483</b>	<b>(8 946)</b>	<b>830 941</b>	<b>825 478</b>

Group has no minority shareholders. Entire equity is attributable to shareholders of the Group.

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*Chairman of the Board*

 Aled Rhys Jones  
*Board Member*

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*Board Member*

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*Board Member*

Explanatory notes set out on pages from 1 to 48 comprise the part of these consolidated financial statements.

## Celtic Property Developments S.A.

## Consolidated financial statements for the period from 1 January 2010 to 31 December 2010

(All amounts in PLN thousand unless otherwise stated)

## Consolidated cash flow statement

		12 months ended	12 months ended
	Note	31 December 2010	31 December 2009
<b>Cash flows from operating activities</b>			
Cash generated from operations	22	(23 444)	8 174
Interest paid		( 15)	(2 912)
Income tax paid		(1 624)	(2 093)
<b>Net cash generated from operating activities</b>		<b>(25 083)</b>	<b>3 169</b>
<b>Cash flows from investing activities</b>			
Capital expenditure on investment property		(8 787)	(24 670)
Purchases of property, plant and equipment		( 543)	( 550)
Purchases of subsidiaries		0	0
Proceeds from sale of subsidiaries		43 990	0
Purchases of shares in subsidiaries (excluded from consolidation)		( 34)	0
Repayment of loans granted		0	67
<b>Net cash used in investing activities</b>		<b>34 626</b>	<b>(25 153)</b>
<b>Cash flows from financing activities</b>			
Purchase of own shares		0	( 169)
Proceeds from borrowings		0	25 164
Repayments of borrowings		(4 389)	(17 965)
Share redemption		(17 967)	0
<b>Net cash used in financing activities</b>		<b>(22 356)</b>	<b>7 030</b>
<b>Net (decrease)/increase in cash and cash equivalents</b>		<b>(12 813)</b>	<b>(14 954)</b>
Cash and cash equivalents at beginning of the year		<b>50 119</b>	<b>65 073</b>
Exchange losses on cash and cash equivalents			
<b>Cash and cash equivalents at end of the year</b>		<b>37 306</b>	<b>50 119</b>

\_\_\_\_\_  
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\_\_\_\_\_  
 Elżbieta Donata Wiczowska  
*Board Member*

Explanatory notes set out on pages from 1 to 48 comprise the part of these consolidated financial statements.

## Celtic Property Developments S.A.

### Consolidated financial statements for the period from 1 January 2010 to 31 December 2010

(All amounts in PLN thousand unless otherwise stated)

## Additional notes and explanations to the consolidated financial statement

### 1 General information

#### 1.1. Information about a parent entity

##### *Information on Celtic Property Developments S.A. (current parent Company)*

Celtic Property Developments S.A. ("Company", "CPD") with its registered office in Warsaw (00-124), Rondo ONZ 1, was established on the basis of statute on 23 February 2007 (as Celtic Development Corporation S.A., then on 22 February 2008 the Company changed its name to Poen S.A.). On 23 March 2007 District Court in Cracow, XI Business Department of the National Court Register entered the Company into the Register of Businesses with the KRS number 0000277147.

On 2 September 2010 the General Shareholder's Meeting adopted a resolution changing the Company's name from Poen S.A. to Celtic Property Developments S.A.

The Company's core business (according to Company's articles of association) is holding activity, services for real estate market and head offices activities.

On 23 August 2010, the National Court Register recorded cross-border merger of former parent Company of the Group Celtic Property Developments Plc (Acquired Company) and Poen S.A. (Acquiring Company) by transfer of all assets and liabilities of the Acquired Company to the Acquirer in exchange for newly issued shares of Acquiring Company. The merger was processed based on the Merger Plan, which assumed the acquisition of Celtic Property Developments Plc by its 100% subsidiary - Poen S.A. As a result of the merger: (i) existing shareholders of Celtic Property Developments Plc became 100% shareholders of Poen S.A., furthermore (ii) Poen S.A. purchased from Celtic Property Developments Plc (by the general succession) its own shares with a purpose of redemption. Exchange ratio of Celtic Property Developments Plc shares to shares of Poen S.A., was determined at a level that did not cause changes in the ownership structure of Poen S.A.

The shareholders of Celtic Property Developments Plc became, after the redemption of company's own shares, the shareholders of Poen S.A. with the same stake in share capital of Poen S.A. and total number of voting rights at General Shareholders Meeting of Poen S.A., as they had in Celtic Property Developments Plc till the date of the merger.

As a result on 23 August 2010 Celtic Property Developments Plc ceased to exist, and Poen S.A. became parent company of the Group.

##### *Information on Celtic Property Developments Plc (previous parent Company - before merger)*

Celtic Property Developments Plc ("CPD Plc", "The Company") was incorporated in Jersey as The East Europe Development Fund Limited, on 20 December 1990. On 24 October 2006 the company moved to the British Virgin Islands and the name was changed to Celtic Property Developments S.A. on 1 November 2007. In February 2010, the Company has redomiciled again to Cyprus under the name Celtic Property Developments Plc. The Company's address till 22 February 2010 was Craigmuir Chambers, PO Box 71, Roadtown, Tortola, British Virgin Islands. From 23 February 2010 to 22 August 2010 the address of the Company was as follows: 1 Naousis, 1 Karapatakis Building PC 6018, Larnaca, Cyprus.

From June 2008 to September 2010 CPD Plc was listed on stock exchange in Frankfurt, on the over -the -counter market.

On 14 December 2010, the prospectus of Celtic Property Developments S.A. with its registered office in Warsaw was approved. On 17 December 2010 the Board of National Depository of Securities ("KDPW") granted to the Company status of participant of KDPW, type ISSUER, registered 34.068.252 Company's ordinary shares, series B with a nominal value of PLN 0,10 each and marked them with code PLCELPD00013. Three days later, the shares were admitted to trading on the parallel market. The shares were registered in the National Depository and on 23 December 2010 introduced to the continuous trading system.

Profit for the year presented in the consolidated statement of comprehensive income for the period ended at 31 December 2010 amounted to PLN 82 m. The profit for the year results mainly from the reversal of deferred tax liabilities in amount of PLN 72 m due to increase of tax value of properties contributed to newly created subsidiaries in 2010. The costs of restructuring and reorganization in 2010 amounted to PLN 3.3 m.

## Celtic Property Developments S.A.

### Consolidated financial statements for the period from 1 January 2010 to 31 December 2010

(All amounts in PLN thousand unless otherwise stated)

## Additional notes and explanations to the consolidated financial statement

As at the date of preparation of the consolidated financial statements, the Management Board and Supervising Bodies of the parent company was as follows:

#### Management Board:

Andrew Morrison Shepherd	Chairman of the Board
Aled Rhys Jones	Board Member
Christopher Bruce	Board Member
Elzbieta Donata Wiczowska	Board Member

#### Supervisory Board:

Marzena Bielecka	Chairman
Wiesław Oleś	Vice-Chairman
Mirosław Gronicki	Member of the Supervisory Board
Colin Kingsnorth	Secretary
Wiesław Rozlucki	Member of the Supervisory Board (appointed on 3 March 2011; replaced Krzysztof Cichocki, who resigned on 4 February 2011 - effectively from 3 March 2011)

As at 31 December 2010 Company's shareholders were\*:

Company	Country	No. of shares	% owned capital	% of voting rights
Cooperatieve Laxey Worldwide W.A.	Netherlands	10,082,930	29.6%	29.6%
Horseguard Trading Ltd	Cyprus	6,020,615	17.7%	17.7%
The Value Catalyst Fund plc	Cayman Islands	4,490,475	13.2%	13.2%
QVT Fund LP	Cayman Islands	3,843,635	11.3%	11.3%
LP Value Ltd	British Virgin Islands	2,198,450	6.4%	6.4%
LP Alternative Fund LP	USA	2,193,931	6.4%	6.4%
Shareholders with stakes below 5%		5,238,216	15.4%	15.4%
		34,068,252	100%	100%

\* The above shareholder's structure is based on the number of shares registered as of approval of the Prospectus i.e. 13 December 2010. It does not comprise 765.043 shares, series B, which was redeemed after registering the decrease of share capital in 2011.

### 1.2. Information about Capital Group

As at balance sheet date CPD Group comprised CPD S.A. as a parent entity and 44 subsidiaries. Additional information concerning consolidated subsidiaries was included in Note 2.2.

None of the individual entities of the Group is fixed for the duration. The financial statements of all subsidiaries have been prepared for the same reporting period as the financial statements of the parent company, using consistent accounting policies.

The financial year of CPD and its entities is the calendar year.

The core business of CPD Group comprise:

- property development (office and residential market)
- land acquisition and construction residential and office buildings; purchase of existing properties with the potential to create additional value that can be achieved by changing the purpose of the property or by raising the standard and optimizing the usable area
- leasing of office buildings and warehouses for its own account,
- commercial real estates management.

## Celtic Property Developments S.A.

### Consolidated financial statements for the period from 1 January 2010 to 31 December 2010

(All amounts in PLN thousand unless otherwise stated)

## Additional notes and explanations to the consolidated financial statement

### 2 Summary of significant accounting policies

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

#### 2.1 Basis of preparation

Consolidated financial statements of CPD S.A. was prepared as at 31 December 2010 and for the period from 1 January 2010 to 31 December 2010, while comparative data is for the period from 1 January 2009 to 31 December 2009.

These consolidated financial statement of Celtic Property Developments S.A. have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union. This consolidated financial statements have been prepared under the historical cost convention, with the exception of the valuation of investment property to the fair value.

The financial statements have been prepared on the assumption that the Group will continue as a going concern in the foreseeable future. At the date of preparation of the consolidated financial statements, there are no circumstances indicating a threat to the continuation of operations by the Group.

#### (a) Interpretations and revisions of standards effective in 2010 that were adopted by CPD Group

##### IAS 27 (Revised) „Consolidated and Separate Financial Statements ”

Revised IAS 27 was published by International Accounting Standards Board on 10 January 2008 and was in force for the annual periods commencing on 1 July 2009 or later. The revised standard specifies that changes in a parent's ownership interest in a subsidiary that do not result in the loss of control must be accounted for as equity transactions. It also specifies how an entity should measure any gain or loss arising on the loss of control of a subsidiary. At the date when control is lost, any investment retained in the former subsidiary has to be measured at its fair value.

Revised standard had no effect on the Groups consolidated financial statement.

##### IFRS 3 (Revised), "Business combinations".

On 10 January 2008, the International Accounting Standards Board issued revised IFRS 3, which is effective prospectively for business combinations with a date of purchase or after 1 July 2009. The revised standard continues to apply the acquisition method to business combinations, with some significant changes. For example, all payments to purchase a business are to be recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently re-measured through the income statement. There is a choice on an acquisition-by-acquisition basis to measure the non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. All acquisition-related costs should be expensed. In 2010 there were no transactions, that should be reconciliated according to IFRS 3.

Amendments to different standards and interpretations „Improvements to IFRSs (2009)” were issued by the International Accounting Standards Board on 16 April 2009. Amendments to various standards and interpretations were a part of annual procedure of introducing changes to existing standards (IFRS 2, IFRS 5, IFRS 8, IAS 1, IAS 17, IAS 18, IAS 36, IAS 38, IAS 39, IFRIC 9, IFRIC 16) aimed mainly at elimination inconsequences and improving wording.

The amendments precised required accounting treatment in the situations, in which previously optional interpretation was allowed

The most important are the new or revised requirements such as:

- (i) the scope of IFRS 2 and revised IFRS 3,
- (ii) disclosures of non-current assets (or group's of assets for sale) classified as for sale or discontinued operations,
- (iii) disclosures of information concerning assets of segments,
- (iv) current and non-current classification of convertible instruments
- (v) classification of lands and building for the purposes of leasing,
- (vi) identification whether a company is a main party of transaction or rather an agent in benefit program
- (vii) about units accounting for goodwill impairment testing, measuring the fair value of an intangible assets acquired in a business combination



## Celtic Property Developments S.A.

### Consolidated financial statements for the period from 1 January 2010 to 31 December 2010

(All amounts in PLN thousand unless otherwise stated)

## Additional notes and explanations to the consolidated financial statement

### 2.1 Basis of preparation - cont.

(viii) additional changes resulting from amendments to IFRS 3, and measurement of the fair value of intangible assets acquired in business combination

(ix) treatment of penalties for loans prepayment as closely related embedded derivatives, the scope of the exceptions to the business combination, and cash flow hedge accounting,

(x) the scope of IFRIC 9 and revised IFRS 3,

(xi) changes to the restrictions imposed on companies that hold hedging instruments.

The application of those amendment had no significant effect on the Group's consolidated financial statement.

#### Amendment to IAS 39, "Financial Instruments: Recognition and Measurement "

Hedged items that meet the particular criteria published by International Accounting Standards Board on 31 July 2008.

They clarify two issues related to hedge accounting: identifying inflation as a risk or portion to be secured and the security in the form of options. These amendments clarify that inflation may be subject to security only in cases where inflation changes are contractually specified as an element of cash flows of the financial instrument. The amendments also clarify that the risk-free or benchmark interest rate as part of the fair value of financial instruments with fixed interest rate under normal circumstances can be isolated and measured reliably, and therefore it is subject to hedging. The revised IAS 39 allows entities to designate purchased option (or net purchased options) as hedging instruments securing financial or non-financial component. The entity may designate the option as a hedge of changes in cash flows or the fair value of the hedged item or below a specific price or by another variable (one-sided risk).

The amendment has no impact on the Group's consolidated financial statements.

#### Interpretation of IFRIC 15 „Agreements for the Construction of Real Estate"

Published by the International Accounting Standards Board on 3 July 2008. IFRIC 15 deals with two (connected) issues: it clarifies whether construction contract should be recognized under IAS 11 "Construction contracts" or IAS 18 „Revenue" and it determines, when to recognize revenue from the construction of the property. The interpretation also provides additional guidelines for distinguishing "construction contracts" (within the scope of IAS 11) from other agreements relating to construction of property (within the scope of IAS 18). Any agreement on the construction of real estate requires careful analysis to decide whether it should be accounted for in accordance with IAS 11 or with IAS 18. This interpretation mostly affects entities engaged in construction of apartments for sale. In the case of contracts falling within the scope of IAS 18 and for the recognised supply of goods the interpretation introduces a new concept, that the revenue in IAS 18 "on a continuous basis in adequately to the progress of the project". In this case, revenue is recognized by reference to the stage of construction, using the method of staging the construction contract.

Group's accounting policy is in line with IFRIC 15

### (b) Standards adopted early by the Group

In the consolidated financial statement the CPD Group decided to adopt early the amendments to IAS 24 "Related Party Disclosures" before being in force.

The amendments simplified the requirements related to the disclosure of information by entities related to the state institutions and made the definitions of a related party more precise.

Earlier adoption of the amended regulations had no impact on the Group's consolidated financial statement.

### (c) Standards, amendments to and interpretations of the existing standards which are in force in 2010 but are not applicable to the Company's operations

#### Amendments to IFRS 1, "

The amendments introduced additional exemptions for entities adopting IFRS for the first time published by IASB on 23 July 2009. The amendments exempt entities using the full cost method from retrospective application of IFRSs for oil and gas assets and also exempt entities with existing leasing contracts from reassessing the classification of those contracts in accordance with IFRIC 4, 'Determining Whether an Arrangement Contains a Lease' when the application of their national accounting requirements produced the same result.

The amendment has no impact on the Group's consolidated financial statement.

## Celtic Property Developments S.A.

### Consolidated financial statements for the period from 1 January 2010 to 31 December 2010

(All amounts in PLN thousand unless otherwise stated)

## Additional notes and explanations to the consolidated financial statement

### 2.1 Basis of preparation - cont.

#### Amendments to IFRS 2 "Share-based Payment "

The group transactions in the form of share-based payment reconciliated in cash published by International Accounting Standards Board on 18 June 2009. The amendments determine: (1) the scope of IFRS 2. The entity receiving goods or services as a part of share based payment has to recognize those goods and services independently from which Group's entity reconcile this transaction and whether it is share-based or a cash-based transaction, (2) application of IFRS 2 and other standards. The Board determined, that accordingly to IFRS 2 „a group" has an identical meaning as in IAS 27, i.e. „a group" comprises a parent company and its subsidiaries. The amendments incorporated also into the standard the guidance from IFRIC 8 and IFRIC 11. And as a result the Board withdrawn the IFRIC 8 and IFRIC 11.

#### IFRIC 16 „Hedges of a Net Investment in a Foreign Operation "

Interpretation IFRIC 16 was issued by Committee on International Financial Reporting Interpretations on 3 July 2008 and is effective for annual periods beginning on or after 1 October 2009. This Interpretation provides general guidance on determining whether there is a risk of exchange rate changes in the foreign entity's functional currency and presentation currency for the consolidated financial statements of the parent Company of the group. The interpretation explains which currency risk exposures are eligible for hedge accounting and states that translation from the functional currency to the presentation currency does not create an exposure to which hedge accounting could be applied. The IFRIC allows the hedging instrument to be held by any entity or entities within a group except the foreign operation that itself is being hedged. The interpretation also clarifies how the gain or loss reclassified from the currency translation reserve to profit or loss is calculated on disposal of the hedged foreign operation.

This interpretation does not apply to the consolidated financial statements of the CPD Group.

#### Interpretation IFRIC 17 „Distribution of Non-Cash Assets to Owners "

Published by the International Accounting Standards Board on 27 November 2008, the interpretation provides guidance on how to settle the transfers of non-cash assets to the owners. An entity should measure a liability to distribute non-cash assets as a dividend to its owners at the fair value of the assets to be distributed. A gain or loss on disposal of the distributed non-cash assets will be recognised in profit or loss when the entity settles the dividend payable. The interpretation does not apply to distribution of non-cash assets in a situation where, following the division the control over them does not change.

#### Interpretation IFRIC 18 „Transfers of Assets from Customers"

Published by the International Accounting Standards Board on 29 January 2009, this interpretation applies particularly to public sector and applies to all contracts, under which an entity receives from the client component of tangible fixed assets (or cash for the construction of such a component), which must then be used to connect the client to the network or to provide it with continuous access to supplies of goods or services.

#### Amendment to IFRS 2 "Share-based payments"

Published by the International Accounting Standards Board on 17 January 2008 r. and are effective for annual periods beginning on or after 1 January 2009. Amendments to Standard concern two issues: it explains, that Vesting conditions are service conditions and performance conditions only. Other features of share-based payment (program) are not recognized as vesting conditions. Standard clarifies that the accounting approach towards program's withdrawn by the entity or another party to the transaction should be the same.

### (d) Standards, amendments to and interpretations of the existing standards which are not yet in force and which have not been adopted early by the CPD Group.

#### Amendments to IAS 32 „Classification of rights issues"

Amendments to IAS 32 „Classification of rights issues" published by the International Accounting Standards Board on 8 October 2009 and are effective for annual periods beginning on or after 1 February 2010.

Amendment exempts certain rights issues of shares with proceeds denominated in foreign currencies from classification as financial derivatives. The amendments require, subjected to specific rules, rights issues to be classified as equity regardless to the currency in which the exercise price is denominated.

Group will adopt the revised IAS 32 beginning from 1 January 2011.

## Celtic Property Developments S.A.

### Consolidated financial statements for the period from 1 January 2010 to 31 December 2010

(All amounts in PLN thousand unless otherwise stated)

## Additional notes and explanations to the consolidated financial statement

### 2.1 Basis of preparation - cont.

#### IFRS 9 "Financial Instruments Phase 1: Classification and Measurement"

IFRS 9 published by the International Accounting Standards Board on 12 November 2009 replaced the parts of IAS 39 which related to the classification and measurement of financial assets. In October 2010, IFRS 9 was supplemented with issues relating to the classification and measurement of financial liabilities. The new standard is effective for annual periods beginning on 1 January 2013 or later.

The standard introduced one model which stipulated only two categories of classification of financial assets: those measured at fair value and those measured at amortized cost. The classification is performed at the time of initial recognition and is dependent on the financial instrument management model adopted by the entity, as well as the properties of the contractual cash flows from these instruments.

The majority of the IAS 39 requirements with regard to the classification and measurement of financial liabilities were transferred to IFRS 9 unchanged. The key change is the requirement imposed on entities to present, in other comprehensive income, the effects of changes in their own credit risk in respect of financial liabilities designated for measurement at fair value through profit or loss.

IFRS 9 approach is based on a business model used by a company to manage assets and on contractual qualities of financial assets. IFRS 9 also demands using only one method of measurement of assets impairment.

The Company will adopt IFRS 9 as of 1 January 2013. As at the date of these financial statements being prepared, the amendments to IFRS 9 had not yet been approved by the European Union.

#### Amendment to IFRS 1 „First-time adoption of IFRS"

Amendment to IFRS 1 „Limited exemption from Comparative IFRS 7 Disclosures for First-time Adopters were published by International Accounting Standards Board in 28 January 2010 and are effective for annual periods beginning on or after 1 July 2010.

The amendments provide relief to a first-time adopters of IFRS from providing comparative information for the disclosures required by Amendments to IFRS 7 issued in March 2009 concerning fair value measurement and liquidity risk.

Group will adopt the amendments beginning from 1 January 2011.

#### IFRS 7 „Transfers of Financial Assets "

Amendments to IFRS 7 „Transfers of Financial Assets" were published by International Accounting Standards Board in October 2010 and are effective for annual periods beginning on or after 1 July 2011.

The amendment requires additional disclosures in respect of risk exposures arising from transferred financial assets. The amendment includes a requirement to disclose by class of asset the nature, carrying amount and a description of the risks and rewards of financial assets that have been transferred to another party yet remain on the entity's balance sheet. Disclosures are also required to enable a user to understand the amount of any associated liabilities, and the relationship between the financial assets and associated liabilities. Where financial assets have been derecognised but the entity is still exposed to certain risks and rewards associated with the transferred asset, additional disclosure is required to enable the effects of those risks to be understood.

Group will adopt the revised IFRS 7 beginning from 1 January 2012.

#### Amendments to IAS 12 "Recovery of Underlying Assets "

Amendments to IAS 12 "Recovery of Underlying Assets" was published by the International Accounting Standards Board in December 2010 r. and are effective for the annual periods on or after 1 January 2012.

The amendments relate to measuring deferred tax liabilities and deferred tax assets relating to investment property measured using the fair value model according to IAS 40, Investment Property and introduce a rebuttable presumption that an investment property is recovered entirely through sale. This presumption is rebutted if the investment property is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale. SIC-21, "Income Taxes – Recovery of Revalued Non-Depreciable Assets" which addresses similar issues involving non-depreciable assets measured using the revaluation model in IAS 16, "Property, Plant and Equipment" was incorporated into IAS 12 after excluding guidance regarding investment property measured at fair value.

Group will adopt the amendments to IAS 12 from 1 January 2012

## Celtic Property Developments S.A.

### Consolidated financial statements for the period from 1 January 2010 to 31 December 2010

(All amounts in PLN thousand unless otherwise stated)

## Additional notes and explanations to the consolidated financial statement

### 2.1 Basis of preparation - cont.

#### Amendments to IFRS 1 "Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters "

Amendments to IFRS 1 "Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters " was published by the International Accounting Standards Board in December 2010 and are effective for the annual periods on or after 1 July 2011.

The amendment regarding severe hyperinflation creates an additional exemption when an entity that has been subject to severe hyperinflation resumes presenting or presents for the first time, financial statements in accordance with IFRSs. The exemption allows an entity to elect to measure certain assets and liabilities at fair value; and to use that fair value as the deemed cost in the opening IFRS statement of financial position.

The IASB has also amended IFRS 1 to eliminate references to fixed dates for one exception and one exemption, both dealing with financial assets and liabilities. The first change requires first-time adopters to apply the derecognition requirements of IFRS prospectively from the date of transition, rather than from 1 January 2004. The second amendment relates to financial assets or liabilities at fair value on initial recognition where the fair value is established through valuation techniques in the absence of an active market and allows the guidance to be applied prospectively from the date of transition to IFRS rather than from 25 October 2002 or 1 January 2004. This means that a first-time adopter does not need to determine the fair value of financial assets and liabilities for periods prior to the date of transition. IFRS 9 has also been amended to reflect these changes.

Group will adopt the amendments to IFRS 1 from 1 January 2012

#### Amendments to IFRS 2010

On 6 May 2010 the International Accounting Standards Board published "Improvements in IFRS 2010" which amended seven standards. The improvements included changes in presentation, recognition and measurement, as well as terminology and editorial changes. Most of the amendments will be effective for annual periods commencing on 1 January 2011.

Amendments include changes in the presentation, recognition and measurement, and contain terminology and editorial changes, such as:

IFRS 1 (i) clarifies that, if a first-time adopter changes its accounting policies or its use of exemptions in IFRS 1 after it has published an interim financial reporting in accordance with IAS 34, it needs to explain those changes and update the reconciliation between previous GAAP and IFRS; (ii) exemption allowing to use an event-driven fair value as deemed cost, even if the event occurs after the date of transition, but before the first IFRS financial statements issued; (iii) the entities with rate-regulated activities are allowed to use the carrying amount of their property, plant and equipment and intangible assets balances from their previous GAAP as its deemed cost upon transition to IFRS.

The entities that use these exemption upon transition to IFRS have to test the balances for the impairment according to IAS 36.

IFRS 3 - (i) contingent consideration recognised from transactions before the IFRS 3 (R) is effective, will not be restated; (ii) limits the scope of the measurement choices that only the components of non-controlling interests that are present ownership interests that entitle their holders to a proportional share of the entity's net assets, in the event of liquidation shall be measured either: at fair value or at the present ownership instruments proportional share of the acquiree's identifiable net assets. Other components are measured at their acquisition date fair value, unless other measurement basis is required by another IFRS.

IFRS 7 - clarification of financial instrument disclosures

IAS 1 - entity will present an analysis of other comprehensive income for each component of equity, either in the statement of changes in equity or in the notes to the financial statements

IAS 27 - clarify that consequential amendments from IAS 27 made to IAS 21, IAS 28 and IAS 31 apply prospectively

IAS 34 - added disclosure requirements around changes of fair value, and update of the information from the last annual financial statements

## Celtic Property Developments S.A.

### Consolidated financial statements for the period from 1 January 2010 to 31 December 2010

(All amounts in PLN thousand unless otherwise stated)

## Additional notes and explanations to the consolidated financial statement

### 2.1 Basis of preparation - cont.

The Group will apply the amendments to IFRS in accordance with the transitional provisions. At the date of preparation of these financial statements, amendments to IFRSs in 2010 have not yet been approved by the European Union.

#### **Amendment to IFRIC 14 „Prepayments of a Minimum Funding Requirement ”**

Amendment to interpretation IFRIC 14 was issued by the International Financial Reporting Interpretations Committee on 26 November 2009 and is effective for annual periods beginning on or after 1 January 2011. It removes an unintended consequence of IFRIC 14 related to voluntary pension prepayments when there is a minimum funding requirement.

Group will adopt the amendments to IFRIC 14 from 1 January 2011.

#### **IFRIC 19 "Extinguishing Financial Liabilities with Equity Instruments"**

The interpretation of IFRIC 19 was issued by the International Financial Reporting Interpretations Committee on 26 November 2009 and is effective for annual periods beginning on or after 1 July 2010. This interpretation clarifies the accounting principles applied in situations where as a result of the renegotiation by an entity of the terms of its debt, the liability is settled through the issue of equity instruments to the creditor. The interpretation requires the valuation of equity instruments at fair value and the recognition of a profit or loss in the amount of the difference between the carrying amount of the liability and the fair value of the equity instrument.

The Group will implement IFRIC 19 as of 1 January 2011

#### **(e) The following standards and interpretations are mandatory for the Group's accounting periods beginning on or after 1 January 2011 or later periods but are not relevant for the Group's operations:**

- IFRIC 12 Service Concession Arrangements. Already adopted by the EU is effective for annual periods beginning on or after 30 March 2009.
- Amendments to IFRIC 14 "Prepayments of a minimum funding requirement"
- IFRIC 17, "Distribution of Non-Cash Assets to Owners"

## Celtic Property Developments S.A.

### Consolidated financial statements for the period from 1 January 2010 to 31 December 2010

(All amounts in PLN thousand unless otherwise stated)

## Additional notes and explanations to the consolidated financial statement

### 2.2 Consolidation

#### (a) Subsidiaries

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

Subsidiaries are fully consolidated from the date on which they were incorporated or control was transferred to the group. They are deconsolidated from the date on which control ceases.

#### (i) Acquisition of subsidiaries in accordance with IFRS 3 before 1 January 2010

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

#### (ii) Acquisition of subsidiaries in accordance with revised IFRS 3 after 1 January 2010

The purchase method of accounting is used to account for the acquisition of subsidiaries by the group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, the obligations arising from the determination of the remuneration element of the conditional agreement. Acquisition-related costs are recognized in the consolidated profit or loss as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. For each acquisition the Group recognizes the shares do not have control of the acquiree at fair value or per share by not having control of a proportion of net assets acquired business.

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

These consolidated financial statements include the results and assets and liabilities of the following subsidiaries:

	Name	Country	Shareholder	31 December 2010	31 December 2009
1	Mandy Investment Sp. z o.o.	Poland	Lakia Enterprises Limited	100%	100%
2	Lakia Enterprises Limited	Cyprus	CPD S.A.	100%	100%
3	Lakia Investments Sp. z o.o.	Poland	Lakia Enterprises Limited	100%	100%
4	Darvest Investments Sp. z o.o.	Poland	Lakia Enterprises Limited	100%	100%
5	Gaetan Investments Sp. z o.o.	Poland	Lakia Enterprises Limited	100%	100%
6	Liliane Investments Sp. z o.o.	Poland	Lakia Enterprises Limited	100%	100%
7	Blaise Investments Sp. z o.o.	Poland	Lakia Enterprises Limited	100%	100%
8	Robin Investments Sp. z o.o.	Poland	Lakia Enterprises Limited	100%	100%
9	Devin Investments Sp. z o.o.	Poland	Lakia Enterprises Limited	100%	100%
10	East Europe Property Financing AB	Sweden	CPD S.A.	100%	100%
11	New Europe Property Financing AB	Sweden	CPD S.A.	0%	100%
12	Hub Developments Ltd Sp. z o.o.	Poland	Lakia Enterprises Limited	100%	100%
13	Elara Investments Sp. z o.o.	Poland	Lakia Enterprises Limited	100%	100%
14	Celtic Investments Limited	Cyprus	CPD S.A.	100%	100%

## Celtic Property Developments S.A.

Consolidated financial statements for the period from 1 January 2010 to 31 December 2010

(All amounts in PLN thousand unless otherwise stated)

**Additional notes and explanations to the consolidated financial statement**

	<b>Name</b>	<b>Country</b>	<b>Shareholder</b>	<b>31 December 2010</b>	<b>31 December 2009</b>
15	Celtic Asset Management Sp. z o.o.	Poland	Celtic Investments Limited	100%	100%
16	Gaston Investments Sp. z o.o.	Poland	Lakia Enterprises Limited	100%	100%
17	Mokotów Plaza Sp. z o.o.	Poland	Lakia Enterprises Limited	0%	100%
18	Buffy Holdings No 1 Ltd	Cyprus	CPD S.A.	100%	100%
19	Challange Eighteen Sp. z o.o.	Poland	Buffy Holdings No 1 Ltd	100%	100%
20	Poen S.A.	Poland	CPD S.A.	0%	100%
21	Celtic Trade Park Kft	Hungary	Lakia Enterprises Limited	100%	100%
22	Tenth Planet doo	Montenegro	CPD S.A.	100%	100%
23	Celtic Property Development Kft.	Hungary	Celtic Investments Limited	100%	100%
24	Celtic Italy	Italy	Celtic Investments Limited	100%	100%
25	CAM Estates Ltd	Great Britain	Celtic Investments Limited	100%	100%
26	Blaise Gaston Investments Spółka z ograniczoną odpowiedzialnością Sp.k.	Poland	Blaise Investments Sp. z o.o. Gaston Investments Sp. z o.o.	99% 1%	0% 0%
27	1/95 Gaston Investments Spółka z ograniczoną odpowiedzialnością Sp.k.	Poland	Challange Eighteen Sp. z o.o. Gaston Investments Sp. z o.o.	99% 1%	0% 0%
28	2/124 Gaston Investments Spółka z ograniczoną odpowiedzialnością Sp.k.	Poland	Challange Eighteen Sp. z o.o. Gaston Investments Sp. z o.o.	99% 1%	0% 0%
29	3/93 Gaston Investments Spółka z ograniczoną odpowiedzialnością Sp.k.	Poland	Challange Eighteen Sp. z o.o. Gaston Investments Sp. z o.o.	99% 1%	0% 0%
30	4/113 Gaston Investments Spółka z ograniczoną odpowiedzialnością Sp.k.	Poland	Challange Eighteen Sp. z o.o. Gaston Investments Sp. z o.o.	99% 1%	0% 0%
31	5/92 Gaston Investments Spółka z ograniczoną odpowiedzialnością Sp.k.	Poland	Challange Eighteen Sp. z o.o. Gaston Investments Sp. z o.o.	99% 1%	0% 0%
32	6/150 Gaston Investments Spółka z ograniczoną odpowiedzialnością Sp.k.	Poland	Challange Eighteen Sp. z o.o. Gaston Investments Sp. z o.o.	99% 1%	0% 0%
33	7/120 Gaston Investments Spółka z ograniczoną odpowiedzialnością Sp.k.	Poland	Challange Eighteen Sp. z o.o. Gaston Investments Sp. z o.o.	99% 1%	0% 0%
34	8/126 Gaston Investments Spółka z ograniczoną odpowiedzialnością Sp.k.	Poland	Challange Eighteen Sp. z o.o. Gaston Investments Sp. z o.o.	99% 1%	0% 0%
35	9/151 Gaston Investments Spółka z ograniczoną odpowiedzialnością Sp.k.	Poland	Challange Eighteen Sp. z o.o. Gaston Investments Sp. z o.o.	99% 1%	0% 0%
36	10/165 Gaston Investments Spółka z ograniczoną odpowiedzialnością Sp.k.	Poland	Challange Eighteen Sp. z o.o. Gaston Investments Sp. z o.o.	99% 1%	0% 0%
37	11/162 Gaston Investments Spółka z ograniczoną odpowiedzialnością Sp.k.	Poland	Challange Eighteen Sp. z o.o. Gaston Investments Sp. z o.o.	99% 1%	0% 0%
38	12/132 Gaston Investments Spółka z ograniczoną odpowiedzialnością Sp.k.	Poland	Challange Eighteen Sp. z o.o. Gaston Investments Sp. z o.o.	99% 1%	0% 0%



**Celtic Property Developments S.A.**
**Consolidated financial statements for the period from 1 January 2010 to 31 December 2010**

(All amounts in PLN thousand unless otherwise stated)

**Additional notes and explanations to the consolidated financial statement**

	<b>Name</b>	<b>Country</b>	<b>Shareholder</b>	<b>31 December 2010</b>	<b>31 December 2009</b>
39	13/155 Gaston Investments Spółka z ograniczoną odpowiedzialnością Sp.k.	Poland	Challenge Eighteen Sp. z o.o. Gaston Investments Sp. z o.o.	99% 1%	0% 0%
40	14/119 Gaston Investments Spółka z ograniczoną odpowiedzialnością Sp.k.	Poland	Challenge Eighteen Sp. z o.o. Gaston Investments Sp. z o.o.	99% 1%	0% 0%
41	16/88 Gaston Investments Spółka z ograniczoną odpowiedzialnością Sp.k.	Poland	Challenge Eighteen Sp. z o.o. Gaston Investments Sp. z o.o.	99% 1%	0% 0%
42	17/110 Gaston Investments Spółka z ograniczoną odpowiedzialnością Sp.k.	Poland	Challenge Eighteen Sp. z o.o. Gaston Investments Sp. z o.o.	99% 1%	0% 0%
43	15/167 Gaston Investments Spółka z ograniczoną odpowiedzialnością Sp.k.	Poland	Challenge Eighteen Sp. z o.o. Gaston Investments Sp. z o.o.	99% 1%	0% 0%
44	18 Gaston Investments Spółka z ograniczoną odpowiedzialnością Sp.k.	Poland	Challenge Eighteen Sp. z o.o. Gaston Investments Sp. z o.o.	99% 1%	0% 0%
45	19/97 Gaston Investments Spółka z ograniczoną odpowiedzialnością Sp.k.	Poland	Challenge Eighteen Sp. z o.o. Gaston Investments Sp. z o.o.	99% 1%	0% 0%
46	20/140 Gaston Investments Spółka z ograniczoną odpowiedzialnością Sp.k.	Poland	Challenge Eighteen Sp. z o.o. Gaston Investments Sp. z o.o.	99% 1%	0% 0%
47	Belise Investments Sp. z o.o.	Poland	Lakia Enterprises Limited	100%	0%

**2.3 Change in Group structure**

The following describes the changes within the entities of these consolidated financial statements:

On 23 August 2010, the National Court Register recorded cross-border merger of Celtic Property Developments Plc and Poen S.A., which is described in more detail in Note 1.1.

The impact of this merger on the consolidated financial statements was described in Note 26.

In December 2010, a subsidiary New Europe Property Financing AB based in Sweden was disposed, while in July 2010 another subsidiary Mokotów Plaza Sp. z o. o. was sold (Note 27).

In 2010, 21 subsidiaries were created as limited partnerships, to which a part of the investment properties were contributed. In addition the shares in Belise Investments Sp. z o.o. were purchased. Belise at the time of purchase did not have any net assets or did not conduct operations.

The creation of a partnership was an internal reorganization and, with the exception of deferred tax as described in Note 14, did not affect the consolidated net assets.

**2.4 Foreign currency translation**
**(a) Functional and presentation currency**

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

## Celtic Property Developments S.A.

### Consolidated financial statements for the period from 1 January 2010 to 31 December 2010

(All amounts in PLN thousand unless otherwise stated)

## Additional notes and explanations to the consolidated financial statement

### 2.4 Foreign currency translation - cont.

#### Change of presentation currency of consolidated financial statement

In previous years, the presentation currency of the consolidated financial statements of the CPD Group was EUR.

One of the consequences of the merger described in Note 1.1 was a change of the parent company in the Group, and thus the change of the functional currency of the parent entity from EUR to PLN. As a result of described in Note 2.3 changes in the structure of CPD Group the situation has changed, and thus the judgments of the Board regarding the functional currency of the parent company of the Group (as at 31.12.2009 the parent company of the Group was CPD Plc established in the British Virgin Islands.) The decision of the shareholders to apply for admission to official listing on the Warsaw Stock Exchange and to focus on investments located in Ursus in Warsaw had an influence on the Board's assessment of functional currency of the parent company. In particular, the following factors have been impacted: the functional currencies of the shareholders, the currencies of the country of origin, the currencies of expected returns and current, past and future markets on which the Group operates.

Taking this into account, among other factors, such as the fact that most of the value of the assets of the consolidated balance sheet is determined in the PLN, the majority of expected future revenues of the Group is denominated in PLN and the share capital of parent company is expressed in this currency and there will be distributions to shareholders, the Board decided to change effective from 1 January 2010 the presentation currency of consolidated financial statements from EUR to PLN. According to the Board, reports expressed in PLN better reflect the financial situation and total comprehensive income of the Group.

#### (b) CPD Group Companies

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

- (i) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- (ii) income and expenses are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); the profit and loss transaction are valued using the average exchange rate for the financial period, except for profit from sales of investment properties which are translated into PLN using the exchange rate from the date of transaction;
- (iii) all resulting exchange differences are recognised in other comprehensive income.

When a foreign operation is sold, such exchange differences are recognised in the profit or loss as part of the gain or loss on sale. Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets of the foreign entity and translated at the closing rate. Foreign exchange differences are recognized in translation reserve.

#### Change of functional currency of consolidated entity

Following the change of currency of debt from EUR to PLN and taking into account the fact that the value of nearly all of the assets and the expected future income generated by them is determined in relation to PLN, effective from 1 January 2010 the functional currency of Buffy Holdings No. 1 Ltd was changed from EUR to PLN.

## Celtic Property Developments S.A.

### Consolidated financial statements for the period from 1 January 2010 to 31 December 2010

(All amounts in PLN thousand unless otherwise stated)

## Additional notes and explanations to the consolidated financial statement

### 2.5 Investment property

Property that is held for long-term rental yields or for capital appreciation or both, and that is not occupied by the companies in the consolidated Group, is classified as investment property. Investment property comprises freehold land, freehold buildings and land held under operating leases (perpetual usufruct).

Real estates, for which future plans are uncertain, are classified as investment property. The future plans may be dependent upon planning constraints and thus remain uncertain until a project design is definitive and the relevant permits are obtained. Transfers to, or from, investment property are made when, and only when, there is a evidenced change in use. For a transfer from inventories to investment property that will be carried at fair value, any difference between the fair value of the property at that date and its previous carrying amount shall be recognised in profit or loss. For a transfer from investment property carried at fair value to inventories, the property's deemed cost for subsequent accounting in accordance with IAS 2 shall be its fair value at the date of change in use.

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

Investment property is measured initially at its cost, including related transaction costs. The cost is increased by external financing directly attributable to development of investment properties calculated for the period when active development works are materially in progress.

After initial recognition, investment property is carried at fair value. Fair value is calculated using cash flow projections based on active market prices, adjusted, if necessary, for any difference in the nature, location or condition of the specific asset. These valuations are prepared annually by independent professional appraisers Savills Sp. z o.o. The investment property portfolio is appraised in accordance with the Practice Statements of the Royal Institution of Chartered Surveyors' (RICS) Appraisal and Valuation Standards (the "Red Book") published in February 2003, which was effective from 1 May 2003. Valuation fees are not related to the property value and valuation results.

The fair value of investment property reflects, among other things, rental income from current leases and assumptions about rental income from future leases in the light of current market conditions. The fair value also reflects, on a similar basis, any cash outflows that could be expected in respect of the property. Some of those outflows are recognised as a liability, including finance lease liabilities in respect of land classified as investment property; others, including contingents rent payments, are not recognised in the financial statements. Subsequent expenditure is charged to the asset's carrying amount only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance costs are charged to the profit or loss ("Repair and maintenance costs") during the financial period in which they are incurred. Changes in fair values are recorded in the profit or loss within "Net gain from fair value adjustment on investment property".

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within "gains/(losses) on disposal of investment property" in the profit or loss.

### 2.6 Property, plant and equipment

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

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

Depreciation, based on a component approach, is calculated using the straight-line method to allocate the cost over the asset's estimated useful lives. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at least at each financial year-end. Plant and equipment is amortised over their estimated useful lives (three to five years).

## Celtic Property Developments S.A.

### Consolidated financial statements for the period from 1 January 2010 to 31 December 2010

(All amounts in PLN thousand unless otherwise stated)

## Additional notes and explanations to the consolidated financial statement

### 2.6 Property, plant and equipment - cont.

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

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

### 2.7 Leases

*(a) A group company is the lessor*

Properties leased out under operating leases are included in investment property in the balance sheet. Payments made under operating leases are recognised in the profit or loss on a straight-line basis over the term of the lease.

*(b) A group company is the lessee*

Leases in which a significant portion of the risks and rewards of ownership are retained by another party, the lessor, are classified as operating leases. Payments, including prepayments, made under operating leases (net of any incentives received from the lessor) are charged to the profit or loss on a straight-line basis over the period of the lease.

Land that is held by the Group under an operating lease has been classified and accounted for as investment property only if all required conditions are met:

- the rest of the definition of investment property is met;
- the operating lease is accounted for as if it were a finance lease in accordance with IAS 17 Leases; and
- the Group uses the fair value model set out in IAS 40 for the asset recognised.

In this case finance leases are capitalised at the lease's commencement at the lower of the fair value of the leased property and the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges using an effective interest rate. The corresponding perpetual usufruct obligations, net of finance charges, are included in current and non-current borrowings.

### 2.8 Intangible assets, excluding goodwill

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

### 2.9 Goodwill

The rules for evaluating the goodwill at the moment of acquisition of subsidiary are presented in Note 2.2.

Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose identified according to operating segment.

Goodwill arising from the acquisition of a foreign entity and any adjustment to the carrying amounts of assets and liabilities to fair value, arising from the acquisition of a foreign entity, are treated as assets and liabilities of the foreign entity and translated at closing rate. Foreign exchange differences are recognized in equity from foreign operations.

## Celtic Property Developments S.A.

Consolidated financial statements for the period from 1 January 2010 to 31 December 2010

(All amounts in PLN thousand unless otherwise stated)

### Additional notes and explanations to the consolidated financial statement

#### 2.10 Impairment of non-financial assets

Assets that have an indefinite useful life — for example, goodwill — are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

#### 2.11 Financial assets

The Group classifies its financial assets in the category of loans and receivables. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition and re-evaluates this designation at every reporting date.

Financial assets are derecognized, when the rights to receive cash flows from the investments have expired or have been transferred, and the CPD Group has transferred substantially all risks and rewards of ownership.

##### (a) *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and with no intention of trading. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. Loans and receivables are included in "Trade and other receivables" in the consolidated statement of financial position.

CPD Group evaluates as at the balance sheet date, whether there are objective premise that would indicate the loss in value of one item or the entire group of financial assets.

Loans and receivables are initially measured at fair value and subsequently are carried at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade receivables and loans is established when there is an objective evidence that the Group will not be able to collect all individual or group amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the trade receivable and loans is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate.

Subsequent recoveries of amounts previously written off are credited in the profit and loss.

##### (b) *Financial assets held for sale*

The category comprise cash and cash equivalents. Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less. Financial assets held for sale as at balance sheet date are measured at fair value, the effects of valuation are recognised in the profit and loss.

#### 2.12 Inventories

Inventories consist of properties awaiting or in the course of development for sale and residential house building projects and sites held for sale during normal course of business.

Inventories are measured at the lower of cost and net realisable value. The cost of inventories includes expenditure incurred relating to the construction of a project. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

## Celtic Property Developments S.A.

### Consolidated financial statements for the period from 1 January 2010 to 31 December 2010

(All amounts in PLN thousand unless otherwise stated)

## Additional notes and explanations to the consolidated financial statement

### 2.12 Inventories - cont.

Costs relating to the construction of a project are included in inventories as follows:

- costs incurred relating to projects or a phase of a project which are not available for sale (work in progress),
- costs incurred relating to units unsold associated with a project or a phase of a project that is available for sale (finished goods).

Project construction costs include:

- a) land or leasehold rights for land,
- b) construction costs paid to subcontractors for the construction of the residential units,
- c) planning and design costs,
- d) borrowing costs to the extent they are directly attributable to the development of the project,
- e) professional fees attributable to the development of the project,
- f) construction overheads and other directly related costs.

### 2.13 Assets held for sale

Investment property held for sale is classified as non-current assets held for sale under IFRS 5. Non-current assets are classified as assets held for sale if their carrying amount is recovered principally through a sale transaction rather than through a continuing use and is available for immediate sale in its present condition, subject to terms that are usual and customary for sales of such assets and the sale is high probable within next 12 months.

The sale is determined to be highly probable if:

- management committed to a plan to sell the investment property;
- active plan to locate a buyer and complete the plan was initiated;
- investment property was actively marketed for sale at a price that is reasonable in relation to its current fair value;
- the sale is expected to qualify for recognition as a completed sale within one year from the date of classification;
- it is unlikely that significant changes to the plan will be made or that the plan will be withdrawn.

The CPD Group measures investment property classified as held for sale at fair value. Other non-current assets (or disposal groups) classified as held for sale are measured at the lower of its carrying amount and fair value less costs to sell.

If the CPD Group has classified an asset (or disposal group) as held for sale, but the criteria set above are no longer met, the Group ceases to classify the asset (or disposal group) as asset held for sale.

### 2.14 Share capital

Ordinary shares are classified as share capital.

### 2.15 Trade payables

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method. In case of current liabilities amortised cost value equals nominal value.

### 2.16 Borrowings

Borrowings are recognized initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortized cost.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

## Celtic Property Developments S.A.

### Consolidated financial statements for the period from 1 January 2010 to 31 December 2010

(All amounts in PLN thousand unless otherwise stated)

## Additional notes and explanations to the consolidated financial statement

### 2.17 Borrowings costs

Borrowing costs incurred for the construction of any qualifying asset are capitalized during the period of time that is required to complete and prepare the asset for its intended use.

### 2.18 Deferred income tax

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

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

### 2.19 Employee benefits

#### *Pension obligation*

Polish Companies of the CPD Group make contributions to the Polish Governmental retirement benefit scheme at the applicable rate during the period based on gross salary payments (the "State Plan"). The State Plan is funded on a pay-as-you-go basis, i.e. the Group is only obliged to pay the contributions as they fall due based upon a percentage of salary and if the Group ceases to employ members of the State Plan, it will have no obligation to pay any additional benefits. The State Plan is a defined contribution plan. The expense for the contributions is charged to the consolidated profit and loss in the same period as the related salary expense.

### 2.20 Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events it is probable that an outflow of resources will be required to settle the obligation and the amount has been reliably estimated.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small. Provisions are measured at the present value of the expenditures expected to be required to settle the obligation.

### 2.21 Revenue recognition

Revenue includes rental income, service charges and management charges from properties, income from property trading and income from real estate advisory services.

The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the Group's activities as described below. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

#### *(a) Rental income*

Rental income from operating leases is recognised in income on a straight-line basis over the lease term. Lease incentives granted are recognised as an integral part of the total rental income. Lease incentives are recognised in the profit and loss over the lease term on a straight line basis as a change in rental income.

#### *(b) Service and management charges*

Service and management charges are recognised in the accounting period in which the services are rendered.

## Celtic Property Developments S.A.

### Consolidated financial statements for the period from 1 January 2010 to 31 December 2010

(All amounts in PLN thousand unless otherwise stated)

## Additional notes and explanations to the consolidated financial statement

### 2.21 Revenue recognition - cont.

#### *(c) Revenue from the sale of residential units and office buildings*

Revenues from the sale of residential units and office buildings are recognised upon transfer to the buyer of the significant risks and rewards (transfer of ownership after signing a notarial deed) of the residential unit or office building, providing that a valid building occupancy permit has been obtained by the Group.

Advances received related to pre-sales of residential units, which represent deferred income, are deferred to the extent that they do not meet the criteria to be recognised as revenue.

#### *(d) Cost of inventory sold*

Cost of sales is recognised in the amount of total costs capitalised to sold inventory.

Construction costs relating to unsold units are capitalised as inventory within current assets, either as work in progress or finished goods depending on the stage of completion. An expected loss, if any, on a sale, is recognised as an expense immediately. Inventory relating to units sold is expensed as cost of sales in the same period as the related sale.

#### *(e) Interest Income*

Interest income is recognised on a time-proportion basis using the effective interest method.

### 2.22 Expenses

Cost of sales includes mainly the cost of goods sold and other direct property operating expenses.

Other direct property operating expenses are directly related to rental income and include costs, such as day-to-day property administration, utilities, property taxes, maintenance costs, insurance premiums, valuation fees, service costs, etc. They are expensed as incurred.

Other direct property operating expenses, which do not include general and administrative expenses, are expensed as incurred.

The Group acts as a principal with respect to service costs. Accordingly, the services invoiced to the tenant and the corresponding expenses are shown separately in the profit and loss.

### 2.23 Dividend distribution

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

### 2.24 Interest expense

Interest expense for borrowings are recognised within "Finance costs" in the profit and loss using the effective interest rate method, except for borrowing cost which is capitalised in the cost of the qualifying asset.



## Celtic Property Developments S.A.

Consolidated financial statements for the period from 1 January 2010 to 31 December 2010

(All amounts in PLN thousand unless otherwise stated)

### Additional notes and explanations to the consolidated financial statement

## 3 Financial risk management

### 3.1 Financial risk factors

The CPD Group is exposed to the following financial risks in connection with its operations: market risk (including: currency risk, risk of changes in the fair values or cash flows due to changes in interest rates), credit risk and liquidity risk. Financial risks relate to the following financial instruments: loans and borrowings, trade receivables, cash and cash equivalents, trade payables and other liabilities. The accounting principles concerning the aforementioned financial instruments are described in Note 2. The CPD Group's overall risk management policy focuses on the unpredictability of financial markets and seeks to minimize the potential adverse effects on the Group's financial performance.

#### (a) Market risk

##### (i) Currency risk

The Group operates internationally and is exposed to a risk of changes in foreign exchange rates resulting from changes in the balances denominated in currencies other than the functional currency of the parties involved. This risk concerns in particular the significant amounts of bank loans denominated in EUR received by the subsidiaries whose functional currency is PLN. Intercompany settlements are eliminated completely from these consolidated financial statements, with the exception of foreign exchange gains and losses affecting the consolidated profit or loss. The risk of changes in exchange rates arises when future commercial transactions or assets and liabilities recognized are expressed in currencies other than the Company's or its subsidiaries' functional currency.

The Management Board of the CPD Group monitors the fluctuations in exchange rates on an on-going basis and takes actions adequate to the situation. The currency risk arising in connection with foreign currency debt servicing is minimized by generating income from rental and negotiating proceeds from the sale of properties held from sale in the currency in which the investment loan was received. At present the CPD Group is not engaged in any hedging transactions; however, this could change should the Management Board decide that the situation so requires.

	Year ended at 31 December 2010	Year ended at 31 December 2009
Debt in foreign currencies - EUR	52,521	141,876
Assumed change in PLN/EUR exchange rate	+/-1%	+/-1%
Tax shield	100	270
Effect on net profit/(loss)	425	1,149

##### (ii) Price risk

The CPD Group is exposed to price risk in connection with the value of properties and to the risk of rental income. These are not financial risks.

##### (iii) Interest rate risk

Interest rate risk is the risk the CPD Group is exposed to in connection with changes in market interest rates. In the case of the CPD Group, the risk of changes in interest rates is related to long-term bank loans (Note 13). Floating interest rate loans expose the CPD Group to the risk of fluctuations in future cash flows. The CPD Group does not hedge against changes in interest rates. The Management Board observes the fluctuations in interest rates on a current basis and acts adequately.

## Celtic Property Developments S.A.

## Consolidated financial statements for the period from 1 January 2010 to 31 December 2010

(All amounts in PLN thousand unless otherwise stated)

**Additional notes and explanations to the consolidated financial statement****3.1 Financial risk factors - cont.**

	Year ended at 31 December 2010	Year ended at 31 December 2009
Variable interest rate loans	52,588	142,293
Cost of interest in the period	4,309	8,130
Assumed change in interest rates	+/-1pp	+/-1pp
Effect of the change on the cost of interest	526	1,423
Tax shield	100	270
Effect on net profit/(loss)	426	1,153

Trade receivables and other receivables and liabilities as at 31.12.2010 are interest-free and due within 1 year, with the exception of long-term receivables of PLN 553 thousand, which are due within 1 to 5 years.

*(b) Credit risk*

Credit risk arises on cash and cash equivalents and receivables. It is mitigated by depositing cash with highly reliable banks (mainly HSBC, BRE Bank, Unicredit), establishing security for the repayment of receivables in respect of rental services in the form of cash deposits or bank guarantees and, in the case of receivables in respect of the sale of buildings, in the form of a deposit with an independent agent.

*(c) Liquidity risk*

Liquidity risk arises when the due dates of assets and liabilities do not match. Such a situation potentially increases profitability, but at the same time it increases the risk of incurring a loss. The CPD Group applies procedures aimed at minimizing such losses, such as maintaining an appropriate level of cash and other liquid assets and adequate access to credit facilities. The CPD Group's liquidity level is monitored by the Management Board on an on-going basis.

Undiscounted contractual cash flows:

	Within 1 year	1 – 5 years	More than 5 years
As at 31.12.2010			
Loans and leases	7,326	58,647	159,639
Trade payables and other payables	18,488	134	0
	25,814	58,781	159,639
As at 31.12.2009			
Loans and leases	97,513	68,438	169,594
Trade payables and other payables	15,446	1,532	0
	112,959	69,970	169,594

The major part of short-term loans was disposed after the balance sheet date upon the sale of the company, Mokotów Plaza Sp. z o.o. (Note 27).

**3.2 Capital risk management**

As far as capital risk management is concerned, the aim of the CPD Group is to maintain the Group's ability to continue in operation in such a manner that return for shareholders and other stakeholders could be realized, while at the same time the cost of capital is maintained at the optimum level.

In order to maintain or adjust the capital structure, the CPD Group can change the amount of dividend declared for distribution to the shareholders, refund capital to the shareholders, issue new shares or sell its assets to reduce debt.

## Celtic Property Developments S.A.

### Consolidated financial statements for the period from 1 January 2010 to 31 December 2010

(All amounts in PLN thousand unless otherwise stated)

## Additional notes and explanations to the consolidated financial statement

### 3.2 Capital risk management - cont.

The financing structure ratio which reflects the capital structure is calculated as net debt to total capital. The net debt is calculated as the sum of loans and advances (comprising the current and long-term loans and advances shown in the consolidated balance sheet) and trade and other payables less cash and cash equivalents. The total value of capital is calculated as equity shown in the consolidated balance sheet plus net debt.

The CPD Group strategy is to maintain the financing structure ratio at a level below 40%.

	31 December 2010	31 December 2009
Total loans (Note 13)	81,257	172,436
Trade payables and other payables (Note 12)	18,859	18,486
Less: cash and cash equivalents (Note 10)	-37,306	-50,119
<b>Net debt</b>	<b>62,810</b>	<b>140,803</b>
Equity	825,478	774,890
<b>Total capital</b>	<b>888,287</b>	<b>915,693</b>
<b>Financing structure ratio</b>	<b>7.1%</b>	<b>15.4%</b>

The financing structure ratio decreased by half in relation to the previous year. The main reason for the change in this ratio was the sale of a subsidiary with a loan.

## 4 Critical accounting estimates and judgments

Important estimates and judgments are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The accounting estimates and judgements are reviewed on a regular basis. The Management Board makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

### (a) Estimated fair value of investment properties

The prices of similar contracts on an active market are the best indication of fair value. If there is no such information, the CPD group determines the amount on the basis of a range of reasonable fair value estimates. When making a judgment, the Management Board takes into account various data, including:

- (i) current prices of properties of a different type, condition and location (or subject to another agreement or contract) on an active market, adjusted to reflect the differences;
- (ii) the latest prices of similar properties on less active markets, adjusted to reflect the changes in economic conditions which occurred after the date of concluding a transaction at a given price;
- (iii) discounted cash flow projections based on reliable assumptions of future cash flows, based on the terms and conditions of existing lease contracts and other contracts (if available) from external sources such as current market rents for similar properties in the same location and condition, with the use of discount rates reflecting the current assessment of market uncertainty as to the amount and timing of the said cash flows.

The appropriate method of estimating the fair value of investment properties is determined by an external qualified property valuer. Key assumptions applied by valuers are mainly based on the market conditions existing as at the balance sheet date and the existing lease contracts.

The expected future market revenues from rent are estimated based on the existing rental agreements and current market revenues from similar properties in the same location and condition.

## Celtic Property Developments S.A.

## Consolidated financial statements for the period from 1 January 2010 to 31 December 2010

(All amounts in PLN thousand unless otherwise stated)

**Additional notes and explanations to the consolidated financial statement****4 Critical accounting estimates and judgments - cont.**

In the preparation of investment property, valuation reports for the CPD Group, external valuers excluded the sales made under hard financial conditions from comparative sales prices considered. The Management Board reviewed the assumptions adopted by the valuers, which constituted the basis for discounted cash flow models used for valuation purposes, and confirmed that the factors such as the discount rate used were determined correctly in view of the market conditions as at the balance sheet rate. In view of the market conditions as at the balance sheet date, the Management Board reviewed and confirmed the valuers' assumptions constituting the basis for the valuation models applied.

The properties which generate significant revenues from rent (Aquarius, Cybernetyki 7b) were valued by the discounted cash flow method. Land not intended for development (Wolbórz, part of the Ursus property) was valued by the comparative method, and the fair value of the other investment properties was determined based on the residual method with or without phasing of construction projects planned for the individual plots.

Depending on the circumstances, the rates of current and future rents and sale prices of apartments resulted from rental agreements signed or market conditions determined by an independent expert. Usable areas used in the calculations resulted from the existing construction documents or, in their absence, from the binding or announced spatial planning conditions. The costs of construction project execution used in the residual method resulted from the adopted budgets or, in their absence, from the estimated cost efficiency ratios determined by the expert for comparable market projects.

For valuation purposes capitalization rates of 7.25% to 8% and discount rates of 7.5% to 8% were used.

In 2010, the Group's profit from remeasurement of investment properties to the fair value amounted to PLN 16.1 million.

Due to the fact that different methods are used to value investment properties, estimated variables affect the fair values obtained to a different extent. The table below presents an analysis of the sensitivity of changes in the fair value of investment properties to the changes in the key estimated variables, assuming a specific growth of each of them. The analysis is performed independently for each variable based on the assumption that other estimates remain unchanged.

Investment properties by the valuation method	Fair value	Effect of estimated variables			
		Discount and capitalization rates (+0.25 pp)	Expected rent rates (+2.5%)	Construction costs	Sale prices (+2.5%)
discounted cash flow	63,048	-2,056	1,414	0	0
residual	604,468	0	0	-71,842	88,045
comparative	58,030	0	0	0	0
perpetual usufruct of land	28,669	0	0	0	0
	<b>754,215</b>	<b>-2,056</b>	<b>1,414</b>	<b>-71,842</b>	<b>88,045</b>

*b) Income tax*

The CPD Group is an income tax payer in many countries. A significant amount of judgment is required to determine the amount of income tax on a global scale. There are many transactions and calculations for which the ultimate tax determination is uncertain. The CPD Group recognizes liabilities in respect of expected problematic tax issues on the basis of the assessment whether additional tax would be required. Where the final tax outcome is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax assets and provisions in the period in which the ultimate tax assessment is made.

**Celtic Property Developments S.A.**

**Consolidated financial statements for the period from 1 January 2010 to 31 December 2010**

(All amounts in PLN thousand unless otherwise stated)

**Additional notes and explanations to the consolidated financial statement**

**4 Critical accounting estimates and judgments - cont.**

*c) Impairment of goodwill*

A significant amount of judgment is required to estimate impairment of intangible assets. Also, to determine the fair value of each CPD Group project it is necessary to estimate the amount and timing of future cash flows, forecasted sales and profitability of the existing and new projects, future capital expenditure, growth ratios and discount rates which reflect the current market conditions. The total recoverable amount is compared with the carrying amount, which includes goodwill. The CPD Group performs annual testing to assess whether goodwill is impaired or not, in accordance with the accounting policy described in Note 2.10. Goodwill is assigned to a cash-generating unit, which comprises the whole CPD Group, because it is expected that all CPD Group entities will benefit from business combination. The goodwill was generated in 2007 on the acquisition of a group of entities, which included providers of management services.

As a result of that transaction, all properties maintained by the CPD Group are managed by the acquired entity – the property manager. As a result, all CPD Group entities which have investment properties benefit from the business combination. Recoverable value of the cash-generating unit (CGU) was determined based on the fair value less costs to sell. The fair value of the CGU comprises the fair value of investment properties and the fair value of other CPD Group operations. The fair value of investment properties is determined in accordance with the principles described in Note 4(a), and the fair value of the other CPD Group operations is determined based on the projected net cash flows resulting from the financial budgets approved by the Management Board. The budgets cover five-year periods and assume that the entity providing management services will be disposed or liquidated after that period unless it takes on new projects, which are not included in the current budgets.

The discount rate after tax used in the calculation amounted to 8% (7.6% in 2009). A change in the discount rate after tax for cash flows used for testing purposes by one percentage point would not result in impairment of goodwill.

Cash flow calculation is based on a valid assumption concerning the amount of preference dividend resulting from the investment portfolio management contract signed. Dividend received by the Group in 2010 did not result in the further impairment of goodwill. Dividend distribution is also expected in 2011. If this amount were 20% lower than the amount estimated by the Management Board, there would be no further changes in the amount of goodwill.

*d) Functional currency of the parent company*

Due to the changes described in Note 2.4, the functional currency of the parent company and the presentation currency of the CPD Group's consolidated financial statements were changed from EUR to PLN.

## Celtic Property Developments S.A.

## Consolidated financial statement for the period from 1 January 2010 to 31 December 2010

(All amounts in PLN thousands unless otherwise stated)

**Additional notes and explanations to the consolidated financial statements****5 Investment properties**

	Year ended 31 December 2010	Year ended 31 December 2009
<b>At the beginning of the period</b>	<b>861 876</b>	<b>670 309</b>
Capital expenditure	8 787	24 670
Change in the balance of capitalized financial liability	(1 474)	2 079
Transfer from inventories	0	18 382
Disposals	(131 050)	0
Net gain from fair value adjustment on investment property	16 077	146 436
	<b>754 216</b>	<b>861 876</b>

Subsequent expenditures are related to capitalization of the costs of relevant external services increasing the acquisition or construction cost of the properties.

Investment properties which belong to the CPD Group were valued by an independent international professional appraiser, Savills Sp. z o.o. as at 31 December 2010 and 31 December 2009 in accordance with the following standards and regulations: Practice Statements of the Royal Institution of Chartered Surveyors' (RICS) Appraisal and Valuation Standards (the "Red Book") published in February 2003, effective from 1 May 2003.

Further information on the valuation as at the balance sheet date is presented in Note 4 (a).

As at 31 December 2010, all investment properties of the CPD Group were registered in the land and mortgage register.

Due to the fact that the value of the properties (according to external valuation) is reduced by the fees for perpetual usufruct, the "fair book value" of the properties has been increased by the amount of the financial liabilities relating to such use. Such recognition results in the balance sheet value of the investment property being increased by the liability in respect of the lease.

	31 December 2010	31 December 2009
Investment property acc. to external valuation	725 546	831 733
Liabilities in respect of perpetual usufruct	28 670	30 143
<b>Investment property presented in the statement of financial position</b>	<b>754 216</b>	<b>861 876</b>

In June 2010, in connection with the preliminary agreement for the sale of a subsidiary Mokotów Plaza Sp. z o.o., the Mokotów Plaza property was reclassified to assets held for sale and in the financial statements as at 30 June 2010 it was presented under "non-current assets held for sale". The said investment property was sold on 28 July 2010 in a share sale transaction.

Direct operating expenses relating to investment properties:

	12 months ended 31 December 2010	12 months ended 31 December 2009
- generating income from rent	3 944	5 934
- other	3 957	3 001
	<b>7 901</b>	<b>8 935</b>

## Celtic Property Developments S.A.

## Consolidated financial statement for the period from 1 January 2010 to 31 December 2010

(All amounts in PLN thousands unless otherwise stated)

**Additional notes and explanations to the consolidated financial statements****6 Fair value of security**

	31 December 2010	31 December 2009
Aquarius	31 445	31 058
Łopuszańska	59 206	42 060
Ursus	69 330	78 882
Jana Kazimierza	25 742	31 469
Cybernetyki 7b	31 603	32 455
Mokotow Plaza	0	139 761
	<b>217 326</b>	<b>355 685</b>

The above-mentioned properties constitute security under the loan agreement with HSBC (in 2009 security of loan agreements with HSBC and BZ WBK).

**7 Goodwill**

Goodwill is a result from the business combination transaction, which took place in 2007. Goodwill originated in EUR and it is translated into PLN at every balance sheet date at the exchange rate as at the balance sheet date. Foreign exchange differences on such translation are recognized in equity under foreign exchange differences on translation.

An assessment of the recoverable amount of goodwill performed by the CPD Management Board as at the end of 2010 showed that no impairment occurred. The test is described in Note 4(c).

	31 December 2010	31 December 2009
<b>Opening balance</b>	<b>51,353</b>	<b>52 155</b>
Foreign exchange losses	(1 849)	( 802)
<b>Closing balance</b>	<b>49,504</b>	<b>51 353</b>

**8 Trade receivables and other receivables**

	31 December 2010	31 December 2009
Trade receivables	7 880	1 784
Other receivables	5 620	765
Prepayments and accruals	4 869	2 765
Deferred income	160	0
Receivables from the state budget	673	5 927
Short-term loans	0	66
Receivables from related entities	3 844	4 219
<b>Short-term trade receivables and other receivables</b>	<b>23 046</b>	<b>15 526</b>
Long-term receivables	553	0
<b>Total trade receivables and other receivables</b>	<b>23 599</b>	<b>15 526</b>

The estimated fair value of trade receivables and other receivables is a discounted amount of expected future inflows which the CPD Group will receive, and it approximates the carrying amount of such inflows. Most trade receivables in respect of rent are secured. The CPD Group requires security from its tenants in the form of an equivalent of a one to three months' rent. Receivables in respect of rent are mainly secured with bank deposits.

The CPD Group recognized a loss of PLN 962 thousand in respect of impairment and write-off of receivables in the year ended 31 December 2010 (year ended 31 December 2009: PLN 303 thousand). The loss was recognized under "other administrative expenses" in the consolidated profit/(loss).

## Celtic Property Developments S.A.

## Consolidated financial statement for the period from 1 January 2010 to 31 December 2010

(All amounts in PLN thousands unless otherwise stated)

**Additional notes and explanations to the consolidated financial statements****8 Trade receivables and other receivables (cont.)**

<b>Trade receivables</b>	<b>31 December 2010</b>	<b>31 December 2009</b>
Current	7 610	1 242
Overdue, no impairment	270	542
Overdue, with recognized impairment (provided for in full)	742	1 154
<b>Receivables from related entities</b>	<b>31 December 2010</b>	<b>31 December 2009</b>
Current	2 094	2 597
Overdue, no impairment	1 750	1 622
Overdue, with recognized impairment (provided for in full)	0	0
<b>Impairment of receivables</b>	<b>31 December 2010</b>	<b>31 December 2009</b>
- <i>trade receivables:</i>		
Opening balance	1 154	885
- increases	962	283
- decreases	(1 374)	0
- foreign exchange gains / (losses)	0	( 14)
Closing balance	<b>742</b>	<b>1 154</b>
- <i>other receivables:</i>		
Opening balance	1 306	1 327
- increases	31	0
- decreases	(1 306)	0
- foreign exchange gains / (losses)	0	( 21)
Closing balance	<b>31</b>	<b>1 306</b>

The maximum amount of exposure to credit risk as at the reporting date is equivalent to the carrying amount of the receivable. In the opinion of the Management Board, there is no significant credit risk concentration with respect to trade receivables, since the CPD Group has a large group of tenants.

**9 Inventories**

	<b>31 December 2010</b>	<b>31 December 2009</b>
Work in progress	28 989	53 777
Finished goods	15 438	1 019
Goods for resale	31 871	38 502
	<b>76 298</b>	<b>93 298</b>

Work in progress relates to properties under construction, i.e. IRIS (Mokotów Plaza II). Finished goods and goods for resale comprise properties intended for sale in the normal course of business activity. Such properties are located in Montenegro, Józefosław and Magdalenka (Poland). They also comprise completed construction projects, i.e. Wilanów, Koszykowa (Poland) and Alsonemedi (Hungary).

In 2009, work in progress comprised the following properties under construction: Wilanów, IRIS (Mokotów Plaza II) and Koszykowa. Finished goods and goods for resale comprised properties intended for sale in the normal course of business activity. Such properties were located in Montenegro, Józefosław, Magdalenka and Alsonemedi.



## Celtic Property Developments S.A.

## Consolidated financial statement for the period from 1 January 2010 to 31 December 2010

(All amounts in PLN thousands unless otherwise stated)

**Additional notes and explanations to the consolidated financial statements****9 Inventories (cont.)**

	31 December 2010	31 December 2009
<b>At the beginning of the period</b>	<b>93 298</b>	<b>143 953</b>
Capital expenditure	1 350	4 575
Purchases	0	4 314
Disposals	(9 674)	(35 585)
Reclassification to other receivables	(2 038)	0
Reclassification to investment properties	0	(18 382)
Write-downs	(5 721)	(5 222)
Foreign exchange losses	( 917)	( 355)
<b>As at the balance sheet date</b>	<b>76 298</b>	<b>93 298</b>

**10 Cash and cash equivalents**

	31 December 2010	31 December 2009
Cash in hand and at bank	25 319	32 616
Cash and cash equivalents with restricted availability for use	9 374	12 502
Short-term bank deposits	2 613	5 001
	<b>37 306</b>	<b>50 119</b>

Cash and cash equivalents with restricted availability for use as at 31 December 2009 and 31 December 2010 comprised guarantee deposits securing potential claims relating to inventories sold (an escrow bank account).

Cash and cash equivalents for the purposes of preparing the cash flow statement comprise cash in hand and at bank and short-term bank deposits.

**11 Share capital**

	Number of shares		Value of shares	
	31 December 2010	31 December 2009	31 December 2010	31 December 2009
Ordinary shares (in thousands)	34 833	6 950	3 483	1 197 085
Total	<b>34 833</b>	<b>6 950</b>	<b>3 483</b>	<b>1 197 085</b>

Movements in capital resulting from the change of the parent company are described in Note 26.

The share capital presented in the statement of comprehensive income as at 31 December 2010 comprised 34,833 thousand shares with PLN 0.10 par value each.

On 20 September 2010, the Extraordinary General Shareholders' Meeting passed a resolution on the redemption of 765,043 series B treasury shares with PLN 0.10 par value each. At the same time, the Extraordinary General Shareholders' Meeting decided to decrease the share capital of CPD S.A. from PLN 3,483,329.50 to PLN 3,406,825.20, i.e. by PLN 76,504.30.

The redemption of series B shares described above involved compensation of EUR 6 per share. The total amount of compensation paid to the Company's shareholders by the balance sheet date was PLN 17,967 thousand. The compensation paid to the shareholders of PLN 17,967 thousand was recognized in consolidated retained earnings/(accumulated losses). On 14 January 2011, the redemption of B series shares was registered in the National Court Register.

## Celtic Property Developments S.A.

## Consolidated financial statement for the period from 1 January 2010 to 31 December 2010

(All amounts in PLN thousands unless otherwise stated)

**Additional notes and explanations to the consolidated financial statements****11 Share capital (cont.)**

The Company's Management Board is authorised to increase the Company's share capital by 30 August 2013 by the amount not exceeding PLN 2,500,000.00 (two million five hundred thousand zlotys) within the limits of the statutory capital. The Management Board can do it in the form of one or more capital increases. The shares can be paid for in cash or in the form of non-cash contributions.

The Company has only one class of treasury shares carrying full voting rights and paid for in full.

**12 Trade payables and other payables****Long-term trade payables and other payables**

	31 December 2010	31 December 2009
Deposits of tenants	134	1 532

**Short-term trade payables and other payables**

	31 December 2010	31 December 2009
Trade payables	2 093	4 357
Liabilities to related entities	49	125
Other liabilities	1 933	1 555
Output VAT and other tax liabilities	237	1 508
Deposits of tenants	400	173
Accruals and deferred income	14 013	9 236
<b>Total</b>	<b>18 725</b>	<b>16 954</b>

Trade payables bear no interest and are payable during the year.

The estimated fair value of trade payables and other payables is a discounted amount of expected future outflows, which the CPD Group will pay, and it approximates their carrying amount.

**13 Loans and borrowings (including finance lease)**

	31 December 2010	31 December 2009
<b>Long-term</b>		
Bank loans	49 504	54 434
Finance lease liabilities	28 669	30 143
	<b>78 173</b>	<b>84 577</b>
<b>Short-term</b>		
Bank loans	3 017	86 484
Loans from unrelated entities	67	1 375
	<b>3 084</b>	<b>87 859</b>
<b>Total loans and borrowings</b>	<b>81 257</b>	<b>172 436</b>

In May 2007, The CPD Group received from HSBC Bank Polska a loan up to the amount of EUR 24 million. The loan is secured with a fixed and floating registered pledge on the assets of the subsidiaries with their registered offices in Poland: Lakia Investments Sp. z o.o., Robin Investments Sp. z o.o., Devin Investments Sp. z o.o., Mandy Investments Sp. z o.o. and Blaise Investments Sp. z o.o., and on the assets of the shareholder in Cyprus: Lakia Enterprises Ltd. In the years 2008-2010, the companies repaid the loan in the amount of EUR 10.7 million. Based on an annex to the agreement signed in mid 2009, the loan repayment deadline was extended until March 2012. In 2011, the amount of EUR 750 thousand is payable.

In connection with the loan received from HSBC, one company made a pledge on the shares up to the amount of EUR 14 million.

## Celtic Property Developments S.A.

## Consolidated financial statement for the period from 1 January 2010 to 31 December 2010

(All amounts in PLN thousands unless otherwise stated)

**Additional notes and explanations to the consolidated financial statements****13 Borrowings (including finance lease) (cont.)**

In 2008, Mokotów Plaza Sp. z o.o., a subsidiary with its registered office in Poland, signed a loan agreement with BZ WBK S.A. The Company was granted a loan of EUR 15.1 million and the equivalent of EUR 2.4 million in Polish zlotys for the construction of the 1st stage of Mokotów Plaza. Subsequently, the loan was increased by EUR 10.3 million by an annex. The loan was secured with a mortgage on the property which belongs to Mokotów Plaza Sp. z o.o. and with a registered pledge on the shares in the subsidiary. As at 31 December 2009, the part of the loan relating to VAT was repaid in full, and the amount still outstanding was EUR 20.3 million. The loan repayment deadline was in August 2010. On 28 July 2010, the loan was disposed as a consequence of the sale of shares in the subsidiary Mokotów Plaza Sp. z o.o.

Under the existing loan agreements, interest on loans and borrowings is accrued based on a reference rate (LIBOR or EUROLIBOR, respectively) plus a margin of 3.3% to 5.3%.

Finance lease liabilities relate to the right to perpetual usufruct and are recognized due to the increase in the fair value of investment property for accounting purposes (Note 6).

	31 December 2010	31 December 2009
<b>Repayment of the principal amount of lease liabilities based on the effective interest rate due within:</b>		
1 year	6	6
from 1 to 5 years	30	31
after more than 5 years	28 633	30 106
	<b>28 669</b>	<b>30 143</b>
<b>Par value of minimum lease payments due:</b>		
within 1 year	2 157	2 261
from 1 to 5 years	8 629	9 044
after more than 5 years	159 639	169 594
	<b>170 425</b>	<b>180 899</b>
<b>Future financial costs</b>	<b>(141 756)</b>	<b>(150 756)</b>
	<b>28 669</b>	<b>30 143</b>

The exposure of the CPD group loans and borrowings, excluding finance lease, to interest rate risk and the contractual dates of changes in the interest rates as at the balance sheet date are presented below:

	31 December 2010	31 December 2009
up to 6 months	1 599	86 054
from 6 months to 1 year	1 485	1 541
from 1 to 5 years	49 504	54 434
more than 5 years	0	0
	<b>52 588</b>	<b>142 028</b>

The carrying amount of loans and borrowings approximates their fair value.

The carrying amount of CPD group's loans and borrowings is denominated in the following currencies:

Currency	31 December 2010	31 December 2009
PLN	0	152
HUF	67	0
EUR	52 521	141 876
	<b>52 588</b>	<b>142 028</b>

In connection with the loan received from HSBC, one company made a pledge on the shares up to the amount of EUR 14 million.

## Celtic Property Developments S.A.

## Consolidated financial statement for the period from 1 January 2010 to 31 December 2010

(All amounts in PLN thousands unless otherwise stated)

**Additional notes and explanations to the consolidated financial statements****14 Deferred income tax**

Deferred income tax assets and provision are offset if there is an enforceable legal title to offset current income tax assets against current income tax liabilities and if deferred income tax assets and provision relate to taxes assessed by the same tax authorities.

	31 December 2010	31 December 2009
<b>Deferred tax assets</b>		
- to be utilized after more than 12 months	0	0
- to be utilized within 12 months	7 884	21 639
	<b>7 884</b>	<b>21 639</b>
<b>Deferred income tax liabilities</b>		
- to be paid after more than 12 months	25 449	130 264
- to be paid within 12 months	0	0
	<b>25 449</b>	<b>130 264</b>

The movement in deferred tax assets and liabilities during the year is as follows:

**Deferred income tax liabilities (before offset)**

	2009	Charged to profit/(loss)	Charged to capital on translation	2010
Property valuation at fair value	127 503	(94 109)	( 199)	33 195
Accrued interest on loans	0	1 686	0	1 686
Provision for income	1 735	( 196)	0	1 539
Foreign exchange	265	( 205)	0	60
Other	760	1 614	( 699)	1 675
	130,263	(91 210)	( 898)	38,155

**As at 1 January 2009**

	<b>95 264</b>
Foreign exchange gains/(losses)	( 71)
Amount charged/(credited) to profit or loss	35 071
<b>As at 31 December 2009</b>	<b>130 264</b>
Foreign exchange gains/(losses)	( 700)
Amount charged/(credited) to profit or loss	(93 129)
Change due to disposal of a subsidiary	(10 986)
<b>As at 31 December 2010</b>	<b>25 449</b>

Significant amounts of deferred income tax liabilities arise mainly in respect of adjustments to fair value measurement of investment properties (Note 6).

## Celtic Property Developments S.A.

## Consolidated financial statement for the period from 1 January 2010 to 31 December 2010

(All amounts in PLN thousands unless otherwise stated)

**Additional notes and explanations to the consolidated financial statements****14 Deferred income tax (cont.)****Deferred income tax assets (before offset)**

	2009	Charged to profit/(loss)	Charged to capital on translation	2010
Accrued, interest unpaid	7,435	1,829	0	9,264
Foreign exchange gains/(losses)	4,010	(3 342)	0	668
Provisions	1,341	636	0	1,976
Property measurement at fair value	0	1 815	0	1,815
Other	85	( 23)	0	62
Tax losses	8,770	(1 965)	0	6,805
	21,641	(1 050)	0	20,590
<b>As at 1 January 2009</b>				<b>18 796</b>
(Charged)/credited to profit or loss				2 844
Foreign exchange gains/(losses)				( 1)
Purchase of subsidiaries				0
<b>As at 31 December 2009</b>				<b>21 639</b>
Foreign exchange gains/(losses)				1
Change due to disposal of a subsidiary				( 812)
(Charged)/credited to profit or loss				(12 944)
<b>As at 31 December 2010</b>				<b>7 884</b>

Significant amounts of deferred income tax liabilities arise mainly in respect of adjustments to fair value measurement of investment properties. The amount of PLN 80.3 million was credited to profit in 2010 mainly due to the fact that in 2010 a subsidiary Challenge Eighteen Sp. z o.o., which was the owner of land in Ursus, decided to contribute the land in kind to 20 newly-formed special purpose companies operating in the form of limited partnerships. As a result of making the contribution in kind, the tax value of the property increased, and the initially recognized deferred tax liabilities in respect of the land contributed in kind decreased.

Furthermore, due to the disposal of the subsidiary Mokotów Plaza Sp. z o.o., a deferred tax liability of PLN 12.0 million in respect of the net assets of the sold company was derecognized.

	31 December 2010	31 December 2009
Tax losses	35 816	46 521
Deductible temporary differences on loans and borrowings (foreign exchange differences and accrued interest)	52 275	59 853
Other deductible temporary differences	20 295	7 518
Total	108 386	113 892
Deferred tax assets before offset	20 593	21 639
Offset of deferred tax assets against liabilities within individual companies	(12 709)	
Net deferred tax assets	7 884	21 639

Deferred income tax assets on the tax loss and deductible temporary differences are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences and tax losses can be utilised.

**Expiry of tax losses**

	2011	2012-2013	2014-2015	Total
- Losses on which deferred tax was recognized	1 422	14 674	19 719	35 816
- Losses on which deferred tax was not recognized	5 454	19 017	10 898	35 369

## Celtic Property Developments S.A.

## Consolidated financial statement for the period from 1 January 2010 to 31 December 2010

(All amounts in PLN thousands unless otherwise stated)

**Additional notes and explanations to the consolidated financial statements****15 Revenues**

Revenues by category:

	12 months ended 31 December 2010	12 months ended 31 December 2009
Rental income	10 300	12 804
Sales of inventories	11 326	36 410
Real estate advisory services	20 491	6 382
Services relating to rental	4 454	6 146
Accounting services	45	495
	<b>46 616</b>	<b>62 237</b>

Inventories are predominant in sales. Sales for 2009 consisted almost entirely of properties in Wilanów and Józefosław. In 2010, as far as inventories are concerned, the sales comprised mainly the final stages of projects in Józefosław and Wilanów (PLN 6.0 million) and Koszykowa (PLN 4.0 million).

Real estate advisory services constitute a more and more significant part of the sales. In the current year, such revenues were mainly generated by Celtic Investments (PLN 10.3 million), CAM Estates (PLN 4.6 million) and Celtic Italy (PLN 5.5 million).

The Group leases properties under operating lease.

The Group adopted two models of standard rental contracts, depending on the type of rented property.

*(a) Rental of warehouses*

- rent payments expressed in PLN

- tenants are not obliged to participate in the costs of servicing the building, including the costs of repairs, insurance, land lease
- unspecified rental period with 1 to 3 months notice period

*(b) Rental of office space*

- rent is expressed in EUR and indexed for the annual inflation rate for EUR (invoiced in PLN),
- specified rental period up to 5 years without a possibility of early termination.

	12 months ended 31 December 2010	12 months ended 31 December 2009
up to 1 year	4 250	878
from 1 to 5 years	7 321	46 363
more than 5 years	797	14 172
	<b>12 368</b>	<b>61 413</b>

Minimum proceeds from irrevocable rental agreements comprise lease payments on agreements concluded for a specified time and payments for the notice period in the case of agreements concluded for an unspecified time.

**16 Cost of sales**

	12 months ended 31 December 2010	12 months ended 31 December 2009
Cost of inventories sold	9 674	35 561
Changes in impairment write-downs of inventories	5 721	5 222
Cost of services provided	8 763	1 487
	<b>24 158</b>	<b>42 270</b>

## Celtic Property Developments S.A.

## Consolidated financial statement for the period from 1 January 2010 to 31 December 2010

(All amounts in PLN thousands unless otherwise stated)

**Additional notes and explanations to the consolidated financial statements****16 Cost of sales (cont.)**

Cost of inventories sold comprises the inventories' carrying amount as at the date of sale.

In the current year the change in the amount of inventory write-downs was due to a decrease in the value of the Koszykowa property of PLN 5.8 million, a decrease in the value of the real estate portfolio in Montenegro of PLN 2.7 million and an increase in the value of the Iris property (Mokotów Plaza II), which was previously written down, of PLN 2.8 million.

Advisory services of PLN 6,571 thousand constitute the main item of the cost of the services provided.

**17 Administrative expenses – relating to properties**

	12 months ended 31 December 2010	12 months ended 31 December 2009
Employee expenses	18 337	14 659
Property maintenance	4 880	6 020
Real estate tax	3 229	3 536
Perpetual usufruct	2 061	1 918
Depreciation and amortization	515	313
	<b>29 022</b>	<b>26 446</b>

**18 Other income**

	12 months ended 31 December 2010	12 months ended 31 December 2009
Reversal of unutilized accruals	1	5 257
Receivables written off in previous years, recovered	0	4 033
Reversal of bad debt provision	0	770
Forgiven or expired liabilities	244	858
Contractual penalties received	426	48
Other	2 169	818
	<b>2 840</b>	<b>11 784</b>

**19 Administrative expenses - other**

	12 months ended 31 December 2010	12 months ended 31 December 2009
Advisory services	6 089	5 977
Audit fee	528	514
Transport	836	1 009
Taxes	2 999	430
Office maintenance	3 859	5 381
Other services	1 697	2 640
Costs of not deductible VAT	3 991	657
Impairment write-down in respect of receivables	962	301
	<b>20 961</b>	<b>16 909</b>

The main factor which contributed to the increase in administrative expenses in 2010 was the expenditure on the Group restructuring associated with the optimization of its activities, as well as the cross-border business combination and admission of the shares of Celtic Property Developments S.A. to trading on the Warsaw Stock Exchange.

The business restructuring also contributed to the increase in the cost of taxes paid and limitation of the ability of some subsidiaries to deduct VAT.

## Celtic Property Developments S.A.

## Consolidated financial statement for the period from 1 January 2010 to 31 December 2010

(All amounts in PLN thousands unless otherwise stated)

**Additional notes and explanations to the consolidated financial statements****20 Financial income and costs**

	12 months ended 31 December 2010	12 months ended 31 December 2009
Interest expenses:		
- loans from unrelated entities		
- bank loans	(3 161)	(5 749)
- interest on finance lease	(2 214)	(2 261)
- other interest expenses	(1 148)	(2 381)
Other	448	(1 103)
<b>Financial costs</b>	<b>(6 075)</b>	<b>(11 494)</b>
Interest income:		
- bank interest	330	423
- interest from unrelated entities	1 592	883
- dividends received	3 969	0
Net foreign exchange gains	18 074	13 146
<b>Financial income</b>	<b>23 965</b>	<b>14 452</b>
<b>Financing activities, net</b>	<b>17 890</b>	<b>2 958</b>

Fluctuations in gain/loss on financing activities result mainly from a significant variability in foreign exchange rates (mainly EUR). Other significant factors affecting gain/loss on financing activities in the current quarter included proceeds from preference dividend received for the Spazio Industriale fund project management and a decrease in the costs of bank debt servicing resulting from disposal of the loan taken by the sold subsidiary Mokotów Plaza.

**21 Income tax expense**

	12 months ended 31 December 2010	12 months ended 31 December 2009
Current tax	1 338	398
Deferred tax (Note 14)	(80 185)	31 641
	<b>(78 847)</b>	<b>32 039</b>

Polish subsidiaries are subject to Polish corporate income tax, which is accrued at the rate of 19% on the profit or loss adjusted for tax purposes. Cyprian subsidiaries are subject to Cyprian income tax calculated on taxable profit at the tax rate of 10%. Realized gains on the sale of shares and other titles are exempt from taxation in Cyprus. In some circumstances, interest can be additionally taxed at the rate of 5%. In such cases, 50% of interest can be exempt from corporate income tax, therefore, the effective tax rate amounts to approximately 15%. In some cases, dividends received from abroad can be subject to additional taxation at the rate of 15%. Swedish entities are subject to income tax on taxable profit at the rate of 26.3%. Taxable profit of the Montenegrin entity is subject to corporate income tax at 9%, of the Italian entity – 31.4%, and of the British entity – 28%.

On 22 July 2010, the Hungarian parliament approved a tax rate reduction from 19% to 10%, with the effect from 1 July 2010. The new lower rate is applicable if the tax base does not exceed HUF 250 million. From 1 January 2011, it will be applicable to annual profit not exceeding HUF 500 million (the equivalent of EUR 1.77 million).



## Celtic Property Developments S.A.

## Consolidated financial statement for the period from 1 January 2010 to 31 December 2010

(All amounts in PLN thousands unless otherwise stated)

**Additional notes and explanations to the consolidated financial statements****21 Income tax expense (cont.)**

	<b>Applicable tax rate</b>	<b>Profit/(Loss) before tax</b>	<b>Tax at the rate applicable in a given country</b>	<b>Difference in the amount of tax at the local rate and at 19%</b>
Country:				
British Virgin Islands	0%	22 342	0	4 245
Sweden	26.3%	(3 483)	916	254
Cyprus	10%	36 323	(3 632)	3 269
Italy	31.4%	947	( 297)	( 117)
United Kingdom	28%	1 094	( 306)	( 98)
Hungary	19%	( 503)	96	0
Montenegro	9%	( 804)	72	( 80)
				<b>7 472</b>

The income tax recognized in the CPD Group's financial result differs from the theoretical amount which would result from the uniform application of the 19% tax rate applicable to profits of companies with their registered offices in Poland to accounting profit before tax. The differences are as follows:

	<b>12 months ended 31 December 2010</b>	<b>12 months ended 31 December 2009</b>
<b>Profit before tax</b>	<b>3 000</b>	<b>141 090</b>
Estimated tax liability at the 19% tax rate	( 570)	0*
Estimated tax liability at the 0% tax rate	0	0*
Impact on tax:		
- of different tax rates applicable to the Group companies and the tax on consolidation adjustments	7 472	(19 836)
- non-taxable income (Cyprus)	841	861
- adjustments relating to increase in the tax value of properties contributed in kind (reversal of deferred tax provision)	71 633	0
- adjustments relating to increase in the tax value of inventories	2 500	0
- irrecoverable tax losses	(5 894)	(4 397)
- other	2 865	(8 667)
<b>Income tax expense</b>	<b>78 847</b>	<b>(32 039)</b>

\* as at 31 December 2009, the Company's registered office was in the British Virgin Islands, where the tax rate is 0%

## Celtic Property Developments S.A.

## Consolidated financial statement for the period from 1 January 2010 to 31 December 2010

(All amounts in PLN thousands unless otherwise stated)

**Additional notes and explanations to the consolidated financial statements****22 Cash generated from operations**

	12 months ended	12 months ended
	31 December 2010	31 December 2009
Profit before income tax	3 000	141 090
Adjustments for:		
- depreciation	516	380
- foreign exchange differences on translating foreign operations	(13 882)	(9 333)
- revaluation of investment properties to fair value	(16 077)	(146 436)
- gains/(losses) on disposal of subsidiaries	5 325	(3 661)
- forgiven liabilities	0	(4 687)
- interest expenses	( 18)	2 912
- foreign exchange differences	(1 960)	( 901)
- impairment of inventories	5 721	5 222
- provisions – net movements	0	( 576)
- deferred income tax on a sold entity	(10 174)	0
- other adjustments	514	( 662)
Movements in working capital:		
- change in receivables	(7 197)	21 606
- change in inventories	10 362	26 696
- change in trade payables and other payables	425	(23 476)
	<b>(23 444)</b>	<b>8 174</b>

**23 Contingencies**

According to the general Polish regulations, the tax authorities may perform an inspection of books and records at any time within 5 years after the end of the reporting period and assess additional tax and penalties if any irregularities are found. According to the knowledge of the Management Boards of the CPD Group companies, there are no circumstances which could result in any significant liabilities arising in this respect.

The CPD Group companies – Liliane Investments, Gaetan Investments and Elara Investments – in connection with the sale of houses, apartments and plots granted guarantees and warranties to clients in respect of the legal status and technical conditions of the goods sold. The liability periods are one year from the date of sale for plots and three years for houses and apartments.

No significant contingent liabilities are expected to arise.

**24 Contractual liabilities (commitments)**

As at the end of 2010, the CPD Group had contractual liabilities amounting to PLN 5,888 thousand, which comprised the performance of finishing works for future tenants of the investment property Luminar (accrued), which was sold in 2007. These liabilities were recognized in the balance sheet. The liability expires in September 2011.

As at the end of 2009, the CPD Group had contractual liabilities, which comprised the performance of finishing works for future tenants of the Mokotów Plaza I property (of EUR 1.4 million) and Luminar investment property (accrued), which was sold in 2007.

## Celtic Property Developments S.A.

## Consolidated financial statement for the period from 1 January 2010 to 31 December 2010

(All amounts in PLN thousands unless otherwise stated)

**Additional notes and explanations to the consolidated financial statements****25 Transactions with related entities and transactions with employees**

Celtic Property Developments S.A. does not have a direct parent company or the ultimate parent company. Cooperative Laxey Worldwide W.A. is a significant investor at the highest level, which has a significant influence on the Company.

The CPD Group also concludes transactions with key managers and other related entities controlled by the Group's key managers.

The CPD group concluded the following transactions with related parties:

		12 months ended 31 December 2010	12 months ended 31 December 2009
<b>a) Transactions with key managers</b>			
Remuneration of the Management Board members		429	536
Cost of services provided by the Management Board members		4 005	3 506
Redemption of shares for a consideration		23	0
Total receivables		72	0
Total liabilities		0	125
<b>b) Transactions with the significant investor</b>			
Redemption of shares for a consideration		6 072	0
<b>c) Transactions with other related parties</b>			
Revenues			
<i>Braslink Ltd</i>	- interest	124	36
<i>Vigo Investments Sp. z o.o.</i>	- rental and accounting services	10	0
<i>Antigo Investments Sp. z o.o.</i>	- rental services	5	20
<i>Prada Investments Sp. z o.o.</i>	- rental services	5	0
<i>Quant Investments Sp. z o.o.</i>	- rental services	5	0
Costs			
<i>Kancelaria Radców Prawnych Oleś i Rodzynkiewicz</i>	- costs of legal services	199	0
<i>Exterior Sp. z o.o.</i>	- advisory services	71	0
Liabilities			
<i>Kancelaria Radców Prawnych Oleś i Rodzynkiewicz</i>	- trade payables	49	0
Receivables			
<i>Palladian Finance</i>	- other receivables	302	312
<i>Antigo Investments Sp. z o.o.</i>	- trade receivables	0	563
<i>Braslink Ltd</i>	- receivables in respect of the sale of shares and loans granted	3 470	3 344

## Celtic Property Developments S.A.

### Consolidated financial statement for the period from 1 January 2010 to 31 December 2010

(All amounts in PLN thousands unless otherwise stated)

## Additional notes and explanations to the consolidated financial statements

### 26 Change of the parent company of the Group

The change of the parent company, described in Note 2.3, was a part of the Group restructuring and was not accounted for as a business combination in the consolidated financial statements. Due to the above, it did not affect the amount of the Group's consolidated net assets. The change in the parent company was reflected in the structure of the Group's equity. After the business combination, the share capital of Celtic Property Developments S.A. is disclosed as at the Group's share capital in place of the share capital of Celtic Property Developments Plc (formerly Poen S.A.). The above mentioned changes affected the accumulated gains (losses).

Equity of Celtic Property Developments Plc as at the business combination	1 200 563
Foreign exchange gains/(losses) on translation of Celtic Property Developments Plc	50 301
New issue of Poen S.A. shares	(3 483)
Purchase of treasury shares as a result of business combination (Note 22)	( 500)
Redemption of treasury shares acquired as a result of the business combination	500
Effect on accumulated gains (losses)	<b>1 247 381</b>

In July 2010, 100% of the shares in Belise Investments Sp. z o.o. were purchased. At the moment of purchase the company did not carry out operations. The company's net assets as at the date of purchase amounted to PLN 5 thousand, and the purchase price was PLN 20 thousand.

### 27 Disposal of subsidiaries

The main item of the gain/(loss) on disposal of subsidiaries is the loss of PLN 5.3 million on the disposal of Mokotów Plaza Sp. z o.o. on 28 July 2010.

None of the subsidiaries sold in the current year represents discontinued activity.

### 28 Events after the balance sheet date

On 11 January 2011, the National Court Register registered a decrease in the share capital of Celtic Property Developments S.A. passed by the shareholders on 20 September 2010.

As at the date of preparation of these financial statements, the subsidiary Belise was close to finalizing the negotiations concerning the financing provided by a bank for the Iris project (formerly Mokotów Plaza II).

On 3 February 2011, Krzysztof Cichocki resigned as member of the Supervisory Board with effect from 3 March 2011. Wiesław Rozłucki became a new Supervisory Board member as of that date.

### 29 Dividend distribution

No dividends were paid in 2010 and in 2009.

## Celtic Property Developments S.A.

## Consolidated financial statement for the period from 1 January 2010 to 31 December 2010

(All amounts in PLN thousands unless otherwise stated)

**Additional notes and explanations to the consolidated financial statements****30 Earnings per share – basic and diluted**

Basic earnings per share are calculated as profit attributable to equity holders of the Company divided by weighted average number of ordinary shares during the year, excluding shares acquired by the Company and disclosed as “treasury shares”.

	12 months ended 31 December 2010	12 months ended 31 December 2009
Profit attributable to equity holders of the Parent Company	81 847	109 051
Weighted average number of ordinary shares (in thousands)	34 619	34 883
Earnings per share	2.36	3.13

Diluted earnings per share do not differ from basic earnings per share.

The weighted average number of ordinary shares for 2010 was determined taking into account the changes in the number of shares, which took place after the business combination (resolution of the Extraordinary General Shareholders' Meeting of 20 September 2010 on the redemption of 765,043 series B treasury shares).

For the purposes of calculating earnings per share, the number of shares issued as part of the business combination was used as comparative data.

**31 Reporting segments**

In accordance with a definition in IFRS 8, the CPD Group represents one operating segment and is recognized by the Management Board as such.

The division of external operating income is presented in Note 15.

At the end of the year, the CPD Group's parent company had its registered office in Warsaw, where it did not generate income from unrelated entities and did not hold any fixed assets in the current year and in the previous year.

Operating income from companies not belonging to the CPD Group is divided by country as follows:

	12 months ended 31 December 2010	12 months ended 31 December 2009
Poland	26 131	56 398
Cyprus	10 276	1 900
United Kingdom	4 568	3 942
Italy	5 550	0
Montenegro	91	9
	46 616	62 249

Non-current assets, including: investment properties, property, plant and equipment, intangible assets and goodwill are allocated as follows:

	31 December 2010	31 December 2009
Poland	755 308	862 714
Cyprus	49 503	51 353
Other	884	900
	805 695	914 967

**Celtic Property Developments S.A.****Consolidated financial statement for the period from 1 January 2010 to 31 December 2010**

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(All amounts in PLN thousands unless otherwise stated)

**Additional notes and explanations to the consolidated financial statements**

These consolidated financial statements were prepared and approved by the Management Board of the Company on 29.04.2011 and signed on its behalf by:

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Andrew Morrison Shepherd  
*Chairman of the Board*

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Aled Rhys Jones  
*Board Member*

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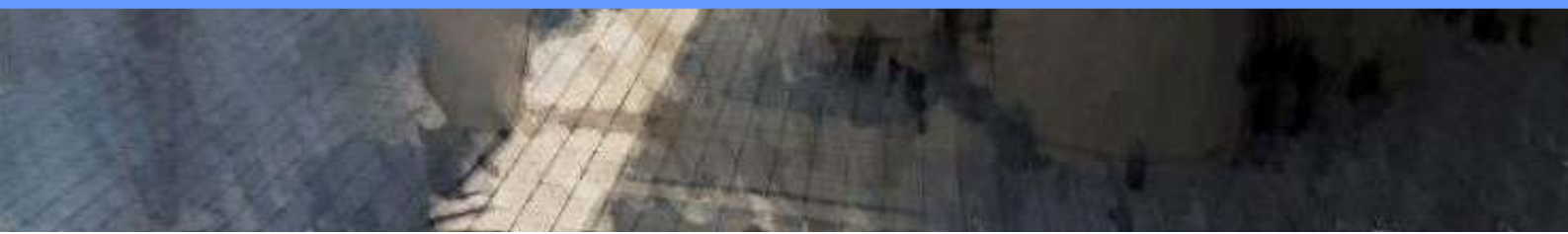
Christopher Bruce  
*Board Member*

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Elżbieta Donata Wiczowska  
*Board Member*



## IX. CONTACT DATA





## **X. CONTACT DETAILS**

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