



# ANNUAL REPORT 2011



**THE ACTIVITY REPORT OF THE GROUP**  
**CELTIC PROPERTY DEVELOPMENTS S.A.**  
**FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2011**

**CELTIC PROPERTY DEVELOPMENTS S.A.**  
**ANNUAL REPORT 2011**

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**LETTER OF THE PRESIDENT OF THE SUPERVISORY BOARD**

**I. LETTER OF THE PRESIDENT OF THE SUPERVISORY BOARD**

**LADIES AND GENTLEMEN,**

To sum up the year 2011, it should be noted that the global crisis, lasting several years, affected the situation of many financial institutions and, in many cases, resulted in the intervention of the governments not seen so far. A corollary of such market conditions is a significant limitation of the availability of financing by the banks, growing loan rates, as well as consumer reduction of expenditures, which in turn has a negative impact on the property market, causing a decline in their value.

The lack of approval of the master zoning plan for sites comprising the former tractors factory ZPC Ursus is another adverse factor for the activity of Celtic Group, which planned to launch the first stage of the investment in Ursus in 2011. Due to the inability to determine the time horizon for the start of the investment in Ursus, the Management Board of Celtic Property Developments S.A. decided to change strategy for the implementation of this project and has broken it into smaller projects, which the Group intends to carry out in collaboration with other developers. Changing the approach to the project in Ursus resulted in changing the valuation method recommended by an independent valuer, and as a consequence there was a significant decrease in the value of the real estate, which in turn was reflected in the financial result of the Celtic Group for 2011.

Last year the Celtic Group continued working on other projects in the Group portfolio and successfully continued advisory activities, provided mainly by foreign companies of the Group.

Despite unfavourable external factors the Celtic Group has maintained a stable financial liquidity, primarily due to its consistent policy of financing projects and revenues from advisory services provided to external institutions. The financing structure ratio at the end of the year 2011 amounted to 15.3%, which is a positive indicator for the development sector both in Poland and in the world.

The most important task for the Celtic Group for the year 2012 is to generate positive values of investments in Ursus.

I am deeply convinced that the Company, based on the experience and determination of the Management Board, on its employees' involvement, on the support of the Supervisory Board and on investors' confidence, will consistently build value for shareholders and successfully implement the strategic vision of development.

**YOURS SINCERELY,**

**MARZENA BIELECKA**  
**PRESIDENT OF THE SUPERVISORY BOARD**  
**CELTIC PROPERTY DEVELOPMENTS S.A.**

**SUPERVISORY BOARD**

## **II. SUPERVISORY BOARD OF CELTIC PROPERTY DEVELOPMENTS S.A.<sup>1</sup>**

- **MRS. MARZENA BIELECKA – PRESIDENT OF THE SUPERVISORY BOARD (SUPERVISORY BOARD MEMBER MEETING THE REQUIREMENTS OF INDEPENDENT MEMBER OF THE SUPERVISORY BOARD)**

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

- **MR WIESŁAW OLEŚ – VICE PRESIDENT OF THE SUPERVISORY BOARD**

Mr. Wiesław Oleś was appointed to 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 from the Faculty of law and administration of the Jagiellonian University in Kraków (major: Law). Mr. Wiesław Oleś is licensed legal advisor.

- **MR COLIN KINGSNORTH – SECRETARY OF THE SUPERVISORY BOARD**

Mr. Colin Kingsnorth was appointed to 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), he graduated from the University of East London UEL (Great Britain). Mr. Colin Kingsnorth is member of the UK Society of Investment Professionals.

- **MR MIROŚLAW GRONICKI – MEMBER OF THE SUPERVISORY BOARD (SUPERVISORY BOARD MEMBER MEETING THE REQUIREMENTS OF INDEPENDENT MEMBER OF THE SUPERVISORY BOARD)**

Mr. Mirosław Gronicki was appointed to the Supervisory Board of the First term on September 2, 2010. The term of office of Mr. Mirosława Gronickiego expires on February 23, 2012.. Mr. Mirosław Gronicki has higher economic education, he graduated from the Faculty of Economics of maritime transport at the University of Gdansk in Gdansk (major: the economics of maritime transport). Mr. Mirosław Gronicki has also obtained the PhD in economics at the Faculty of Economics of the Production at the University of Gdansk.

- **MR WIESŁAW ROZŁUCKI - MEMBER OF THE SUPERVISORY BOARD (SUPERVISORY BOARD MEMBER MEETING THE REQUIREMENTS OF INDEPENDENT MEMBER OF THE SUPERVISORY BOARD)**

Mr. Wiesław Rozłucki was appointed to the Supervisory Board of the First term on March 3, 2011. Kadencja The term of office of Mr. Wiesław Rozłucki expires on February 23, 2012. Mr. Wiesław Rozłucki graduated from Warsaw School of Economics (Szkoła Główna Handlowej, former SGPiS) – Faculty of Foreign Trade (1970). In 1977 he was conferred the PhD degree in Economic Geography. Between 1973 and 1989, Mr Rozłucki was a research worker at the Institute of Geography and Spatial Development of the Polish Academy of Sciences (PAN), and

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<sup>1</sup>At 31.12.2011.

subsequently, Secretary of the Polish Committee of the International Geographical Union. During 1979-80 he studied at the London School of Economics. Since 1990, he was responsible for transformation processes, first as an advisor to the Minister of Finance, then as Director of the Capital Markets Development Department in the Ministry of Privatisation. Between 1991 and 1994, Mr. Rozłucki was a member of the Polish Securities Commission. From 1991 to 2006, he was President of the Management Board of the Warsaw Stock Exchange as well as Chairman of the Supervisory Board of the National Depository for Securities.

In the 1990s, Mr. Rozłucki was a member of the Economic Development Council to President of the Republic of Poland. He was also a member of the World Federation of Exchanges (WFE), the Federation of European Securities Exchanges (FESE) as well as a member of the Market Participants Consultative Panel of the Committee of European Securities Regulators (CESR). During 2006-2010 he was a member of supervisory boards of PKN Orlen and Polimex-Mostostal.

Currently, Mr. Rozłucki is a Supervisory Board member of public companies: TP SA, Bank BPH, TVN, Wasko as well as the Foundation for Capital Market Education as well as the Good Practices Committee established in 2001. He is Chairman of the Programming Board of the Polish Institute of Directors and of the Harvard Business Review Polska. He provides consulting services, acting as a senior adviser to Rothschild and Warburg Pincus. Mr. Wiesław Rozłucki was honoured with Polish Commander Cross with the Star of the Order of Rebirth of Poland and French distinction L'Ordre National du Mérite.

During the year 2011, the following changes occurred in the composition of the Supervisory Board:

- On February 4, 2011 Mr. Krzysztof Cichocki resigned from his function as a member of the Supervisory Board, to which he was appointed on September 2, 2010. Mr. Krzysztof Cichocki graduated from the Faculty of law and administration of the University. Adam Mickiewicz in Poznań (major: Law). Mr. Krzysztof Cichocki also graduated from post-graduate studies in European law, international arbitration, international trade and WTO/GATT conducted by T.M.C Asser Instituut. in the Hague (Netherlands) and from post-graduate studies in international economic law carried out by the Central European University in Budapest (Hungary), obtaining 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 is licensed legal advisor.
- On 3 March 2011, the Extraordinary General Meeting of Shareholders of Celtic Property Developments S.A. appointed Mr. Wiesław Rozłucki to the function of the independent member of the Supervisory Board.

In view of the fact that and the term of office of the Supervisory Board passed on 23 February 2012 and in accordance with the provisions of art. 369 par. 4 of the Commercial Code (in relation to article 386, paragraphe 2 of the Commercial Code) the Supervisory Board of the 2<sup>nd</sup> term of office will be appointed at the next Ordinary General Meeting of Shareholders.



**LETTER OF THE PRESIDENT OF THE MANAGEMENT BOARD**

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

Warsaw, March 20, 2012

**DEARS SIRs, DEAR SHAREHOLDERS,**

I am pleased to present you the Annual report of Celtic Group for the year 2011.

Although the year 2011 was not favorable for the development sector and market conditions were more difficult than during preceding year, the Group has continued the realization of the established strategy and projects planned for year 2011. During the 3<sup>rd</sup> quarter of 2011 we started construction of the office building IRIS, which is the last phase of *Cybernetyki Office Park* situated at the crossing of Cybernetyki and Postępu streets in the Mokotów district of Warsaw. In *Cybernetyki Office Park* we have already constructed four office buildings offering in total over 35.000 sqm of floor area. Starting from September 2011, the Company's new head office is in one of the Cybernetyki Office Park buildings.

Simultaneously with the IRIS project, we progressed with projects from the Celtic Group portfolio in different stage of realization. In 2011 we have successfully exploited our international professional experience, by further diversification of revenues from consulting services, provided mainly by entities from Italy and Great Britain. Revenues from consulting services represented a significant (over 38%) part in total Group's revenues.

Our last year assumptions regarding Ursus project – the biggest project of Celtic Group – presumed the start of the first stage of works by the end of the year 2011. Unfortunately, with regard to the continuing master plan process for the land of former ZPC Ursus we were not be able to start the first stage of the project. This does not mean that the Group has abandoned activities related to Ursus project: in 2011 we continued design works as well as demolition tasks in place and we have been engaged in cultural initiatives addressed to the local community within the *Pact for Culture in Ursus* signed in July 2011. As the start date for the Ursus project is impossible to define because of the non-validation of the master plan, we have decided to change our strategic approach to this project. This change will be reflected mainly through the split of the whole project into smaller entities which we intent to develop in cooperation with other developers.

Delays in the master plan validation process did not breach our optimism and we continue to believe that Warsaw City's authorities will manage to adopt the master plan in the first half of 2012. This would enable Celtic to start the investment process right after the plan adoption, generate revenues from sales and reduce the negative impact of Ursus project on Celtic Group financial results.

The amendment of strategic assumptions was reflected in Group financial results for the year 2011. Modification of the strategic approach to Ursus project resulted in change of the valuation method - from residual to comparative method - and constituted the main factor of the negative result from investment properties valuation amounting to PLN 214.7 million.

Reduction of the investment properties' value and a high proportion of costs generated by Ursus project were not compensated by revenue stream and influenced the final amount of Celtic Group loss of PLN 286.2 million.

As a positive factor, we have to underline consequent financial policy, based on the land acquisitions financed by the Group's own resources and development projects financed by bank loans contributed to maintain stable Group cash liquidity.

As I have already mentioned, year 2011 was not favorable for the development sector, which was reflected in the decrease of WIG\_Deweloperzy Index by 47% during the whole year.

For the development sector, less dynamic economic growth in Poland was reflected in the decrease of demand in the real estate market, residential as well as commercial. Together with this situation we observed other disadvantageous economic effects on a European and worldwide scale, which contributed to Polish zloty devaluation against principal currencies. Polish zloty devaluation contributed to increased banking loans costs and, by consequence, to limit customers' access to mortgage and investments loans.

Considering these factors, we would like to express acknowledgments to our shareholders for their confidence and maintainance of the shareholding in Celtic Property Developments S.A. at a stable level. At the end of 2011, Celtic Property Developments S.A. market capitalization amounted to PLN 596.2 million which ranked the Company in the 4<sup>th</sup> position by market capitalization, among developers quoted on the Warsaw Stock Exchange.

In 2012 we intend to complete the construction of IRIS office building and focus our efforts on Ursus project realization, by undertaking all actions necessary to significantly optimize Group costs structure and to achieve return on investment for our shareholders in the shortest possible period.

Summarizing the year 2011, I would like to express my gratitude to our Employees and Collaborators for their commitment to the Celtic Group development. I would like also to thank all our clients, who demonstrate their confidence to the Group by acquiring or renting our properties or employing our services to manage them. To all members of Celtic Property Developments S.A. Supervisory Board I would like to present my acknowledgements for their support for all projects being important for further Group development.

I deeply believe that the cooperation between Employees, Collaborators, Supervisory Board and Celtic's shareholders will continue to in a positive way in 2012 so increasing the value of the Company to the benefit of all Celtic Group stakeholders.

**YOURS SINCERELY,**

**ANDREW MORRISON SHEPHERD**  
**PRESIDENT OF THE MANAGEMENT BOARD OF**  
**CELTIC PROPERTY DEVELOPMENTS S.A.**

**THE MANAGEMENT BOARD**

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

At December 31, 2011, the composition of the Management Board of the Company was as follows:

- **MR ANDREW MORRISON SHEPHERD – PRESIDENT OF THE MANAGEMENT BOARD**

Mr. Andrew Shepherd was appointed to the Management Board of II term of office on August 28, 2010. The term of office of Mr Andrew Shepherd expires on 21 July 2015. Mr. Andrew Shepherd has higher education (BSc (Hons)). He graduated from the Faculty of Land Economics at the Paisley University in Scotland in Paisley (Scotland). Mr. Andrew Shepherd is also qualified property valuer (chartered surveyor) and member of the Royal Institution of Chartered Surveyors (RICS).

- **MR ALED RHYS JONES – MEMBER OF THE MANAGEMENT BOARD**

Mr. Aled Rhys Jones was appointed to the Management Board of II term on August 28, 2010. The term of Office of Mr Aled Rhys Jones expires on 21 July 2015. Mr. Aled Rhys Jones has higher education (BSc (Hons)). He graduated from the Faculty of Estate Management at the East London Polytechnic in London (United Kingdom). Mr. Aled Rhys Jones is also qualified property valuer (chartered surveyor) and member of the Royal Institution of Chartered Surveyors (RICS).

- **MS ELŻBIETA WICKKOWSKA – MEMBER OF THE MANAGEMENT BOARD**

Ms Elżbieta Wiczkowska has been appointed to the Management Board of II term on August 28, 2010. The term of office of Ms Elżbieta Wiczkowskiej expires on 21 July 2015. Ms Elżbieta Wiczkowska has higher medical education. She completed medical studies at Physicians Faculty of the Medical Academy in Szczecin. Ms Elżbieta Wiczkowska has a MBA diploma from the University of Illinois at Urbana-Champaign (USA). She has also completed Executive Advanced Management Program at IESE Barcelona Universidad de Navarra in Spain. Ms Elżbieta Wiczkowska holds qualifications of the ACCA (The Association of Chartered Certified Accountants).

- **MR CHRISTOPHER BRUCE - MEMBER OF THE MANAGEMENT BOARD**

Pan Christopher Bruce został powołany do Zarządu II kadencji z dniem 28 sierpnia 2010 roku. Kadencja Pana Christopher Bruce upływa w dniu 21 lipca 2015 roku. Pan Christopher Bruce posiada wykształcenie wyższe inżynierskie (BEng (Hons)), ukończył studia na wydziale Mechanical Engineering with Industrial Management na Liverpool University w Liverpool (Wielka Brytania). Pan Christopher Bruce uzyskał także kwalifikacje biegłego rewidenta (chartered accountant) po ukończeniu Institute of Chartered Accountants in England and Wales.

Mr. Christopher Bruce was appointed to the Management Board of II term on August 28, 2010. The term of office of Mr Christopher Bruce expires on 21 July 2015. Mr. Christopher Bruce has higher engineering education (BEng (Hons)). He graduated from the Faculty of Mechanical Engineering with Industrial Management at the University of Liverpool in Liverpool (United Kingdom). Mr. Christopher Bruce has also the qualification of the chartered accountant (Institute of Chartered Accountants in England and Wales).

The composition of the Management Board of Celtic Property Developments S.A. at the end of the year 2011 has not changed in comparison to the end of the previous year.

**V. CELTIC CAPITAL GROUP – MANAGEMENT BOARD’S ACTIVITY  
REPORT**

**1. INFORMATION ON CELTIC CAPITAL GROUP**

Celtic Group started its activities in Poland in 1999 from the foundation of Celtic Asset Management Sp. z o.o by current members of the Management Board – Mr Andrew Shepherd and Mr Aled Rhys Jones. In subsequent years, 1999-2005, the activities of the company focused on building and managing a real estate portfolio to external institutions in Poland, Czech Republic, Lithuania, Romania, Hungary and Germany. In 2005, Celtic Asset Management Sp. z o.o started development operations in cooperation with several funds managed by Laxey Partners. In 2007, the consolidation of the group under the name Celtic Property Developments SA (BVI) was performed and in 2008 the listing of the company Celtic Property Developments SA (BVI) began on a deregulated market (Freiverkehr) in Frankfurt. In the period from 2005 to 2010, the Company operated and managed projects mainly in Poland

At the same time, the Group has conducted and managed projects also in Montenegro, Hungary, Italy, Belgium, the United Kingdom, the Netherlands, Germany and Spain. International experience and practical knowledge of experts and project managers of the Group Celtic have contributed to the creation of a strong and stable capital group, which debuted on the Warsaw Stock Exchange on December 23, 2010,

Today, Celtic Property Developments S.A. is the holding company controlling a group of 44 subsidiaries, focusing on the development projects in the office and residential segments. The main market of Celtic Group’s activities is Warsaw. The Group has also its offices in London, Milan, Budapest and in Montenegro. The office segment has been played the primary role in Celtic Group operations, however current Group’s plans focus on the residential development, mainly through the implementation of its leading project in the Warsaw’s district of Ursus.

Together with development activities, Celtic Group provides consultancy services for the management of commercial premises belonging to external entities and institutions. The Group currently manages commercial real estate portfolio with a total value of ca. EUR 450 million in Italy and Great Britain.

## **2. GROUP STRUCTURE**

At 31 December 2011, the Celtic Group (hereinafter the Group, Celtic Group) was composed of a dominant entity – Celtic Property Developments S.A. (hereinafter the Company) and 44 subsidiaries.

Celtic Property Developments S.A. controls directly four operating companies, responsible for the individual areas of Group activity:

- **Celtic Investments Ltd (Cyprus)** – is the owner of the shares in the companies, operating in Poland, Great Britain, Hungary and Italy;
- **Buffy Holdings No1 Ltd (Cyprus)** – is the owner of the shares in investment companies responsible for investments in Ursus;
- **Lakia Enterprises Ltd (Cyprus)** – is the owner of the shares in investment companies, responsible for the investments in Poland, Montenegro and Hungary;
- **East Europe Property Finance AB (Sweden)** – is the company responsible for the financial operations of the Group.

Development activities of the Group are conducted by investment companies, directly dependent of Buffy No1 Holdings Ltd (Cyprus) and Lakia Enterprises Ltd (Cyprus). Dominant entity - Celtic Property Developments S.A. - coordinates and supervises the activities of the individual subsidiaries and in the same time is the decision making center with regard to the development strategy. Celtic Property Developments S.A. acts to optimise operating costs of the whole capital group, designs investment and marketing policies and serves as the coordinator of this activity.

During the reporting period, the following changes have occurred in companies being part of the Celtic Group:

- On June 1, 2011, the extraordinary meeting of shareholders of Darvest Investments Sp. z o.o. (a subsidiary of Celtic Property Developments S.A.), adopted a resolution on dissolution and opening of liquidation procedure of Darvest Investments Sp. z o.o. The motion for registration of the opening of the liquidation proceedings of Darvest Investments Sp. z o.o. was filed with the District Court for the Capital City of Warsaw, XII Commercial Division of the National Court Register on June 16, 2011.
- Pursuant to the provisions of the decision of the District Court for the Capital City of Warsaw in Warsaw, XII Commercial Division of the National Court Register, of 8 November 2011, the registration of the change of the company name from Celtic Asset Management sp. z o.o. to KMA sp. z o. was made.
- Pursuant to the provisions of the decision of the District Court of the Capital City of Warsaw in Warsaw, XII Commercial Division of the National Court Register, of 22 November 2011, the registration of the change of the company name from Liliane Investments Sp. z o.o. to Celtic Asset Management sp. z o.o. was made.

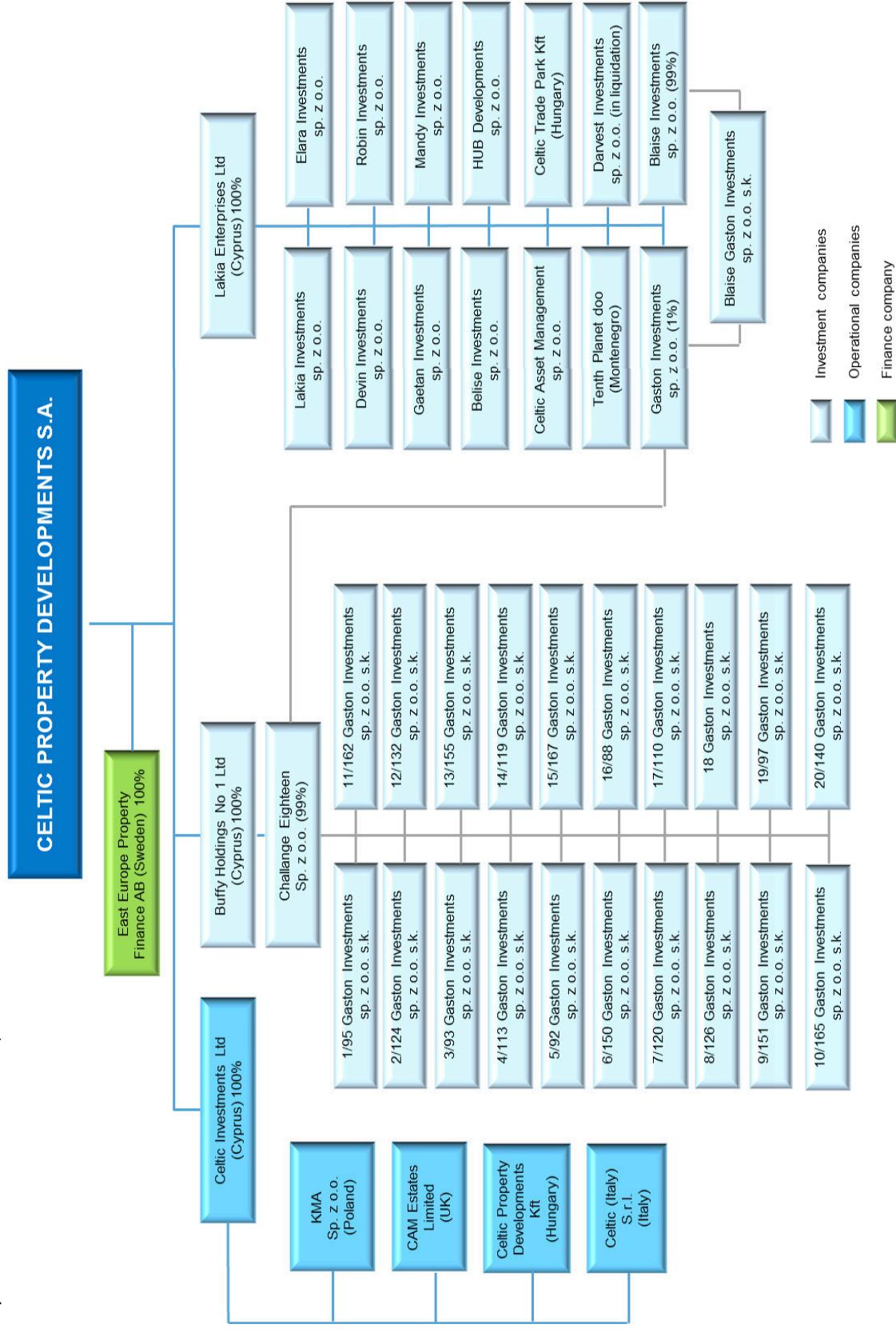
The above indicated changes did not affect the activities and results of the Group's Celtic, as well as did not influenced its capital structure.

All Group companies are subject to consolidation according to the full method.

The following diagram presents the structure of Celtic Group as 31 December 2011.

# CELTIC PROPERTY DEVELOPMENTS S.A. ANNUAL REPORT 2011

Celtic Group structure on 31 December, 2011.

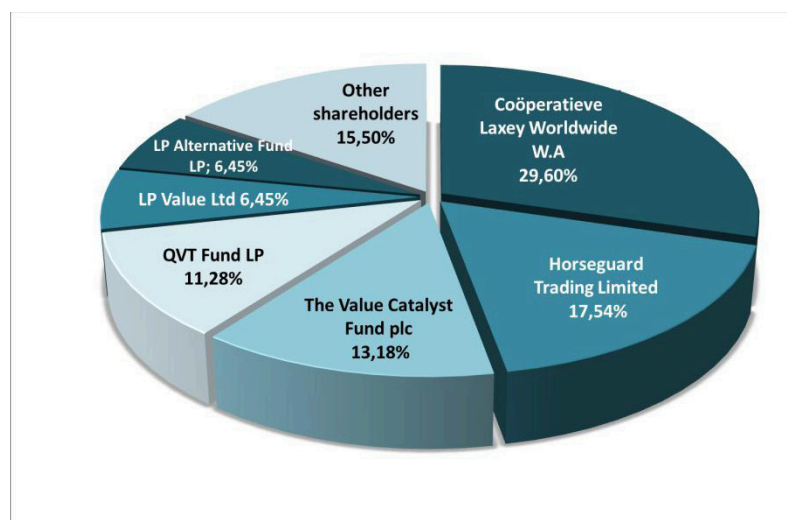




### 3. SHAREHOLDERS

- **CONTROLLING SHARES**

**Celtic Property Developments S.A. shareholding structure**



In accordance with the information held by the Company, the shareholders who hold directly or indirectly through subsidiaries at least 5% of the total number of votes at the Company's General Meeting of Shareholders are:

Shareholder	Number of shares	Number of votes in % of total number of votes	Number of shares in % of total number of shares
<b>Coöperatieve Laxey Worldwide W.A</b>	10 082 930	29,60%	29,60%
<b>Horseguard Trading Limited</b>	5 975 692	17,54%	17,54%
<b>The Value Catalyst Fund plc</b>	4 490 475	13,18%	13,18%
<b>QVT Fund LP</b>	3 843 635	11,28%	11,28%
<b>LP Value Ltd</b>	2 198 450	6,45%	6,45%
<b>LP Alternative Fund LP</b>	2 196 668	6,45%	6,45%

The above data on shareholdings have been presented on the basis of the number of shares registered by the shareholders as at 15 December 2011. With regard to the interim dividend paid, the right for the interim dividend was registered for shareholders having Company's shares at 15 December 2011.

- **SHAREHOLDERS WITH SPECIAL RIGHTS**

All shares issued by the Company are ordinary bearer shares. The Company Statute does not grant any specific rights to the Company shares, including the preferential vote or the appointment of the members to the Company Management Board or Supervisory Board. The Company's shareholders do not own shares offering special controlling rights.

- **RESTRICTIONS ON VOTING RIGHTS**

In accordance with paragraph 4. 5 of the Company's Statute, neither lienor nor pledgee have the right to exercise voting right from pledged shares.

- **RESTRICTIONS REGARDING SHARES TRANSFER**

Shares of Celtic Property Developments S.A. are the object of free trade and shall not be subject to any restrictions, except those arising under the Company Statutes, Commercial Code, Act on Trading in Financial Instruments, Act on Public Offering, as well as other relevant provisions of the law.

In accordance with paragraph 4.6 of the Company Statute, 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 the Shareholder by means of resolution of the Management Board, which should be taken within seven days from the date of submission of a written request to the Management Board to convert the shares. The request should indicate the number of shares covered by the request for conversion, together with an indication of their numbers. In the case of conversion of registered shares into bearer shares, the Management Board places on the agenda of the forthcoming General Meeting a point regarding the amendment of the Statute in respect of the number of registered shares.

#### 4. **CORPORATE GOVERNANCE**

- **RULES OF CORPORATE GOVERNANCE**

As the incorporated company, Celtic Property Developments S.A. is regulated by Company Statute, General Meeting by-laws, Supervisory Board by-laws, Management Board by-laws and the corporate governance rules.

Principles of the corporate governance are included in the document *Good Practices of the Companies Listed on the Warsaw Stock Exchange*. A unified text of this document is available on the website [www.corpgov.gpw.pl/](http://www.corpgov.gpw.pl/). This text was adopted by the Council of the Warsaw Stock Exchange by resolution No 17/1249/2010 of 19 May 2010 and includes changes made by the Council through resolutions no. 15/1282/2011 of 31 August 2010 and no 20/1287/2011 of 19 October 2011.

The intention of the Company is the permanent compliance with all the rules of corporate governance set out in the *Good Practices of the Companies Listed on the Warsaw Stock Exchange*. The Company will undertake all efforts within its capacities for the implementation of all the governance rules arising from the *Good Practices of the Companies Listed on the Warsaw Stock Exchange* as soon as possible.

- **DEROGATIONS FROM CORPORATE GOVERNANCE RULES**

The Company does not apply the rule no I.1 tiret 3 mentioned in the *Good Practices of the Companies Listed on the Warsaw Stock Exchange*, concerning the transmission of the deliberations of the General Meeting of Shareholders through the use of the Internet as well as it will not disclose the deliberations of the General Meeting on its website.

In the period up to 1 January 2013, the Company will not apply the rule IV.10 with regard to the transmission of and participation in the deliberations of the General Meeting through the Internet. This policy should be applied at the latest from 1 January 2013.

Transparency of information policy with regard to General Meetings is secured by performing by the Company of all the obligations, as provided for by the Regulation of the Minister of Finance on the current and periodic information reported by issuers of securities. Pursuant to the above mentioned regulation, the Company publishes information about the time and place of General Meetings, its agenda and draft resolutions which allows to each shareholder or other person

concerned, participation in the General Meeting. After the end of the General Meeting, the Company immediately forwards to the public content of resolutions taken by the General Meeting and other relevant information about the General Meeting. In the assessment of the Management Board, the Company uses its reasonable diligence and regulations applied are sufficient to ensure the transparency and effectiveness of Company's information policy in the field of recording the proceedings of the General Meeting with existing, it means traditional, method of registration of the General Meeting.

- **INTERNAL CONTROL AND RISK MANAGEMENT SYSTEMS**

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

The assumption of the effective internal control system for the Company's financial reporting is to ensure the adequacy and accuracy of the financial information contained in financial statements and periodic reports. The effective system of internal control and risk management in the process of financial reporting was built through adequately determined scope of financial reporting as well as through the definition of the entire process, including division of responsibilities and work organisation. The Management Board of the Company also regularly reviews financial results of the Company using the applicable financial reporting.

The Company applies the principle of independent review of the published financial reporting resulting from the provisions of the law. Published half-year and annual financial reports, financial reports as well as financial data on which this reporting is based, are reviewed (in the case of the half-yearly reports) and audited (in the case of annual reports) by the Company's auditor.

In accordance with the principles of corporate governance adopted by the Management Board and accepted by the General Meeting of Shareholders, an Audit Committee operates in the Company. In accordance with article 11.5 of the Company's Statute, when the Supervisory Board operates in 5-members composition, the Audit Committee shall consist of all members of the Supervisory Board.

To further mitigate the Company exposure to market risks, a correct assessment of the planned developments as well as the control of the all ongoing projects are carried out on the regular basis, based on the investment models and decision-making procedures in force in the Company. In order to reduce the risk associated with development 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 periodical updates by the Company's Management Board with the participation of Company's key executives and other external advisors.

- **MANAGEMENT BOARD, SUPERVISORY BOARD, AUDIT COMMITTEE**

The Management Board works on the basis of the provisions of the Commercial Code, provisions of the Company's Statutes and Management Board's by-laws, available to the public and approved by the Supervisory Board, with accordance with the *Principles of Good Practices of Companies Listed on the Warsaw Stock Exchange*.

The Supervisory Board acts in accordance with the provisions of the Commercial Code, the provisions of the Company's Statutes and Supervisory Board by-laws, available to the public and determining its organization and manner of performance of the activities as well as on the basis

of the *Principles of Good Practices of Companies Listed on the Warsaw Stock Exchange*. 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 Meeting of Shareholders.

The Supervisory Board is a permanent body supervising the Company's in all areas of its activities. The Supervisory Board shall take the decisions or deliver opinions on matters reserved to its competence in accordance with the provisions of the Company's Statute and according to the mode provided by the Company's Statute and relevant law provisions. The Supervisory Board complied with the condition of having at least two independent members in its composition, with accordance with the criteria of independence laid down in the Company's statutes. Remuneration of the members of the Supervisory Board is established in a transparent manner and did not constitute a significant cost for the Company, affecting its financial result. The amount approved by resolution of the General Meeting was disclosed in paragraph 21 of this report *The remuneration of the Management Board and the Supervisory Board*.

An Audit Committee was created within the Supervisory Board. The Audit Committee is composed from three to five members, including at least one independent member of the Supervisory Board who is at the same time qualified in field of accounting or auditing. Currently, all members of the Supervisory Board are also members of the Audit Committee.

• **MANAGEMENT BOARD –APPOINTMENT, DISSMISSAL, POWERS**

The Management Board is appointed and dismissed by the Supervisory Board. The current term of office of the Management Board runs from 21 July 2010 (i.e. from the date of the General Meeting for 2009 and the appointment of the Management Board of the II term) and ends on 21 July 2015. The term of office of the current Management Board is common and lasts 5 years (§ 13.1 of the Company's Statutes). Revocation or suspension of a member of the Management Board may occur only for significant reasons. Art. 368.4 of the Commercial Code also provides to the General Meeting for the right of cancellation or suspension of the member of the Management Board.

The competence to conduct Company's business is determined by the Management Board's by-laws, approved by the Supervisory Board. The Management Board is the managing and executive body of the Company and as such it runs the Company's business and oversees its activities, manages the business and represents the Company outside. The rights and obligations of the Management Board in particular include:

- fix a date, the agenda and the convening of General Meetings;
- submitting proposals to the General Meeting, together with the opinion of the Supervisory Board, in matters covered by the order of these Meetings
- submit to the Supervisory Board financial statements and the Management Board's written report on its activities during the accounting period and the proposal on the distribution of profit or losses, which documents are subject to consideration at the Ordinary General Meeting;
- adoption of the Company's Organizational Regulations and other internal acts governing its work;
- creating and adopting Company's annual and interim strategic plans,
- establishing procurement and powers of attorney'

- applying to the Supervisory Board for convening its meetings,
- applying to the Supervisory Board for the approval of the Management Board by-laws, Company's Organizational Regulations, annual budgets and Company's development plans.

The 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 Meeting.

The Management Board is entitled until 30 August 2013 to increase the Company's share capital within the limits of the target capital by an amount not exceeding PLN 2.500.000. The Management Board may perform this authorization by making one or more successive increases in the share capital and the shares can be taken-up for both cash and in kind contributions. The Management Board is authorized, with the consent of the Supervisory Board, to waive totally or partially shareholders' pre-emptive rights for shares issued on the basis of the aforementioned authorization.

- **AMENDMENTS TO THE COMPANY STATUTE**

Commercial Code regulates in detail the amendments of the statutes of a joint-stock company in Chapter 4, 5 and 6 of *Provisions of the joint-stock company* (art. 430 of the Commercial Code et seq.). Amendment of the Articles of Association requires decisions taken by the General Meeting.

- **GENERAL MEETING**

The General Meeting is the highest authority of the Company. The General Meeting acts in accordance with the principles set out in the Commercial Code, Company's statutes and General Meeting's by-laws. Articles of Association and rules of procedure of the General Meetings are presented on the Company's website: [www.celtic.pl](http://www.celtic.pl). General meetings can be ordinary or extraordinary.

The General Meeting is convened by competent authorities or persons whose entitlement derives from the provisions of the law or the statutes. The General Meeting is held at the place and time to facilitate the participation to the widest circle of shareholders. To the participation in the General Meeting are entitled shareholders having registered shares and temporary rights as well as lienors and users, having the right to vote if they were registered in the share register at least one week before the date of the General Meeting. The principal powers of the General Meeting include decisions on issuance of shares with pre-emptive rights, on determination of the date of rights to dividends and the day of payment of dividends, the appointment and dismissal of the members of the Supervisory Board, establishment of Supervisory Board remuneration as well as on other matters indicated in the Commercial Code.'

## **5. SOCIAL RESPONSIBILITY**

We see our activities in the field of project development in the broad context of creating a modern, multidimensional urban space, providing new quality of life for residents and users of our investments. We express our responsibility for the environment through the support for various social initiatives, directly or indirectly related to our investment business.

The majority of social initiatives carried out in the year 2011 were associated with the Ursus project, which is the largest project in the Celtic Group's portfolio. Celtic Group, being aware of its role in such complex project as the regeneration of the post-industrial land after the former ZPC Ursus, regularly takes initiatives adapted to the context of the historical and cultural space, going beyond the scope of typical investment and construction activities.

In July 2011, Celtic Group has signed with the representatives of Ursus district authorities and the management of the Ursus Cultural Centre a *Pact for Culture in Ursus*, supporting cultural development in Ursus district. The main initiatives of the Pact are:

- Rent by Celtic to the Ursus Cultural Centre of the building located on the site belonging to Celtic, for a period of 5 years, by applying a symbolic monthly rate of rent of 100 PLN, which represents more than PLN 600.000 of savings for Ursus district, according to the market value of the annual rent for this type of object;
- Foundation of the virtual museum of Ursus, including the history of the Mechanical Plant in Ursus;
- Support and promotion of cultural initiatives;
- Cooperation with social organisations for the integration of culture in Ursus.

Together with the *Pact for Culture in Ursus*, to encourage the development of the culture and of the community, Celtic Group has participated in the following initiatives destined to Ursus' inhabitants:

- Participation in the preparation of the spectacle *Ursus 76 Mutiny*, upamiętniającego 35 anniversary of workers revolt against communist authorities in June 1976. The spectacle, directed by Anna Rakoczy, with the participation of Jerzy Zelnik, Jan Pietrzak and young actors from Ursus, was viewed by more than 200 persons;
- Supporting the initiatives of Ursus district authorities, such as Integrating Carnival Ball for children (February 2011), Ursus Days (June 2011), Babie Lato (September 2011);
- Sponsorship of the indoor football tournament for children aged 11 years and younger Mini Europe Championships Ursus 2011, organised in November 2011 by the Sports Club of Ursus and District authorities;
- Cooperation with the Volunteer Fire Brigade for the organisation of such initiatives as the tournament for children during the celebration of the Open Day of the Volunteer Fire Brigade in Ursus;
- Cooperation with the Foundation "Hereditas by allowing access to areas of former tractor factory within the activities of the festival *Warsaw post-industrial heritage – Workshops* to produce unique photographs of the forgotten, devastated post-industrial places in Warsaw;
- Financial and material support (including managing and construction consultancy) of Camilian Mission, which one of the establishments is located on the former ZPC Ursus area.

Additionally, Celtic is the initiator, sponsor and co-organizer of the contest to the students of the Academy of Fine Arts to develop the concept of installation of sculptures related to the theme of the Polish interwar cinematography. The sculpture is to be localized in the area of rondo of Alexander Żabczyński in Warsaw, in Mokotów district of Warsaw.



In 2012 we will pursue our social projects, believing that they will bring measurable results to both the direct beneficiaries and the communities in which they will be implemented.

## **6. STRATEGY**

Projected market conditions, the macroeconomic situation resulting in the reduction of demand for real estate, economic phenomena occurring in the European and worldwide scale having impact on large fluctuations of the Polish currency as well as delays in the procedure for adopting the Master Plan in Ursus have influenced the decision to change Celtic Group strategy for development projects conducted in Poland and to implement important optimisation of operating costs.

In the incoming years, the Group strategy will be oriented toward the achievement, in the shortest time, of return on investment for Shareholders. Realizing this strategy, the Group will focus its efforts on the Ursus project and dispose of the remaining projects being at various investment stages. In order to accelerate the achievement of return for shareholders, project Ursus is to be divided into smaller projects that will be implemented in cooperation with other experienced developers. This will reduce the execution time for the whole project by carrying out several investment projects at the same time. Parallel execution of several smaller development projects in cooperation with renowned developers has also for objective to achieve synergies and to optimize promotion, marketing and sales related costs.

The above changes of strategic assumptions were reflected in the Group financial results for the 2011 year. Changing the approach to the Ursus project resulted in the change of the project valuation method from residual to comparative one. This was the principal factor which influenced the negative result from the valuation of investment properties amounting to PLN 214,7 million.

With regard to the activities carried out in the field of advisory services for portfolio management, the Group intends to continue and develop its activities within advisory services provided for management of real estate portfolios for external investment entities.

Regardless of the strategic assumptions adopted for the incoming years the Company does not exclude that, in the future it will be interested in acquisitions of other entities acting in the development sector. Potential targets of acquisitions will be primarily companies holding lands in interesting locations and/or realizing projects matching the Group's image.

The overall strategy, as defined above, determines the guidelines for each of the areas of Group's activity during next few years to provide our shareholders with long-term increase of the Company's value by offering our customers high quality services.

## 7. CELTIC GROUP ACTIVITY AND EVENTS AFFECTING COMPANY RESULTS

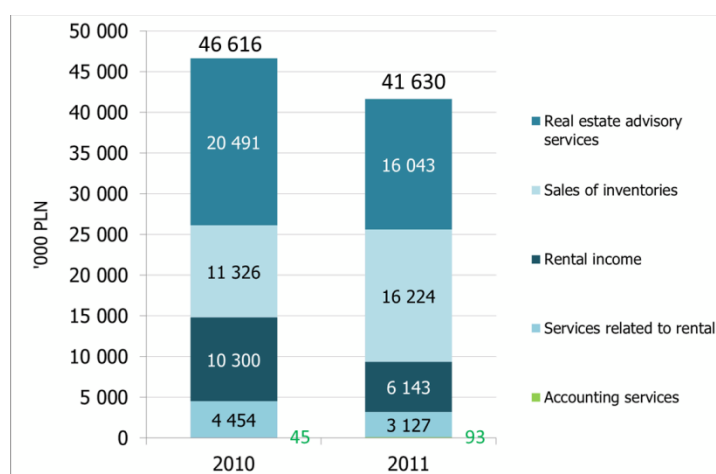
### • REVENUES STRUCTURE AND INFORMATION ON PRODUCTS

In 2011, Celtic Group operated in the following sectors:

- 1) **development and sale of own projects** (residential and commercial) in Poland, Hungary and Montenegro generating to the Company revenues from sale of inventories, income from rent and income from services related to rent;
- 2) **asset management for institutional operators** in Italy and Great Britain generating to the Company revenues from real estate advisory services.

The following chart presents Group's revenues structure for the years 2010 and 2011 in.

**Celtic Capital Group structure of revenues**



In 2011, the total Group revenues amounted to PLN 41.6 million and were lower than the last year by 10.7%. In the 4Q'11 revenues amounted to PLN 9.3 million, and were by 14.5% lower than in the same period last year. Sales of inventories and revenues from advisory services represented the largest share in revenues of the year 2011.

Income from inventories sales have reached in the year 2011 the amount of PLN 16.2 million which was by PLN 4.9 million higher than in the previous year. Sale of inventories concerned mainly the sale of apartments in Koszykowa 69 project as well as plots of land in Magdalenka. In addition, in 2011, the Group sold the property located in the village of Donja Lastva, Montenegro.

Together with development activity, Celtic Group provides also to other funds or institutions advisory services of active management of the portfolio of the commercial real estate. In 2011, the Group continued the activities of managing the portfolio of real estate in the UK and in Italy. The Group currently manages ca 200 commercial real estates with a total surface of over 600 thousand sqm, valued at ca EUR 450 million. In 2011, income from advisory services amounted to over PLN 16.0 million and represented 38.5% of the Group total revenues. Compared to 2010, revenue from advisory services was lower by PLN 4.4 million PLN and was affected by the fluctuations of the Polish zloty versus EUR and GBP, currencies in which the income from advisory services is denominated.

On 31 December 2011 Celtic Group portfolio included also two finished office buildings in Warsaw – Aquarius on the Połczyńska 31A street and Solar at Cybernetyki 7B, which generate rental revenues for the Group. On 31 December 2011, the buildings were rented at 95% and 89% respectively. The rental income, together with revenues from services connected to rent, in 2011 brought PLN 9.3



million to Group's revenues and accounted for 22.3% of total revenues. Compared to 2010, the rental income together with revenues from services connected to rent was lower by PLN 5.5 million, which resulted mainly from the sale of Mokotów Plaza building in July 2010.

• **INFORMATION ABOUT CELTIC GROUP MARKETS, CUSTOMERS AND SUPPLIERS**

The main market of the Celtic Group is Poland, and in particular the Warsaw metropolitan area where close to 98% (in terms of value) of investments held by the Group is located. The remaining part of Group's portfolio is composed from commercial and residential developments in Montenegro and Hungary.

The geographical structure of Group's revenues in the year 2011 is distributed evenly between the Polish and foreign markets. Nearly half the revenue of the Group comes from the domestic market, while the remaining part of the revenue is generated by foreign customers, mainly from Italy and the United Kingdom, where the Group companies provide advisory regarding real estate asset management.

Company and Group's customers are divided into two basic groups closely associated with the nature of the projects carried out by Celtic: specialized real estate funds and individual customers. Commercial projects are sold to specialized institutional investors operating on the real estate market. The Group cooperates, inter alia, with such funds as Deka Immobilien and Azora. Smaller projects are sold to individual investors. Before the start of sale, the Company commercializes the building. In view of the above, the commercial lessees also represent the indirect customers.

Regarding the fact, that a part of Group's portfolio is dedicated to residential developments, individuals looking for new apartment or home are also Group's customers. The characteristics of target clientele will depend on individual projects. Until now Celtic has realised projects intended for individual customers having higher purchase capacity (Wilanów Classic housing development, Koszykowa 69 apartment house). Having in mind planned start of Ursus project, the Company customer base will be extended by persons seeking apartments in the popular segment (at affordable prices), and by developers looking for interesting land investment. It should be expected that the share of this kind of customers in the Company's portfolio will systematically grow.

The subsequent group of customers is composed from institutional investors as real estate investment funds or institutions owning real estate portfolios used for their own needs, to whom the Celtic Group provides advisory services with regard to real estate asset management.

One of the most important customers of Celtic Group is an Italian company Spazio Industriale, to which Celtic Italy Srl, an Italian subsidiary of Celtic Property Developments S.A. provides advisory services. The income generated by the collaboration with Spazio Industriale amounted to ca PLN 6.5 million and represented ca 17% of the total Group revenues in 2011.

Due to the nature of Celtic's business, the main suppliers for the Celtic Group are general contractors, construction companies, engineering companies, architects and design offices, real estate administration firms, brokerage offices and legal firms employed within the ongoing investment projects as well as other bodies involved in the process of preparation and implementation of the development process.

At the reporting date, one of the largest suppliers of the Group was Eiffage Budownictwo Mitex S.A. which is performing construction works in IRIS building. In 2011, the value of turnover with Eiffage was ca. PLN 5.8 million and represented ca. 14% of revenues from the sale of Celtic Group.

• **EVENTS AFFECTING GROUP ACTIVITIES AND FINANCIAL RESULTS**

➤ **DECREASE OF THE VALUE OF CELTIC GROUP PROPERTIES PORTFOLIO AT THE END OF THE YEAR 2011**

In view of the situation persisting on the real estate market during last several years, characterised by lower level of demand on both residential and commercial markets, as well as considering strategic change regarding Ursus project, which the Group intends to develop in form of several projects carried out in parallel with other developers, the value of properties held in the Celtic Group portfolio has been updated. In respect of the Ursus project, the method of valuation was changed from residual to comparative. In accordance with valuations prepared by Savills SP. z o.o. at the end of 2011, total value of investment properties and inventories amounted to PLN 600.7 million. Lower value of investment properties has been included in the result from valuation, which at the end of 2011 was negative and amounted to PLN 214.7 million. Result from valuation was the major component of the Group's total loss which in the 2011 amounted to PLN 286.2 million.

➤ **PROJECT IRIS (CYBERNETYKI 9, WARSAW) - START OF THE PROJECT REALIZATION**

The IRIS project includes the development of a six-storey office building with a total leasable area of approx. 14.3 ths. sqm altogether with 233 parking spaces. The construction and the fit-out phases will be financed by the Company's own resources and by an investment loan granted to Belise Investment Sp. z o.o, a Celtic Property Developments S.A. subsidiary realizing the IRIS project. The loan agreement is described in the section 16 of this report *Loan Agreements*. The loan was released in December 2011. The main contractor is Eiffage Budownictwo Mitex S.A. and construction works has started in the 4Q 2011. As at the date of the report publication, works on the IRIS project progressed in accordance with the established timetable. The completion of the building and its occupation permit is planned for the Q4 2012. Currently, the Group is actively commercialising the project.

➤ **ACCEPTATION PROCEDURE OF THE MASTER PLAN FOR THE POST INDUSTRIAL LAND IN URSUS**

In May 2011, Warsaw City authorities have published second amended version of the *Master Plan for the postindustrial area of former ZPC Ursus factory in the area of Orłów Piastowskich street*. According to the amended version of the Master Plan, Celtic Group will be able to realise investment plans regarding construction of 740 ths. sqm of floor surface. Warsaw City's authorities did not succeed to close works on Master Plan approval. As consequence, Celtic Group did not start the Ursus project. Adoption of the plan by the Warsaw City Council is a key element to start the project and start construction works of the first stage. Further delays in Master Plan adoption directly translate into delays to start the investment process and to recognize the revenues from the project.

➤ **CHANGE OF THE GROUP AND COMPANY HEAD OFFICE**

On 28 September 2011 Celtic Property Developments S.A. and other companies from Celtic Group in Warsaw has changed their address. The new headquarters are located in the building on Cybernetyki 7B, in Warsaw, which is a part of Cybernetyki Office Park. The building is part of Celtic Group investment properties portfolio and is also leased to other tenants. The decision to move was taken in the context of the Group's operating costs optimization. On 4 November 2011, the Regional Court for Capital City of Warsaw in Warsaw,

XII Economic Division of the National Register issued its decision and the registration of the Company's address in the National Register was made to Cybernetyki 7B street, 02-677 Warsaw.

➤ **COMPLETION OF SALES OF KOSZYKOWA 69 PROJECT**

The real estate at Koszykowa 69 includes a four-storey tenement house (Ludwik Szanser's tenement house) and the outbuilding. They are located in a prestigious area of Warsaw city center, at Koszykowa Street. The building was renovated and extended by Celtic Group with respect to its historical character. The building offers 14 apartments and commercial areas. As at the day of the report publication, sales agreements were signed for all residential and commercial premises. At 31 December 2011 investment properties portfolio included also an outbuilding. Currently, the Group does not plan to revitalize this part of the property.

➤ **DEVELOPMENT OF ASSET MANAGEMENT SERVICES**

At the end of 2011 the real estate portfolio managed by Celtic Group on behalf of other institutions included approx. 200 properties located in Italy and Great Britain, offering altogether an area of over 600 ths. million sqm and an aggregate value of approx. EUR 450 mln. In Italy the Celtic Group manages a portfolio of properties under agreement with the Spazio Industriale Fund. Celtic Group has also been given a mandate to sell the properties under the portfolio management agreements. In accordance with the adopted strategy, the size of the managed portfolio decreased in the 4Q 2011 as a result of the closing of sales transactions for a part of the managed portfolio. The Group is currently active to acquire new customers in this segment of activity in Poland and abroad.

➤ **SALES AND CLOSING OF THE MOKOTÓW PLAZA PROJECT (POSTĘPU 6, WARSAW, MOKOTÓW DISTRICT)**

In March 2011, pursuing the fact that 100% of surface offered in Mokotów Plaza project was rented, all the obligations to the buyer - a Spanish Fund Azora Europe - were fulfilled. The sale transaction was concluded in July 2010. Mokotów Plaza is a five-storey high class office building, offering the total rental surface of 15.290 m<sup>2</sup>. This investment has been started by the Group in December 2008.

• **OTHER EVENTS**

➤ **REGISTRATION BY THE COURT OF CHANGES IN SHARE CAPITAL**

January 14, 2011, the District Court for City of Warsaw in Warsaw, XII Commercial Division of National Court Register registered the decrease of the Company's capital. Company's share capital was decreased from PLN 3.483.329,50 to PLN 3.406.825,20. The above reduction was made on the basis of the resolution no 11 of the Extraordinary General Meeting adopted on September 20, 2010, as a consequence of the redemption of shares acquired by the Company.

Following the registration the Company's share capital amounts to PLN 3.406.825,20 and is composed of 34.068.252 B series shares with nominal value of 0,10 PLN each, authorizing 34.068.252 votes at a General Meeting of the Company.

➤ **PAYMENT OF INTERIM DIVIDEND FROM PROFITS EXPECTED FOR THE YEAR 2011**

23 December 2011 an interim cash dividend payment of 3.406.825,20 PLN or 0,10 PLN per share against expected dividend from profits of the year 2011 was made to all Company's shareholders registered on 15 December 2011.

A total of 34 068 252 B series bearer shares were entitled to the payment of the interim dividend. The interim dividend was made to all Company's shareholders registered on 15 December 2011.

The interim dividend payment is consistent with Art. 349 § 2 of the Code of Commercial Companies as well as with the § 15 section 4 of the Company Statutes, i.e.:

- the annual financial statements of Celtic Property Developments S.A. on 31 December 2010 shows the net profit of 23.563 thousands PLN for the period from 1<sup>st</sup> January 2010 to 31 December 2010;
- the half-year financial statements of Celtic Property Developments S.A. on 30 June 2011 shows the net profit of 11.579 thousands PLN for the period from 1<sup>st</sup> January 2011 to 30 June 2011. Financial statements were audited by PricewaterhouseCoopers sp. z o.o, registered audit company No. 144;

The Supervisory Board of Celtic Property Developments S.A. has approved on 22 November 2011 the payment of the interim dividend according to the Company Management Board proposal.

At the incoming Company's General Meeting Celtic Property Developments S.A.'s Management Board will apply to set the interim dividend payment for 2011 against future profits of the Company.

**8. ASSESSMENT OF INVESTMENT POSSIBILITIES AND PROJECT OPPORTUNITIES**

Celtic Group, in carrying out development projects, finances them both using its own resources and bank loans. In the future, the Group assumes the implementation of projects through subsidiaries or jointly controlled entities and financing for these construction and investment projects (dedicated loans) would be obtained directly by these entities or through Celtic Property Developments S.A.

• **CAPITAL INVESTMENTS**

The value of investment properties held by Celtic Group amounted at the end of 2011 at 534.4 mln PLN (without taking into account the property classified as asset intended for sale) and was lower than in previous year by about PLN 219.8 million, of which more than 190 million PLN were attributable to Ursus project. The decrease in valuation was caused by the change of the approach to the Ursus project, reflected through the change of valuation method from residual to comparative determined by the economic situation, market conditions and delays in the Ursus Master Plan adoption. The following table shows the summary of Celtic Group real estate portfolio.

	Use	Land area (sqm)	Rentable/ Sales Area (sqm)	Valuation as at 31.12.2010 (m PLN)	Valuation as at 31.12.2011 (m PLN)
<b>Investment properties</b>		<b>757 648</b>	<b>870 403</b>	<b>754,2</b>	<b>534,4</b>
1	<b>URSUS</b> Residential / offices /commercial	585 053	740 000	575,1	381,7
2	<b>SOLAR / CYBERNETYKI 7B</b> Office	3 908	5 792	31,6	35,3
3	<b>AQUARIUS</b> Office	15 480	5 211	31,4	30,5
4	<b>ŁOPUSZAŃSKA</b> Office	44 909	66 000	59,2	40,9
5	<b>JANA KAZIMIERZA</b> Office	8 704	20 700	25,7	16,9
6	<b>WOLBÓRZ</b> Logistic park	99 594	32 700	2,5	2,4
<b>Capitalised rights of perpetual usufruct of land</b>				28,7	26,7
<b>Inventories (Balance sheet value)</b>		<b>164 113</b>	<b>29 700</b>	<b>76,3</b>	<b>66,3</b>
7	<b>IRIS</b> Office	7 449	14 300	29,0	45,9
8	<b>MAGDALENKA</b> Land	27 306	nd	8,4	4,9
9	<b>KOSZYKOWA</b> Residential	744	454	13,5	2,8
10	<b>WILANÓW</b> Land	-	-	1,9	-
11	<b>CZARNOGÓRA</b> Residential, land	86 119	339	4,2	4,6
12	<b>ALSONEMEDI (Węgry)</b> Magazyny/ biura	42 495	14 607	19,3	8,0
<b>TOTAL PORTFOLIO</b>		<b>921 761</b>	<b>900 103</b>	<b>830,5</b>	<b>600,7</b>

#### ➤ **URSUS**

In the second half of 2006 the Group purchased from its own resources over 58 hectares of land that previously belonged to ZPC Ursus factory, with the aim to create a multifunctional urban project. The land is located in the area included in the local zoning plan, which comprises an area of about 220 hectares, also including post-industrial area located in the proximity of Orłów Piastowskich Street in Ursus.

In October 2006 the Council of Warsaw approved the Study of Conditions and Directions for the Urban Development of Warsaw, which covers the whole area of Warsaw, including Ursus. For the part of the land previously belonging to ZPC Ursus, the purpose was changed from industrial to residential, commercial and multifunctional while for the remaining part industrial purpose was maintained.

Also in October 2006 the Council of Warsaw approved a resolution to start works on the local zoning plan of post-industrial area located in the proximity of Orłów Piastowskich Street including the area that previously belonged to ZPC Ursus. The first publication of the plan's project and a public discussion took place in November 2009.

As a result of the remarks submitted, the plan was amended and its second publication took place in May 2011. The deadline for submitting remarks on the second version of the plan's project expired on July 21, 2011. On July 13, 2011 the Council of Ursus District approved the main stipulations of the plan, submitting several remarks and communicating the resolution to the President of Warsaw, the Chairman of the Council of Warsaw and the Director of Bureau of Architecture and Zoning Planning of Warsaw. As of the date of submission of this report, the further works regarding the approval of the zoning plan by Warsaw authorities are underway.

The project of the plan includes the construction of the modern urban space, in which apart from the residential area for about 25.000 Warsaw citizens there will be room for many companies, craft workshops and service providers, including the companies that currently operate in Ursus. It is estimated that in the newly built office-commercial buildings about 20.000 new jobs will be created. The plan also accounts for the area needed for schools,

nurseries, kindergartens, parks, green areas and bicycle routes vital for the proper functioning of the newly created urban area.

The proximity of the city centre (9 km), convenient access to means of public transport (3 suburban train stations located in the investment area and a dense network of bus routes) altogether with relatively low prices determine the attractiveness of the project for prospective buyers.

The original intention of Celtic Group was the creation of multifunctional urban project with a predominance of the residential function, offering more than 740 ths. sqm of surface. An undoubted advantage for future habitants will also result from the consistent urban-architecture concept, realized by one developer, which will assure the consistency both of functionality and aesthetics. However, due to delays in the master plan adoption process, the Management Board has taken the strategic decision to split the project into smaller units, which will be implemented in collaboration with other developers in form of joint-venture initiatives.

We anticipate that the proposed complex of multi-familial residential buildings will offer apartments measuring mainly from 40 to 60 sqm. Together with residential buildings, an office and educational areas, adjusted to the needs of the local community will be created. The offer will be primarily directed to young working people and families looking for their first apartment in the Warsaw agglomeration.

Project implementation is scheduled for the period of several years. The Group intends to reduce the investment return period for shareholders through the parallel realization of several smaller projects in collaboration with other experienced developers. Current market trends indicate a high demand for small flats available at relatively low prices. The Ursus project is designed in a way that its products perfectly match market needs. Therefore the Company expects a large demand for the flats offered.

The Group is currently conducting complex demolition works in Ursus, with the aim of arranging the area and preparing it for planned development.

Within social responsibility context and perceiving the need of active participation in creating a public urban space, Celtic Group has declared its willingness to transfer to the City of Warsaw without remuneration approx. 20 hectares of the land for urban investments as schools and roads. The value of this land according to the *Forecasts of the financial consequences of the enactment of the Master plan for the postindustrial area in the region of Orłów Piastowskich street* prepared on behalf of authorities of Capital City of Warsaw is estimated at approx. 70 million PLN. On the day of the publication of the annual report the Group had not received a binding response from Warsaw City's authorities.

➤ **CYBERNETYKI 7B, WARSAW**

The eight storey B+ class office building of 5 792 square meters of was built in 1998 and refurbished by the Group in 2008. The building is currently leased to such companies as Beko S.A., Berlin Chemie, Akzo Nobel, Liqui Moly Polska, ZPUE S.A. and Bard Poland. On 31 December 2011, the building was rent at 89%. Celtic Group headquarter was moved on this address starting from September 2011.

➤ **AQUARIUS, POŁCZYŃSKA 31A, WARSAW**

The Aquarius Office Park consists of a five storey B class office building of 5 211 square meters, investment land with a valid building permit for the construction of A class office



building of 2 500 square meters as well as investment land of approx. 10 000 square meters designated for the construction of an office-warehouse complex. The office building is currently leased to such companies as VB Leasing, Betacom S.A., Fly Away Travel and Veolia Eurolines. On 31 December 2011, the building was rent at 95%.

➤ **ŁOPUSZAŃSKA 22, WARSAW**

The Group owns land area of 4.5 ha with the valid WZiZT for the project. The project assumes development of a business park offering about 66 000 square meters of office space to be realized in several stages, as well as 2 400 parking lots.

➤ **JANA KAZIMIERZA 12/14, WARSAW**

This property is located near the speedway to Poznań, in proximity of Servier and Cefarm headquarters and Citibank Handlowy operations center. The property measuring 8 707 square meters includes a building that will be demolished. The current building conditions enable a construction of an office building measuring about 20 700 square meters. The lowest floor of the building is designated to be a commercial area. Good communication network and the proximity of the city centre and major transport routes (Warsaw bypass, East-West highway) as well as the low supply of modern office space in this location account for the project's attractiveness.

➤ **WOLBÓRZ, MAZOWIECKIE VOIVEDOSHIP**

The land area of 99 594 square meters is located in Wolbórz, close to Auchan Distribution Centre and E67 road from Warsaw to Cracow and Katowice. In accordance with the applicable zoning decision there is a possibility to construct a logistics and distribution centre measuring 32 700 square meters. The Group intends to sell the undeveloped land with construction project to final investor.

➤ **PROJECTS BEING REALIZED AND PROJECTS DESTINATED TO BE SOLD (INVENTORIES):**

➤ **IRIS OFFICE BUILDING, CYBERNETYKI 9, WARSAW**

The realization of IRIS building is the final stage of the office-apartment project measuring over 50.000 square meters (in the office part), located at the crossing of Cybernetyki and Postępu Streets. The project comprises: Cybernetyki Office Park (buildings: Helion, Luminar, Cybernetyki and Iris), Mokotów Plaza and Mozaika residential complex. In the Cybernetyki Office Park, the Group has already realized and sold 3 office buildings: Helion, Luminar and Mokotów Plaza.

The IRIS project includes the development of a six storey office building of the total lease area of about 14.3 ths. sqm altogether with 233 parking lots. The construction and the fit-out phases will be financed by an investment loan up to EUR 20.1 mln and a revolving VAT loan up to PLN 2.0 mln. These loans were given to a subsidiary Belise Investments Sp. z o.o (company responsible for the realization of the IRIS project) based on the loan agreement concluded on August 12, 2011 between Belise Investments sp. z o.o and Bank Zachodni BZ WBK S.A. The loan was released in December 2011. The loan agreement is described in the Section 16 *Loans agreements* of this document.

In the fourth quarter of 2011 the main contractor Eiffage Budownictwo Mitex S.A. has started construction works. As at the date of the publication of this report, the completion of works

progress according to the established project timetable. The completion of the building and its occupation permit is planned for the Q4 2012. Currently, the Group started to commercialize the project.

➤ **MAGDALENKA**

The Group owns land area of 51 859 square meters in Magdalenka, which is divided into 46 plots designated for single-family housing. As at the end of 2011, a total of 22 plots with the area of 27.200 sqm were available to be sold.

➤ **KOSZYKOWA 69**

The real estate at Koszykowa 69 includes a four-storey tenement house (Ludwik Szanser's tenement house) and the outbuilding. The building was renovated and extended by Celtic Group, offering 14 apartments and commercial areas which were sold in 2011. At 31 December 2011 Group investment properties portfolio included the outbuilding. Currently, the Group does not plan to revitalize this part of the property.

➤ **MONTENEGRO**

The Group owns real estate in Montenegro, which was purchased in order to take advantage of the growing tourist industry in that country. The total surface of the land owned by the Company amounts to about 85.000 square meters located in Dobrota, Risan and Zagora.

➤ **ALSONEMEDI, HUNGARY**

In 2009 the Group purchased land near Budapest measuring 42 495 square meters to develop warehouse space. The real estate is situated in a logistically good location: 20 km south of Budapest and in proximity to main roads.

## **9. FACTORS AND UNUSUAL EVENTS AFFECTING GROUP FINANCIAL RESULTS**

In the Management Board opinion, in the year 2011 there were not unusual events which have an impact on the Group results..

## **10. FACTORS IMPORTANT FOR FURTHER GROUP DEVELOPMENT**

Decline in properties market prices from 2008 to 2011 forced the Group to change the strategy on the implementation of the projects and their disposal. In view of the prevailing market conditions and to prevent a further postponement of returns from Group investments, the Management Board has decided to sell the investment projects being in various stages of implementation and to split the Ursus project into smaller subprojects.

Among the factors which can directly or indirectly have an effect on the Group operations in the future are:

- **MACROECONOMIC SITUATION ON THE CELTIC GROUP MAIN MARKET**

Despite the positive macroeconomic indicators in Poland, the increase of unemployment rate and reduction of consumer confidence are observed, which directly translates into a downturn in demand for office space and decrease of sales opportunities for commercial and residential properties.



• **BANKS' CREDIT POLICY**

The impact of banks' credit policy on the Group activity is double. The Company, in implementing new development projects, uses significantly bank financing. Financing conditions, such as the margin and required contribution, determine the return on Company capital involved in projects implementation. The availability of bank financing is also a key factor determining the volume of demand for housing, which must be taken into account when starting the projects within the Group. The credit policy of banks depends in turn on the macroeconomic factors and the monetary policy conducted by the central bank.

• **CONDITIONS ON FINANCIAL MARKETS**

The availability of sources of funding and cost of capital has a direct impact on the interest of institutional investors for investment projects, since their purchases are also largely financed by debt.

• **IMPLEMENTATION OF 'DEVELOPERS LAW'**

Developers Law (law of September 16, 2011 on the protection of the rights of the acquirer of an apartment or a single-family house, Journal of laws No. 232, poz. 1377), which shall come into force on 29 April 2012, significantly changes the scope of legal requirements for developers, among others about how to finance the investment, the need to open a trust account, the purchase agreement and the information obligations for developers. Additional responsibilities increase the legal risk of the development activity, involving additional costs. This law will impact primarily on the project in Ursus, which is the largest housing project in the Group portfolio.

• **GOVERNMENTAL POLICY SUPPORTING CONSTRUCTION INDUSTRY**

In 2011, a factor supporting the demand of the population for housing, especially for the target customer segment of the Group, was the governmental program *Rodzina na Swoim*. According to changes introduced in the programme in 2011, the programme extends purchase to a wider group of customers, while tightening the criteria in respect of the area and prices. The end of the programme is envisaged for December 2012. In view of the end date of the programme and delays to start the Ursus project, the Group does not expect that the program could affect the demand for apartments in the Group portfolio.

• **ADMINISTRATIVE DECISIONS ON LANDS**

The possibility of implementation by the Group of intended development projects depends on the existence of master plans for given area and on many authorisations to be obtained by the Group from self-governing bodies. Any legislative initiative designed to accelerate the adoption of master plans and/or simplify the procedures of construction will have a favourable impact on Group's operational activities. Adoption of the master plan for the site in Ursus by Warsaw City authorities will enable the Group to begin construction works in Ursus.

## 11. OVERVIEW OF BASIC ECONOMIC AND FINANCIAL INFORMATION

### Selected items of the consolidated statement of comprehensive income

	12 months ended		Change %
	31.12.2011 (PLN ths.)	31.12.2010 (PLN ths.)	
Revenues	41 630	46 616	-10,7%
Costs of sales	-29 721	-24 158	23,0%
<b>Profit on sales</b>	<b>11 909</b>	<b>22 458</b>	<b>-47,0%</b>
Operational costs, including:	<b>-294 766</b>	<b>-37 348</b>	<b>689,2%</b>
Administrative costs property related	-30 716	-29 022	5,8%
Administrative expenses - other	-15 727	-20 961	-25,0%
Selling and marketing costs	-1 999	-957	108,9%
Other income	643	2 840	
Net gain (loss) from fair value adjustments on investment property	-214 710	16 077	-
Net gain / (loss) on sale of subsidiaries	-	-5 325	
Impairment of goodwill	-32 257	-	-
<b>Operating result</b>	<b>-282 857</b>	<b>-14 890</b>	<b>1799,6%</b>
Finance income	5 205	23 965	-78,3%
Finance costs	-8 964	-6 075	47,6%
<b>Profit (loss) before income tax</b>	<b>-286 616</b>	<b>3 000</b>	<b>-</b>
Income tax	418	78 847	-99,5%
<b>PROFIT (LOSS) FOR THE YEAR</b>	<b>-286 198</b>	<b>81 847</b>	<b>-</b>
Diluted earnings per share (PLN)	-8,40	2,36	-

Celtic Group closed the year 2011 with net loss of 286.2 million PLN. The negative result from the valuation of investment properties, amounting to PLN 214.7 million and loss of goodwill amounting to PLN 32.3 million were key factors impacting on Group net loss.

In 2011, the total Group revenues amounted to PLN 41.6 million and were lower than the last year by 10.7%. In the 4Q'11 revenues amounted to PLN 9.3 million, and were 14.5% lower than in the same period last year and 28.8% lower than revenue of the third quarter of 2011. Sales of inventories and revenues from advisory services represented the largest share in revenues of the year 2011 of respectively 39% and 38.5%.

Income from sales of inventories reached in 2011 the amount of PLN 16.2 million and was by PLN 4.9 million higher than in previous year. In 2010 sales of inventories were related to final stages of Wilanów and Józefosław projects (6.0 million PLN) and Koszykowa 69 project (4.0 mln PLN). In the year 2011 revenues from sale of inventories came from the sale of apartments in Koszykowa 69 project (6.7 million PLN), land in Magdalenka (3.2 mln PLN), plots in Wilanów-Zawady (1.3 mln PLN) and the property located in the village of Donja Lastva in Montenegro (5 million PLN).

Second in terms of value source of revenue were income from advisory services. In 2011 these revenues amounted to PLN 16.0 mln and were lower by 4.4 million PLN comparing to the previous year. The income from the advisory services was affected by fluctuations of Polish złoty against EUR and GBP, currencies in which revenues from advisory services are denominated. Currently the Group manages approx. 200 commercial objects with total surface of over 600 ths. sqm and total value of approx. EUR 450 milion. The Group is active to acquire new projects and to start cooperation with new institutional stakeholders both in Poland and in other European countries.

Rental income together with revenues from services connected to rent amounted in 2011 to PLN 9.3 million, which accounted for 22.3% of total Group revenues for that period. Rental income was generated primarily by two finished office buildings in Warsaw – Aquarius on the Połczyńska 31A street and Solar at Cybernetyki 7B. On 31 December 2011, the buildings were rented at 95% and 89% respectively. In the fourth quarter of 2011, the Group recorded a growth of rental revenues together with revenues from services related to rent of almost 48%, compared to the third quarter of 2011.

In view of the above, the revenues structure has changed in the fourth quarter of 2011: in the 4Q 2011 45.8% of revenues were generated by advisory services while in the 3<sup>rd</sup> quarter of 2011 61.4% of total Group revenues were generated by sales of inventories. Due to the nature of rental agreements, the rental income represents very stable part of Group revenues without significant quarterly fluctuations. Compared to 2010, the rental income together with revenues from services connected to rent was lower by PLN 5.5 million, which resulted mainly from the sale of Mokotów Plaza building in July 2010.

In 2011 the result on sales generated by the Group was about 47% lower than the result achieved in the previous year. The principal components of this result are the reduction in revenues (as discussed above) and higher costs of inventories sold, which are in line with higher than previous level sales of inventories.

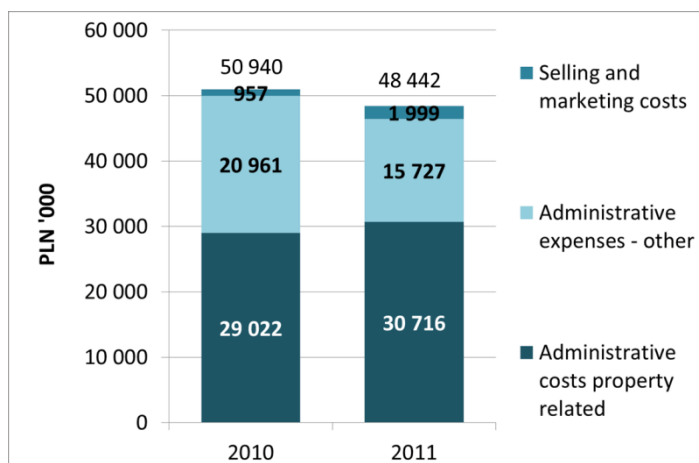
At the operating result level, the Group closed the year 2011 with an operating loss of PLN 282.9 million. This result was mainly influenced by the negative result from investment properties valuation in the amount of 214.7 million and by the loss of goodwill in the amount of PLN 32.3 million.

The decrease of investment properties valuation was mainly influenced by prevailing market conditions, macroeconomics situation resulting in the reduction of demand for real estate as well as by the change in the approach to Ursus project reflected by change in the valuation method from residual to comparative. The decrease in the valuation, mainly regarding Ursus properties, was included in the negative result from the investment properties valuation amounting to PLN 214.7 mln.

The value of goodwill results from the merger transaction, which took place in 2007. The assessment of the recoverable amount of the goodwill made by the Management Board of Celtic Property Developments S.A. at the end of 2011, demonstrated impairments amounting to 32.3 million. Test used to assess the value of the goodwill was described in note 4 c to the consolidated financial statements *Important assessment and accounting estimations, point c) Loss of goodwill*

Except the result from investment properties valuation and the write-off of the loss of goodwill, the remaining Group costs closed within the amount of PLN 48.4 million and were higher than in previous year by 4.9%. The following chart shows the cost structure of the operational costs in 2010 and 2011.

**Celtic Group operational costs structure**



In 2011 property related administrative costs increased in relation to the previous year by PLN 1.7 million mainly due to the increase of the perpetual usufruct costs and higher real estate taxes.

Other administrative expenses in 2011 were lower than in previous year by PLN 5.2 million. The highest positive impact in comparison to 2010 was caused by reduction of advisory services and consultancy costs by PLN 1.3 mln and taxes (including non-deductible VAT) by the amount of PLN 6.4 million PLN. The office costs were also reduced from PLN 3.8 million in 2010 to 3.6 million in 2011. In 2012 they will be further reduced as the consequence of the decision taken in September 2011 to move the Group's headquarters to the building at Cybernetyki 7B, which is a part of the Group investment properties portfolio.

Sales and marketing costs incurred by the Group in 2011 were by approx. 1.0 million higher than in 2010, which is a direct consequence of the higher sales of inventories in 2011 compared to 2010.

With respect to financial activities of the Group, the biggest impact on the final result in comparison to 2010 had the exchange rates fluctuations resulting from the significant variability of PLN against to principal foreign currencies (primarily to EUR), which was observed during 2011. Another significant factor affecting the result of financing activities in 2011 was the income from privileged dividends received in respect to the Spazio Industriale project management. The decrease of interest expenses on banking loans by PLN 0.6 millions, in respect of the repayment of a bank loan with BZ WBK S.A. following the sale project Mokotów Plaza, was another factor positively influencing the result from financial activities.

After taking into account the overpaid income tax amounting to PLN 0.4 million for the current period, Group net loss amounted to PLN 286.2 million. The net profit for the 2010 amounted to PLN 81.8 million and resulted mainly from the restructurization of the Ursus project: as result of the land contribution in-kind made by the subsidiary Challenge Eighteen Sp. z o.o. to the newly created limited liability partnerships companies (spółki komandytowe), the tax base of properties increased, while the obligations from deferred tax on the contributed land have decreased.

**Selected items of the balance sheet**

	As at:		Change
	31.12.2011 (PLN ths.)	31.12.2010 (PLN ths.)	2011/2010 (%)
<b>Total assets</b>	<b>677 608</b>	<b>951 755</b>	<b>-28,8%</b>
Non-current assets, including:	560 844	813 579	-31,1%
<i>Investment properties</i>	534 404	754 216	-29,1%
Current assets, including:	116 764	138 176	-15,5%
<i>Inventories</i>	66 283	76 298	-13,1%
<i>Trade receivables and other receivables</i>	23 233	23 046	0,8%
<i>Income tax receivables</i>	128	1 526	-91,6%
<i>Cash and cash equivalents</i>	16 249	37 306	-56,4%
<i>Assets held for sale</i>	10 871	-	-
<b>Total equity and liabilities</b>	<b>677 608</b>	<b>951 755</b>	<b>-28,8%</b>
Equity, including:	543 281	825 478	-34,2%
<i>Share capital</i>	3 407	3 483	-2,2%
<i>Supplementary capital</i>	1 161	-	-
<i>Other reserves</i>	23 078	-	-
<i>Translation reserve</i>	-2 694	-8 946	-69,9%
<i>Retained earnings/(accumulated losses)</i>	518 329	830 941	-37,6%
Total liabilities, including:	134 327	126 277	6,4%
<i>Non-current liabilities</i>	52 467	103 756	-49,4%
<i>Current liabilities</i>	79 901	22 521	254,8%
<i>Liabilities directly associated with assets held for sale</i>	1 959	-	-

At the end of 2011, the Group assets were by PLN 274.1 million lower than at the end of 2010, which was due to the abovementioned factors, i.e. the reduction of the investment property valuation and the write-off of goodwill.

Comparing to 2010, the value of Group current assets decreased by 15.5%, mainly as a result of the reduction of the cash and cash equivalents by PLN 21.1 million PLN and sales of inventories in Koszykowa 69 and Magdalenka projects. The level of trade and income tax receivables remained at a similar level compared to 2010.

As at 30 December 2011, the Group equity amounted to PLN 543.3 million and accounted for 80.2% of the total balance sheet value. Liabilities represented respectively 19.8% of the balance sheet total amount. The following table shows the share of each category of liabilities in total assets:

	31.12.2011	31.12.2010
<b>Liabilities to total assets</b>	<b>19,8%</b>	<b>13,3%</b>
<b>Borrowings, including finance leases to total assets</b>	<b>13,5%</b>	<b>8,5%</b>
Non-current	5,1%	8,2%
Current	8,6%	0,3%
<b>Trade and other payables to total assets</b>	<b>3,4%</b>	<b>2,0%</b>
Non-current	0,1%	0,01%
Current	3,3%	2,0%
<b>Income tax liabilities to total assets</b>	<b>2,6%</b>	<b>2,7%</b>
Non-current	2,5%	2,7%
Current	0,1%	0,1%

In respect to liabilities, Celtic Group has consistently maintained low debt ratio through financing its activities by own funds. The ratio of liabilities to total assets at the end of 2011 was higher than the previous year, mainly due to the increase of the share of loans in the overall structure of liabilities. The ratio was at 14% of total assets compared to 9% at the end of 2010. The increase resulted from the payment of the first tranche of the credit granted by BZ WBK S.A. for the

financing of IRIS project. At December 31, 2011, nearly 30% of the total amount of loans was financial leasing liabilities, including the perpetual usufruct liabilities in the amount of PLN 26.7 million. The remaining 70% was represented by bank loans.

The structure of liabilities changed in relation to the year of 2010, as a result of the reclassification of credit granted by HSBC Bank from long-term to short-term liability in connection with the payment dates in December 2011 and March 2012. Due to the fact that the maturity date of the credit is March 27, 2012, the Group is in advanced stage of negotiations with HSBC Bank to sign the new loan agreement on terms similar to those currently in force.

During the reporting period, the cash amount decreased from PLN 37.3 million at the end of 2010 to 16.2 million at the end of 2011. Reduction of the cash level resulted mainly from investment expenditures for the ongoing investment projects, interim dividend payment in December 2011 and banking loan payment.

## **12. RISK FACTORS AND THREATS**

Celtic Group activities are exposed to financial, operational and economic risks. Risk management policy adopted by the Group aims at minimizing the effects of adverse events. Occurrence of the specified risks both alone and in combination with other circumstances, could have a significant negative impact on the Company and its Group business, its financial situation, prospects of development, or Company and Group results and may have an impact on the evolution of the Company's share price quotation.

Risks listed below do not represent a complete or exhaustive list and therefore may not be treated as the only risks to which the Company is exposed. Additional risks that at present are unknown by the Company or which are considered by the Company as irrelevant, may also have a significant negative impact on the activities, financial situation, prospects, or results of the Company and its Group.

- **RISK RELATING TO THE MACROECONOMIC SITUATION ON THE MARKETS ON WHICH THE COMPANY AND ITS CAPITAL GROUP OPERATES**

The overall macroeconomic situation of Poland and other markets on which the Company and its Capital Group operate, including such factors as: GDP growth rate, inflation and interest rate levels, level of investments in the economy and unemployment rate have direct influence on the level of wealth and purchasing power of people and the financial standing 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 performance.

In 2011 Polish economy grew by approx. 4.3%, ranking Poland in the forefront of European countries. While the recent forecast of the National Bank of Poland on 2012 year provide for growth of the Polish GDP at 2.5%, it can not be excluded that the pace of GDP growth in the subsequent years will be lower. In case of reduction of GDP growth rate, the demand for products offered by the Company and its Group may fall, which could lead to decrease in residential and commercial properties prices and affect the financial condition of the Company and its Group.

- **RISK RELATING TO THE PROCESS OF OBTAINING ADMINISTRATIVE DECISIONS, THE POSSIBILITY OF APPEAL AND THE NON –EXISTENCE OF MASTER ZONING 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 such as 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 possibility that the decisions already reached 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 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 REALISATION 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 REAL ESTATES**

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 AN ATTRACTIVE LAND**

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 GEOGRAPHICAL CONCENTRATION OF THE COMPANY'S AND GROUP'S PROJECTS**

The concentration of the majority of properties portfolio, including the residential 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 INCREASE OF COSTS OF THE DEVELOPMENT PROJECTS**

During the implementation of the development project the costs of the project may increase. This increase may result from: changes introduced in the building 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 result in financial results worse than planned. The Company endeavours to mitigate the above 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 impact the profitability of future development projects.



- **RISK RELATING TO UNFAVORABLE 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 RELATING TO UNFAVORABLE 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 SELLING PRICE OF FLATS AND LEASE RENT RATES**

The Company's profitability depends largely on the level of the prices 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 able to sell apartments or offices at expected prices. If, in turn, the capitalization rates applied for commercial real estate valuation increase, the Company may be unable to sell the commercial real estate at the expected price, which may have a negative effect on the Group's business operations and its financial 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 reprivatisation 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, reprivatisation 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 the loss of the real estate.

- **RISK RELATING TO ENVIRONMENTAL RESPONSIBILITY**

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**

The Group uses services of specialized construction contractors, who often employ subcontractors, in order to implement its development projects. The Company cannot rule out the possibility of 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, taking into account the joint liability of the investor and the contractor for payment of fees to subcontractors, the Company may not rule out the possibility of the contractor's incapacity 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 is 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 monitors payments made by the general contractors to their subcontractors on a daily basis.

- **RISK RELATING TO LEASE AGREEMENTS**

The value of real estate to be leased depends on the time left to the lapse of the lease agreements' term and on the financial standing of the lessees. If the Company and its Group's 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 of 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 resulting from the lease agreement. If any of the above factors occurs, it may have a negative effect on the Company's financial performance.

- **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**

Usually 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 the Group denominated in foreign currencies amounted at the end of 2011 to PLN 63.2 mln. Also in the future the Company and its Capital Group do not rule out the possibility of taking out any further foreign currency loans, denominated mainly in euro. Therefore the Group is exposed to the risk of depreciation of Polish zloty against the currencies in which the loans were and will be taken out, which may adversely affect the Company's financial performance. This risk is partially mitigated by the fact that receivables resulting from the lease and sale of office projects are settled in foreign currencies.

- **RISK RELATING TO ACCESS OF PROSPECTIVE CLIENTS OF CELTIC GROUP TO BANKING LOANS**

The regulations on mortgage loans issued by the Financial Supervision Commission in 2010 and 2011 months (so-called T-recommendation issued in August 2010 and the amendment of S-recommendation issued in January 2011) may substantially limit the accessibility of loans designated to finance the purchase of the real estate. As a result they may cause a drop in demand for apartments and houses and consequently reduce the demand for the Group's development projects.

Given the popularity of foreign currency mortgage loans, the significant risk for the Company may also result from the deteriorating value of Polish zloty against foreign currencies, especially EUR and CHF. The depreciation of PLN exchange rate may prevent prospective buyers from taking out loans in foreign currencies. The above circumstances and events may adversely affect the Company's operations and its financial performance.

### **13. LEGAL PROCEEDINGS, WITH VALUE OF OVER 10% OF GROUP EQUITY**

Celtic Property Developments S.A. nor any of its subsidiaries are not party in proceedings before the Court, the authority competent for arbitration or a public authority, with total value being higher than 10% of Celtic Property Developments S.A. equity.

### **14. SUBSTANTIAL AGREEMENTS**

The credit agreement signed on August 12, 2011 was considered as substantial under the meaning given by the Decree of Minister of Finance dated 19<sup>th</sup> of February 2009 on current and periodic information published by issuers of securities and conditions for recognizing as equivalent information required by law of nonmember state. The agreement was concluded between the subsidiary Belise Investments Sp. z o.o. as borrower, Celtic Property Developments S.A., Lokia Enterprises Ltd. headquartered in Nicosia (Cyprus) and East Europe Property Financing A.B. headquartered in Stockholm (Sweden) as guarantors and Bank Zachodni WBK S.A. headquartered in Wrocław.

This agreement applies to investment loan up to EUR 20.141.000 granted for the financing or refinancing part of the project's costs or fit-out costs for rental surface of IRIS office building, realized by Belise Investments Sp. z o.o. at Cybernetyki 9 street, in Warsaw. The agreement constitutes a significant agreement due to the fact that its value exceeds 10% of Celtic Property Developments S.A. equity amounting to 813.133 ths. PLN as per end of the first quarter of 2011.

Details of the agreement and of related guarantees are presented in Section 16 of this report *Loans agreements*.

Except the abovementioned agreement, in the reporting year 2011, the Company or other companies being part of Celtic Group did not concluded contracts with the value exceeding 10% of the equity of Celtic Property Developments S.A.

### **15. SUBSTANTIAL AGREEMENTS BETWEEN RELATED PARTIES**

During the reporting period, the Company did not concluded transactions with related parties on terms other than the market. Transactions with related parties are described in the explanatory note No. 24 to the consolidated financial statements.

### **16. LOANS AGREEMENTS**

- **LOAN AGREEMENTS — RAISED AND GRANTED DURING THE FINANCIAL YEAR, PLEDGES AND GUARANTEES**

- **LOAN AGREEMENT WITH BANK ZACHODNI WBK S.A.**

The loan agreement signed with Bank BZ WBK S.A. is considered as significant agreement. The agreement was signed August 12, 2011 between Bank Zachodni WBK S.A. and the subsidiary company Belise Investments Sp. z o.o. as borrower, Celtic Property Developments S.A., Lokia Enterprises Ltd. headquartered in Nicosia (Cyprus) and East Europe Property Financing A.B. headquartered in Stockholm (Sweden) as guarantors.

Belise Investments Sp. z o.o. is realizing the project of the office building IRIS located at 9 Cybernetyki street in Warsaw. IRIS building realization is the last stage of the office and residential complex offering total usable space of over 50 000 sqm (office space) which is located at the junction of streets Cybernetyki and Postępu. The complex consists of office parks

Cybernetyki Office Park (Helion, Luminar, Cybernetyki and Iris buildings) and Mokotów Plaza as well as of the residential part Mozaika.

Iris building is a 6-storeys office building with total rentable office space of approx. 13.470 sqm, total warehouse space of approx. 679 sqm and 233 parking places. Construction works and occupancy permit are planned to be finalized in Q4 2012.

Subject to the terms of the agreement, the Bank made available: 1) an Investment Loan up to EUR 20.141.000 for financing or refinancing part of the Project's costs or fit-out costs; 2) a revolving VAT Loan up to PLN 2.100.000 for financing or partial refinancing the VAT tax, due during the realization of the Project.

The final repayment of the Investment Loan will take place no later than on August 12 2019. The outstanding amounts will be repaid in EUR in accordance with the repayment schedule. The Subsidiary will pay interest based on the variable 1M EURIBOR deposit interest rate increased by the Bank's margin.

The final repayment of the VAT Loan will take place no later than on August 12, 2014. The Subsidiary will pay interest based on the variable 1M WIBOR deposit interest rate increased by the Bank's margin.

The Investment Loan and VAT Loan are secured by:

- Contractual mortgage established by the Borrower for the Bank up to the amount of 40.282.000 EUR with regard to Investment Loan and up to 4.200.000 PLN with regard to VAT Loan on the right of perpetual usufruct of land and on the ownership rights of buildings which are located on this land, situated in Warsaw, Cybernetyki 9 street, for which the District Court for Warsaw – Mokotów in Warsaw, VII Land and Mortgage Register keeps a land and mortgage register KW WA2M/00143456/6;
- Declaration of submission of the Borrower to enforcement;
- Declaration of the subordinated debtor (i.e. East Europe Property Financing A.B.) of submission to enforcement;
- Declaration of the guarantor (i.e. Celtic Property Developments S.A.) of submission to enforcement;
- Declaration of the partner (i.e. Lakia Enterprises Ltd) of submission to enforcement;
- Power of attorney for the bank accounts of the Borrower provided to the Bank;
- Subordination agreement;
- Guarantee agreement;
- Assignment of rights to debtors;
- Agreement for financial and registered pledge over bank accounts;
- Agreement for financial and registered pledge over shares.

Detailed provisions of the agreement do not differ from the commonly used ones for this type of agreements.

With respect to the above described loan, Celtic Property Developments S.A. has guaranteed in favor of the Bank Zachodni WBK S.A. and for the period ending no later than 12 August 2022, the following:

- a) All payments which are required (or may be required) to cover all costs overrun over the amounts defined in the loan agreement, up to the amount of EUR 20.666.000;
- b) All payments which are required (or may be required) to cover debt service and other obligations under loan agreement, up to the amount of EUR 20.666.000;
- c) All payments which are required (or may be required) to cover the debt service ratio at the level no lower than 100% (i.e. income from lease agreements should cover the costs of debt service), up to the amount of EUR 20.666.000.

The amount of guarantee, calculated in Polish zloty, according to the average exchange rate published by the National Bank of Poland on August 12, 2011 (1 EUR = 4,1509 PLN), amounted to PLN 85.782.499 PLN and exceeded the value of 10% of the Company equity of PLN 804.358 ths. as at 30 September 2011.

➤ **LOAN AGREEMENT WITH HSBC**

In 2011 companies from Celtic Group were party to a significant loan agreement with regard to development projects financing. This agreement, dated July 7, 2009, was concluded with HSBC Bank with regard to development projects financing.

The agreement was concluded as a consolidated text of the loan agreement signed 21 December 2006, which has been changing in the course of its execution. Parties to this agreement are the Bank HSBC (HSBC Bank Plc and HSBC Bank Polska S.A.) and Celtic Property Developments S.A. subsidiaries: Blaise Investments Sp. z o.o., Devin Investments Sp. o.o., Lakia Investments Sp. z o.o., Mandy Investments Sp. z o.o., Robin Investments Sp. z o.o. as borrowers and Celtic Property Developments S.A, Blaise Investments Sp. z o.o., Devin Investments Sp. o.o., Lakia Investments Sp. z o.o., Mandy Investments Sp. z o.o., Robin Investments Sp. z o. o and Lakia Enterprises Ltd (Cyprus) as guarantors.

Subject to the terms of the agreement, the Bank made available to borrowers the loan of EUR 14.000.000. The loan is intended to finance capital expenditures related to Celtic Group investments projects. The term of final repayment, including interest and other costs, the parties agreed on the March 27, 2012. Celtic Group companies are jointly and severally obliged to pay mandatory installments of 375.000 EUR on the following dates: June 27, 2010, 27 December 2010, June 27, 2011 and 27 December 2011. These instalments have been paid according to schedule. On 31 December 2011, the loan balance amounted to EUR 12.500.000. In view of the fact that the maturity of the credit falls on March 27, 2012, the Group has advanced discussions with the bank HSBC to sign the new loan agreement on terms similar to those currently in force.

The loan is secured among other, by joint maximum mortgages up to the amount of EUR 21,000,000 established on the real estate held by Company's subsidiaries being party of the above mentioned agreement along with registered pledges on 100% of shares of each of the Company's subsidiaries. In the cases specified in the agreement, the Bank may terminate the same in whole or in part. The principal was bearing variable interest rate on annual basis. The interest rate as of the agreement conclusion date was equal to EUROLIBOR variable rate for one-month interbank deposits in PLN, increased by the Bank's margin. This Agreement is a material agreement due to its initial value of EUR 14,000,000.00 and balance of the loan at 31 December 2011 of 12,500,000 EUR.

• **LOAN AGREEMENTS RAISED AND GRANTED BETWEEN CELTIC PROPERTY DEVELOPMENTS S.A. AND COMPANIES FROM THE CAPITAL GROUP**

The following table shows a summary of loans and credits raised and granted between Celtic Property Developments S.A. and entities being part of the Group.

Borrower	Lender	Maximum loan amount ('000 PLN)	CCY	Rate	Principal and interests as at 31.12.2011 ('000 PLN)	Comments
Lakia Enterprises Ltd	Celtic Property Developments S.A.	100 000	PLN	3M WIBOR + 0,50%	12 502	-
Celtic Property Developments S.A.	East Europe Property Financing AB	400 000	PLN	3M WIBOR + 1,55%	348 311	-
Celtic Property Developments S.A.	Celtic Property Kft	1 000	PLN	3M WIBOR + 0,75%	-	Paid in 2011
Celtic Property Developments S.A.	Buffy Holdings No1 Ltd	145 000	PLN	3M WIBOR + 0,75%	126 866	-
Celtic Property Developments S.A.	Celtic Investments Ltd	5 000	EUR	3M WIBOR + 0,75%	4 637	-
Celtic Property Developments S.A.	Tenth Planet doo	200	EUR	4% p.a.	-	Paid in 2011
Celtic Property Developments S.A.	Tenth Planet doo	5 500	EUR	3M WIBOR + 0,75%	-	Paid in 2011

All the above mentioned loans are payable at the lender request.

## 17. SECURITIES ISSUE

The Company did not issue securities in 2011.

In 2012 the Company plans to issue subscription warrants. Following Group costs optimization process started in 2011, the Company plans to change Management Board remuneration schedule through the payment of the part of remuneration under the form of subscription warrants, which is presented in *Section 21 Remuneration of the Management Board and Supervisory Board*.

## 18. DESCRIPTION OF FORECASTED FINANCIAL RESULTS

Celtic Group and its dominant entity did not publish financial results forecasts for the year 2011.

## 19. FINANCIAL RESOURCES MANAGEMENT ASSESSMENT

Celtic Group finances its operations primarily from own funds. In 2011 Group financial resources were used in accordance with the plans, purpose and current needs. The Group has regularly met all its obligations to counterparties, banks and mandatory contributions to the State. Total liabilities representing 20% of total Group assets does not represent a threat to the financial condition of the Group.

Credits and loans are supplementary source of financing of the Group activities. At the end of 2011 the total value of loans and bank loans amounted to PLN 64.4 million compared to 52.5 million at the end of 2010. Loan liabilities include also liabilities from financial leasing related to the perpetual usufruct of the land. At the end of 2011 this kind of liabilities represented 29.3% of total loan liabilities of the Group.

## 20. CHANGES IN MANAGEMENT POLICIES

In 2011 there were no fundamental changes in the management policy of the Group. For the purpose of further organization development, the Group worked on the development of new procedures and improvement of existing procedures in both Celtic Property Developments S.A. and other Group entities.



## 21. REMUNERATION OF THE MANAGEMENT BOARD AND SUPERVISORY BOARD

### • MANAGEMENT BOARD REMUNERATION

In 2011 Celtic Property Developments S.A. Management Board members received cash remuneration for the function on the appointment basis in the Management Board of the Company as well as the remuneration for services provided to companies being part of Celtic Group.

Additionally, in 2012, in connection with the Group costs optimization launched in the year 2011, the Company plans to change Management Board remuneration method through the payment of part of remuneration in the form of subscription warrants.

Remuneration paid in 2011 to members of Celtic Property Developments S.A. Management Board for the function on the appointment basis in the Management Board:

Name	Function	CCY	Amount	Period	Comments
Andrew Morrison Shepherd	President of the Management Board	PLN	25 000	08.2011 - 12.2011	Remuneration paid in January 2012
Aled Rhys Jones	Member of the Management Board	PLN	25 000	08.2011 - 12.2011	
Christopher Bruce	Member of the Management Board	PLN	25 000	08.2011 - 12.2011	
Elżbieta Wiczowska	Member of the Management Board	PLN	25 000	08.2011 - 12.2011	
<b>TOTAL</b>			<b>100 000</b>		

Remuneration payable to the members of Celtic Property Developments S.A. Management Board in 2011 for services rendered to the companies from Celtic Group, taking into account the part of the payment in the form of subscription warrants:

Name	Function	CCY	Cash remuneration for the year 2011	Remuneration in warrants for the year 2011
Andrew Morrison Shepherd	President of the Management Board	PLN	966 148	389 010
Aled Rhys Jones	Member of the Management Board	PLN	966 148	389 010
Christopher Bruce	Member of the Management Board	PLN	717 727	189 039
Elżbieta Wiczowska	Member of the Management Board	PLN	344 752	189 039
<b>TOTAL</b>			<b>2 994 775</b>	

Change of the remuneration method for the Management Board through the payment of part of the remuneration in the form of subscription warrants is the result of costs optimization within the Group, started in the year 2011. Issuance of warrants is planned for the year 2012, prior to approval of the issue parameters (quantities of warrants granted, issue price, terms of the issue) at the next General Meeting of Shareholders.

### • SUPERVISORY BOARD REMUNERATION

Remuneration paid in 2011 to members of Celtic Property Developments S.A. Supervisory Board for the function in the Supervisory Board:



Name	CCY	Amount	Period	Comments
Marzena Bielecka	PLN	84 000	01.2011 - 12.2011	
Wiesław Oleś	PLN	60 000	01.2011 - 12.2011	
Colin Kingsnorth	PLN	-	01.2011 - 12.2011	Mr. C. Kingsnorth renounced from remuneration paid for the function in the Supervisory Board.
Mirosław Gronicki	PLN	60 000	01.2011 - 12.2011	
Krzysztof Cichocki	PLN	10 000	01.2011 - 02.2011	Mr. K. Cichocki resigned from his function in the Supervisory Board on 4.02.2011
Wiesław Rozłucki	PLN	50 000	03.2011 - 12.2011	Mr. W. Rozłucki was appointed to the Supervisory Board on 3.03.2011.
<b>Total</b>		<b>264 000</b>		

## 22. AGREEMENTS WITH CORPORATE EXECUTIVES – COMPENSATIONS

Celtic Property Developments S.A. Management Board members are not employed under employment agreements. The Company has not concluded with the managers agreements providing for compensation in the event of their resignation or dismissal from their function without valid reason or if the dismissal results from the merger of the Company by the acquisition.

## 23. SHARES IN POSSESSION OF MEMBERS OF THE MANAGEMENT BOARD AND SUPERVISORY BOARD

At the report publication date and according to the information hold by the Company, Mr. Christopher Bruce, member of the Company Management Board, owns 38.899 B series Company's shares. The nominal value of shares is of PLN 3889.9. These shares account for 0.11% of the Company's share capital and give 0.11% of the votes at the General Meeting of Shareholders. The number of shares owned by Mr. Christopher Bruce increased by 950 in comparison with the status presented in 2010 Annual report.

The Company has no information that other members of the Management Board or the Supervisory Board are in possession of the Company's shares.

## 24. AGREEMENTS CHANGING OWNERSHIP STRUCTURE

According to the best knowledge of the Management Board, there are no agreements that may in the future change proportions of shares held by existing shareholders.

## 25. STRUCTURE OF ASSETS AND LIABILITIES – BY LIQUIDITY

Celtic Group assets structure on 31 December 2011 and changes compared with the status at the end of 2010:

**CELTIC PROPERTY DEVELOPMENTS S.A.**  
**ANNUAL REPORT 2011**

	As at:		% in total assets	Change 2011/2010 (%)
	31.12.2011 (PLN ths.)	31.12.2010 (PLN ths.)		
Investment properties	534 404	754 216	78,9%	-29,1%
Property, plant and equipment	1 032	1 067	0,2%	-3,3%
Intangible assets, excluding goodwill	95	321	0,0%	-70,4%
Investment in subsidiaries	37	34	0,0%	8,8%
Goodwill	22 967	49 504	3,4%	-53,6%
Deferred income tax assets	2 264	7 884	0,3%	-71,3%
Long term receivables	45	553	0,0%	-91,9%
<b>Non-current assets</b>	<b>560 844</b>	<b>813 579</b>	<b>82,8%</b>	<b>-31,1%</b>
Inventories	66 283	76 298	9,8%	-13,1%
Trade and other receivables	23 233	23 046	3,4%	0,8%
Current income tax receivables	128	1 526	0,0%	-91,6%
Cash and cash equivalents	16 249	37 306	2,4%	-56,4%
<b>Current assets</b>	<b>105 893</b>	<b>138 176</b>	<b>15,6%</b>	<b>-23,4%</b>
<b>Assets held for sale</b>	<b>10 871</b>	<b>-</b>	<b>1,6%</b>	<b>-</b>
<b>AKTYWA RAZEM</b>	<b>677 608</b>	<b>951 755</b>	<b>100,0%</b>	<b>-28,8%</b>

Celtic Group liabilities structure on 31 December 2011 and changes compared with the status at the end of 2010:

	As at:		% in total assets	Change 2011/2010 (%)
	31.12.2011 (PLN ths.)	31.12.2010 (PLN ths.)		
Share capital	3 407	3 483	0,5%	-2,2%
Supplementary capital	1 161	-	0,2%	-
Other reserves	23 078	-	3,4%	-
Translation reserve	-2 694	-8 946	-0,4%	-69,9%
Retained earnings/(accumulated losses)	518 329	830 941	76,5%	-37,6%
<b>Equity</b>	<b>543 281</b>	<b>825 478</b>	<b>80,2%</b>	<b>-34,2%</b>
Trade and other payables	638	134	0,1%	376,1%
Borrowings, including finance leases	34 608	78 173	5,1%	-55,7%
Deferred income tax liabilities	17 221	25 449	2,5%	-32,3%
<b>Non-current liabilities</b>	<b>52 467</b>	<b>103 756</b>	<b>7,7%</b>	<b>-49,4%</b>
Trade and other payables	22 627	18 725	3,3%	20,8%
Current income tax liabilities	672	712	0,1%	-5,6%
Borrowings, including finance leases	56 602	3 084	8,4%	1735,3%
<b>Current liabilities</b>	<b>79 901</b>	<b>22 521</b>	<b>11,8%</b>	<b>254,8%</b>
<b>Liabilities directly associated with assets held for sale</b>	<b>1 959</b>	<b>-</b>	<b>0,3%</b>	<b>-</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>677 608</b>	<b>951 755</b>	<b>100,0%</b>	<b>-28,8%</b>

**MANAGEMENT BOARD STATEMENT**

## **VI. MANAGEMENT BOARD STATEMENT**

The Management Board of Celtic Property Developments S.A. ("Company") confirms that according to its best knowledge, the consolidated financial statements of the Capital Group Celtic ("the Group") for the year ending 31 December 2011 and all comparative figures were prepared in accordance with the applicable accounting principles and give a true, fair and clear financial and assets situation of the Group and its financial results, and that the Group annual activity report includes the true picture of Group's development, achievements and situation, including 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 carrying out the audit meet conditions required by law to issue unbiased and independent opinion on annual consolidated financial statements, in accordance with the applicable regulations and professional standards.

In years 2010 and 2011 financial statements were reviewed and audited by audit firm PricewaterhouseCoopers Sp. z o.o., based in Warsaw.

Total auditor remuneration for the year ended 31 December 2011 amounted to PLN 514,800 and included:

- PLN 302,000 represented the remuneration for audit of financial statements of the Celtic Property Developments S.A. and the consolidated financial statements of the Group for the period from 1 January 2011 to 31 December 2011 (agreement concluded 19 January 2012);
- 212.800 PLN represented the remuneration for audit of financial statements of the Celtic Property Developments S.A. and the consolidated financial statements of the Group for the period from 1 January 2011 to 30 June 2011 (agreements concluded on 22 July 2011 and 7 November 2011).

The remuneration of the auditor for the audit of Celtic Property Developments S.A. financial statements and Group consolidated financial statements for the period from 1 January 2010 to 31 December 2010 was 590.000 PLN, with 280.000 PLN constituted remuneration for the audit of consolidated financial statements. The agreement was concluded on 13 December 2010.

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**ANDREW MORRISON SHEPHERD**  
**PRESIDENT OF THE MANAGEMENT BOARD**

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**ALED RHYS JONES**  
**MEMBER OF THE MANAGEMENT BOARD**

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**CHRISTOPHER BRUCE**  
**MEMBER OF THE MANAGEMENT BOARD**

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**ELŻBIETA DONATA WICZKOWSKA**  
**MEMBER OF THE MANAGEMENT BOARD**

## **TRANSLATORS' EXPLANATORY NOTE**

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.

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.

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

#### **To the 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. Group (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, Cybernetyki 7B Street, which comprise the consolidated statement of financial position as at 31 December 2011, showing total assets and total equity and liabilities of PLN 677,608 thousand, the consolidated statement of comprehensive income for the period from 1 January to 31 December 2011, showing a total comprehensive income of PLN 279,946 thousand, the consolidated statement of changes in equity, the consolidated statement of cash flows for the financial year and 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, and for the correctness of the accounting records. The Management Board and Members of the Supervisory Board of the Parent Company are required to ensure that the consolidated financial statements and the Director's Report for the Group meet 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 perform an audit of the accompanying consolidated financial statements and to express an opinion on whether the financial statements comply in all material respects with the applicable accounting policies and whether they present fairly, in all material respects, the Group's financial position and results, and whether the accounting records constituting the basis for their preparation are properly maintained.

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 the 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 provides a reasonable basis for our opinion.

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

- a. give a fair and clear view of the Group's financial position as at 31 December 2011 and of the results of its operations for the year from 1 January to 31 December 2011, in accordance with the International Financial Reporting Standards as adopted by the European Union;
- b. comply in form and content with the laws applicable to the Group;
- c. have been prepared on the basis of properly maintained consolidation documentation.

Without qualifying our opinion on the truth and fairness of the audited consolidated financial statements, we draw attention to Note 13 in the consolidated financial statements, which indicates that at the moment of issuing this opinion the Group has not finalized negotiations with the bank regarding the extension of the repayment period of loan liabilities with a maturity date on 27 March 2012, though Management has confirmed that there is practically no risk that the extension will not be granted. However, there is some uncertainty that the Group may be unable to realize the value of its assets, pledged as collateral for the bank loan, in the normal course of business.

The information in the Directors' Report of the Group for the year ended 31 December 2011 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 of 2009, No. 33, item 259, with further amendments) and is consistent with the information presented in the audited consolidated financial statements.

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

Wojciech Maj

Group's Registered Auditor, Key Registered Auditor  
No. 6128

Warsaw, 20 March 2012

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

## **Report on the consolidated financial statements for the year from 1 January to 31 December 2011**

### **TRANSLATORS' EXPLANATORY NOTE**

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.

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.

**Report on the consolidated financial statements  
for the year from 1 January to 31 December 2011**

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

**This report contains 21 consecutively numbered pages and consists of:**

	Page
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 consolidated financial statement components .....	13
V. Statements of the independent registered auditor .....	20
VI. Final information and comments.....	21



# Celtic Property Developments S.A. Group

## Report on the consolidated financial statements

### for the year from 1 January to 31 December 2011

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#### I. General information about the Group

- a. The Parent Company of Celtic Property Developments S.A. Group (the "Group") is a Celtic Property Developments S.A. (the "Parent Company"). The Parent Company has its seat in Warsaw, Cybernetyki 7B Street.
- b. 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 Parent Company's name from Poen S.A. to Celtic Property Developments S.A.
- c. On 22 March 2007 the Parent Company was assigned a tax identification number (NIP) 677-22-86-258 for the purpose of making tax settlements. On 6 March 2007 the Parent Company was assigned a REGON number 120423087 for statistical purposes.
- d. As at 31 December 2011 the Parent Company's registered share capital amounted to PLN 3,406,825.20 and consisted of 34,068,252 shares, with a nominal value of PLN 0.10 per value.
- e. As at 31 December 2011, the Parent Company's shareholders were\*:

Shareholder's name	Number of shares held	Par value of shares held (PLN)	Type of shares held	Votes (%)
Cooperatieve Laxey Worldwide W.A.	10,082,930	1,008,293.0	ordinary	29.6
Horseguard Trading Ltd	5,975,692	597,569.2	ordinary	17.5
The Value Catalyst Fund Plc	4,490,475	449,047.5	ordinary	13.3
QVT Fund LP	3,843,635	384,363.5	ordinary	11.3
LP Value Ltd	2,198,450	219,845.0	ordinary	6.4
LP Alternative Fund LP	2,196,668	219,666.8	ordinary	6.4
Shareholders with stakes under 5%	5,280,402	528,040.2	ordinary	15.5
	<b>34,068,252</b>	<b>3,406,825.2</b>		<b>100.0</b>

\*The above shareholder's structure is based on the number of shares registered as of date of setting the right to dividend, i.e. 19 December 2011.

- f. In the audited year, the Group's operations comprised:
  - property development,
  - asset management,
  - leasing of the properties.

**Celtic Property Developments S.A. Group**  
**Report on the consolidated financial statements**  
**for the year from 1 January to 31 December 2011**

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

g. During the audited year, the Management Board of the Parent Company comprised:

- |                             |                       |
|-----------------------------|-----------------------|
| • Andrew Morrison Shepherd  | Chairman of the Board |
| • Aled Rhys Jones           | Board Member          |
| • Christopher Bruce         | Board Member          |
| • Elżbieta Donata Wiczowska | Board Member          |

# Celtic Property Developments S.A. Group Report on the consolidated financial statements for the year from 1 January to 31 December 2011

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

h. As at 31 December 2011, Celtic Property Developments S.A. Group comprised the following entities:

Entity name	Nature of equity relationship (%)	Consolidation method	Auditor	Type of opinion	Balance sheet date 31.12.2011 r.
Celtic Property Developments S.A.	Parent Company	Acquisition accounting	PricewaterhouseCoopers Sp. z o.o.	unqualified	31 December 2011
Mandy Investment Sp. z o.o.	Subsidiary 100%	Acquisition accounting	Not applicable	Not applicable	31 December 2011
Lakia Enterprises Limited	Subsidiary 100%	Acquisition accounting	PricewaterhouseCoopers Limited - registered in Cyprus	*	31 December 2011
Lakia Investments Sp. z o.o.	Subsidiary 100%	Acquisition accounting	Not applicable	Not applicable	31 December 2011
Darvest Investments Sp. z o.o. in liquidation	Subsidiary 100%	Acquisition accounting	Not applicable	Not applicable	31 December 2011
Gaetan Investments Sp. z o.o.	Subsidiary 100%	Acquisition accounting	Not applicable	Not applicable	31 December 2011
Celtic Asset Management Sp. z o.o. (former name: Liliane Investments Sp. z o.o.)	Subsidiary 100%	Acquisition accounting	Not applicable	Not applicable	31 December 2011
Blaise Investments Sp. z o.o.	Subsidiary 100%	Acquisition accounting	Not applicable	Not applicable	31 December 2011
Robin Investments Sp. z o.o.	Subsidiary 100%	Acquisition accounting	Not applicable	Not applicable	31 December 2011
Devin Investments Sp. z o.o.	Subsidiary 100%	Acquisition accounting	Not applicable	Not applicable	31 December 2011
East Europe Property Financing AB	Subsidiary 100%	Acquisition accounting	PricewaterhouseCoopers AB – registered in Sweden	*	31 December 2011
Hub Developments Ltd Sp. z o.o.	Subsidiary 100%	Acquisition accounting	Not applicable	Not applicable	31 December 2011
Elara Investments Sp. z o.o.	Subsidiary 100%	Acquisition accounting	Not applicable	Not applicable	31 December 2011

**Celtic Property Developments S.A. Group**  
**Report on the consolidated financial statements**  
**for the year from 1 January to 31 December 2011**

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

<b>Entity name</b>	<b>Nature of equity relationship (% shareholding)</b>	<b>Consolidation method</b>	<b>Auditor</b>	<b>Type of opinion</b>	<b>Balance sheet date 31.12.2011 r.</b>
Celtic Investments Limited	Subsidiary 100%	Acquisition accounting	PricewaterhouseCoopers Limited - registered in Cyprus	*	31 December 2011
KMA Sp. z o.o. (former name Celtic Asset Management Sp. z o.o.)	Subsidiary 100%	Acquisition accounting	Not applicable	Not applicable	31 December 2011
Gaston Investments Sp. z o.o.	Subsidiary 100%	Acquisition accounting	Not applicable	Not applicable	31 December 2011
Belise Investments Sp. z o.o.	Subsidiary 100%	Acquisition accounting	PricewaterhouseCoopers Sp. z o.o.	*	31 December 2011
Buffy Holdings No 1 Ltd	Subsidiary 100%	Acquisition accounting	PricewaterhouseCoopers Limited - registered in Cyprus	*	31 December 2011
Challange Eighteen Sp. z o.o.	Subsidiary 100%	Acquisition accounting	Not applicable	Not applicable	31 December 2011
Celtic Trade Park Kft	Subsidiary 100%	Acquisition accounting	Not applicable	Not applicable	31 December 2011
Tenth Planet doo	Subsidiary 100%	Acquisition accounting	Not applicable	Not applicable	31 December 2011
Celtic Property Development Kft.	Subsidiary 100%	Acquisition accounting	Not applicable	Not applicable	31 December 2011
Celtic Italy	Subsidiary 100%	Acquisition accounting	Not applicable	Not applicable	31 December 2011
CAM Estates Ltd	Subsidiary 100%	Acquisition accounting	Not applicable	Not applicable	31 December 2011
Blaise Gaston Investments Sp. z o.o. Sp.k.	Blaise Investments Sp. z o.o. 99% Gaston Investments Sp. z o.o. 1%	Acquisition accounting	Not applicable	Not applicable	31 December 2011

**Celtic Property Developments S.A. Group**  
**Report on the consolidated financial statements**  
**for the year from 1 January to 31 December 2011**

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

<b>Entity name</b>	<b>Nature of equity relationship (% shareholding)</b>	<b>Consolidation method</b>	<b>Auditor</b>	<b>Type of opinion</b>	<b>Balance sheet date 31.12.2011 r.</b>
1/95 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 2011
2/124 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 2011
3/93 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 2011
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 2011
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 2011
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 2011
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 2011
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 2011

**Celtic Property Developments S.A. Group**  
**Report on the consolidated financial statements**  
**for the year from 1 January to 31 December 2011**

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

<b>Entity name</b>	<b>Nature of equity relationship (% shareholding)</b>	<b>Consolidation method</b>	<b>Auditor</b>	<b>Type of opinion</b>	<b>Balance sheet date 31.12.2011 r.</b>
9/151 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 2011
10/165 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 2011
11/162 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 2011
12/132 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 2011
13/155 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 2011
14/119 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 2011
15/167 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 2011
16/88 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 2011

**Celtic Property Developments S.A. Group**  
**Report on the consolidated financial statements**  
**for the year from 1 January to 31 December 2011**

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

Entity name	Nature of equity relationship (% shareholding)	Consolidation method	Auditor	Type of opinion	Balance sheet date 31.12.2011 r.
17/110 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 2011
18 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 2011
19/97 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 2011
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 2011

\* as at the date of signing the audit opinion, the audit of Financial Statements of the Company has not been concluded with issuing of an opinion.



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**Celtic Property Developments S.A. Group**  
**Report on the consolidated financial statements**  
**for the year from 1 January to 31 December 2011**

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

- i. During the year ended 31 December 2011 there were no changes in the structure of the Group.

As at 1 June 2011 the liquidation process of the subsidiary company – Darvest Investments Sp. z o.o. has been commenced.

- j. The Parent Company is an issuer of securities admitted for trading on the Warsaw Stock Exchange and in accordance with the Accounting Act, the Parent Company is preparing its consolidated financial statements in accordance with IFRS as adopted by the European Union.

The Group has prepared the financial statements in accordance with IFRS since 2009.

- k. As at 31 December 2011 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 by Polish Financial Supervision Authority. On 17 December 2010 the Board of 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 they entered the market in the continuous trading system.



**Celtic Property Developments S.A. Group**  
**Report on the consolidated financial statements**  
**for the year from 1 January to 31 December 2011**

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**II. Information about the audit**

- a. The audit of the consolidated financial statements as at and for the year ended 31 December 2011 was conducted by PricewaterhouseCoopers Sp. z o.o. having its seat in Warsaw, Al. Armii Ludowej 14, registered audit company no. 144. The audit was conducted on behalf of the registered audit company under the supervision of the Group's registered auditor, key registered auditor Wojciech Maj (no. 6128).
- b. PricewaterhouseCoopers Sp. z o.o. was appointed registered auditor to the Group by Resolution No. 1/IV/2011 of the Supervisory Board dated 13 April 2011 in accordance with paragraph 11 of the Parent Company's Memorandum of Association.
- c. PricewaterhouseCoopers Sp. z o.o. and the key registered auditor conducting the audit are independent of the Group's entities within the meaning of art. 56, clauses 2-4 of the Act on registered auditors and their council, entities entitled to provide an audit of the financial statements and public supervision of 7 May 2009 (Journal of Laws of 2009, No. 77, item 649, with further amendments).
- d. The audit was performed on the basis of an agreement dated 19 January 2012, and conducted during the period from 30 January to 20 March 2012.

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

## **Report on the consolidated financial statements**

### **for the year from 1 January to 31 December 2011**

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

The consolidated financial statements do not take into account the effects of inflation. The consumer price index (on a December to December basis) amounted to 4.6% in the audited year (3.1% in 2010).

Celtic Property Developments S.A. is a Parent Company of the Group, which comprised 44 subsidiaries both as at 31 December 2011 and as at 31 December 2010 (including 44 consolidated subsidiaries).

The following comments are based on knowledge obtained during the audit of the consolidated financial statements.

The factors described below had a significant impact on the Group's results of operations and on its financial position in the audited year:

- At the end of the financial year, the Group's total assets amounted to PLN 677,608 thousand. During the year total assets decreased by PLN 274,147 thousand (i.e. by 28.8%). The decrease in total assets is due to the net loss incurred which amounted to 286,198 thousand with simultaneous increase in borrowings, including financial lease by PLN 9,753 thousand.
- The decrease of the carrying value of investment properties by PLN 219,812 thousand from PLN 754,216 thousand as at the end of the previous year to PLN 534,404 thousand as at the end of the audited year resulted mainly from the loss from fair value adjustment on investment properties of PLN 214,710 thousand. The decrease was mainly due to the change of a valuation method adopted by Ursus from the residual to comparative.
- The value of inventories as at the end of the audited year amounted to PLN 66,283 thousand, which means a decrease in comparison to previous year by PLN 10,015 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 current liabilities. Current liabilities increased from PLN 22,521 thousand as at 31 December 2010 to PLN 79,901 thousand as at balance sheet date. The current liquidity ratio was at the level of 1.4 at the balance sheet date (in comparison to 6.1 in previous year) while quick ratio amounted to 0.6 (in comparison to 2.7 in previous year).
- Non-current liabilities amounted to 52,467 thousand and decreased by PLN 51,289 thousand in comparison to the previous balance sheet date mainly due to reclassification of the HSBC's loan which amounted to PLN 55,266 thousand to current borrowings, including financial lease.
- Due to the changes of liabilities structure, the level of Group's gearing ratio deteriorated and amounted to 20% as at 31 December 2011 compared to 13% as at 31 December 2010.

**Celtic Property Developments S.A. Group**  
**Report on the consolidated financial statements**  
**for the year from 1 January to 31 December 2011**

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

- The Group's revenues in the audited year decreased in comparison to previous year by PLN 4,986 thousand to the amount of PLN 41,630 thousand, i.e. by 10.7%. It mainly resulted from decrease in the renting income by PLN 4,760 thousand and decrease in asset management services by PLN 4,448 thousand, which was partially compensated with an increase of revenues from inventories sold by PLN 5,501 thousand.
- The costs of inventories and services sold increased in comparison to previous year by 23.0% to the amount of PLN 29,721 thousand. Due to higher costs the Group reached the gross profit of PLN 11,909 thousand, which was lower by 10,549 thousand in comparison to the previous year.
- The net loss for the year 2011 amounted to PLN 286,198 thousand. In 2010 the Group's net profit amounted to PLN 81,847 thousand. It resulted in the decrease of return on capital employed from 10% to (43)%.
- The receivables turnover ratio deteriorated and amounted to 179 days (106 days in the prior year).

**Celtic Property Developments S.A. Group**  
**Report on the financial statements for the year from 1 January to 31 December 2011**

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

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION as at 31 December 2011**

	Note	31.12.2011 PLN'000	31.12.2010 PLN'000	Change PLN'000	Change (%)	31.12.2011 Structure (%)	31.12.2010 Structure (%)
<b>ASSETS</b>							
<b>Non-current assets</b>							
Investment property	1	534,404	754,216	(219,812)	(29.1)	78.9	79.3
Property, plant and equipment		1,032	1,067	(35)	(3.3)	0.2	0.1
Intangible assets, excluding goodwill		95	321	(226)	(70.4)	-	-
Non-current financial assets in subsidiaries not consolidated		37	34	3	8.8	-	-
Goodwill		22,967	49,504	(26,537)	(53.6)	3.4	5.2
Deferred income tax assets		2,264	7,884	(5,620)	(71.3)	0.3	0.8
Non-current receivables		45	553	(508)	(91.9)	-	0.1
		<b>560,844</b>	<b>813,579</b>	<b>(252,735)</b>	<b>(31.3)</b>	<b>82.8</b>	<b>85.5</b>
<b>Current assets</b>							
Inventories	2	66,283	76,298	(10,015)	(13.1)	9.8	8.0
Trade and other receivables		23,233	23,046	187	0.8	3.4	2.4
Current income tax receivables		128	1,526	(1,398)	(91.6)	-	0.2
Cash and cash equivalents		16,249	37,306	(21,057)	(56.4)	2.4	3.9
		<b>105,893</b>	<b>138,176</b>	<b>(32,283)</b>	<b>(23.4)</b>	<b>15.6</b>	<b>14.5</b>
Available-for-sale financial assets		10,871	-	10,871	-	1.6	-
<b>Total assets</b>		<b>677,608</b>	<b>951,755</b>	<b>(274,147)</b>	<b>(28.8)</b>	<b>100.0</b>	<b>100.0</b>

**Celtic Property Developments S.A. Group**  
**Report on the financial statements for the year from 1 January to 31 December 2011**

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

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION as at 31 December 2011 (cont.)**

	Note	31.12.2011 PLN'000	31.12.2010 PLN'000	Change PLN'000	Change (%)	31.12.2011 Structure (%)	31.12.2010 Structure (%)
<b>EQUITY</b>							
Share capital	3	3,407	3,483	(76)	(2.2)	0.5	0.4
Supplementary capital		1,161	-	1,161	-	0.2	-
Other reserves		23,078	-	23,078	-	3.4	-
Translation reserve		(2,694)	(8,946)	6,252	(69.9)	(0.4)	(1.0)
Retained earnings/(accumulated losses)		518,329	830,941	(312,612)	(37.6)	76.5	87.3
		<b>543,281</b>	<b>825,478</b>	<b>(282,197)</b>	<b>(34.2)</b>	<b>80.2</b>	<b>86.7</b>
<b>LIABILITIES</b>							
<b>Non-current liabilities</b>							
Trade and other payables		638	134	504	376.1	0.1	-
Borrowings, including financial lease	4	34,608	78,173	(43,565)	(55.7)	5.1	8.2
Deferred income tax liabilities		17,221	25,449	(8,228)	(32.3)	2.5	2.7
		<b>52,467</b>	<b>103,756</b>	<b>(51,289)</b>	<b>(49.4)</b>	<b>7.7</b>	<b>10.9</b>
<b>Current liabilities</b>							
Trade and other payables		22,627	18,725	3,902	20.8	3.3	2.0
Current income tax payable		672	712	(40)	(5.6)	0.1	0.1
Borrowings, including financial lease	4	56,602	3,084	53,318	>999.9	8.4	0.3
		<b>79,901</b>	<b>22,521</b>	<b>57,380</b>	<b>254.8</b>	<b>11.8</b>	<b>2.4</b>
Liabilities directly connected with available-for-sale financial assets		1,959	-	1,959	-	0.3	-
<b>Total liabilities</b>		<b>134,327</b>	<b>126,277</b>	<b>8,050</b>	<b>6.4</b>	<b>19.8</b>	<b>13.3</b>
<b>Total equity and liabilities</b>		<b>677,608</b>	<b>951,755</b>	<b>(274,147)</b>	<b>(28.8)</b>	<b>100.0</b>	<b>100.0</b>



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**Celtic Property Developments S.A. Group**  
**Report on the financial statements for the year from 1 January to 31 December 2011**

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

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**  
**for the year ended 31 December 2011**

	Note	2011 PLN'000	2010 PLN'000	Change PLN'000	Change (%)	2011 Structure (%)	2010 Structure (%)
Sales	5	41,630	46,616	(4,986)	(10.7)	(14.9)	71.6
Cost of sales	5	(29,721)	(24,158)	(5,563)	23.0	10.6	(37.1)
<b>Gross profit</b>		<b>11,909</b>	<b>22,458</b>	<b>(10,549)</b>	<b>(47.0)</b>	<b>(4.3)</b>	<b>34.5</b>
Administrative expenses - property related		(30,716)	(29,022)	(1,694)	5.8	11.0	(44.6)
Administrative expenses - other		(15,727)	(20,961)	5,234	(25.0)	5.6	(32.2)
Selling and marketing expenses		(1,999)	(957)	(1,042)	108.9	0.7	(1.5)
Other income	18	643	2,840	(2,197)	(77.4)	(0.2)	4.4
Net gain / (loss) from fair value adjustment on investment properties	6	(214,710)	16,077	(230,787)	>(999.9)	76.7	24.7
Net gain / (loss) on sales of subsidiaries		-	(5,325)	5,325	(100)	-	(8.2)
Impairment of goodwill		(32,257)	-	(32,257)	-	11.5	-
<b>Operating loss</b>		<b>(282,857)</b>	<b>(14,890)</b>	<b>(278,967)</b>	<b>&gt;999.9</b>	<b>101.0</b>	<b>(22.9)</b>
Finance income	7	5,205	23,965	(18,760)	(78.3)	(1.9)	36.8
Finance cost	7	(8,964)	(6,075)	(2,889)	47.6	3.2	(9.3)
<b>Profit before income tax</b>		<b>(286,616)</b>	<b>3,000</b>	<b>(289,616)</b>	<b>&gt;(999.9)</b>	<b>102.4</b>	<b>4.6</b>
Income tax expense	8	418	78,847	(78,429)	(99.5)	(0.1)	121.2
<b>Net profit/(loss)</b>		<b>(286,198)</b>	<b>81,847</b>	<b>(368,045)</b>	<b>(449.7)</b>	<b>102.2</b>	<b>125.8</b>
Currency translation adjustment		6,252	(16,770)	23,022	(137.3)	(2.2)	(25.8)
<b>Total comprehensive income</b>		<b>(279,946)</b>	<b>65,077</b>	<b>(345,023)</b>	<b>(530.2)</b>	<b>100.0</b>	<b>100.0</b>



**pwc**

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

### **Report on the financial statements for the year from 1 January to 31 December 2011**

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

##### **Presentation of 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 years:

	<b>2011</b>	<b>2010</b>	<b>2009</b>
<b>Asset ratios</b>			
- receivables turnover	179 days	106 days	45 days
- inventory turnover	1,066 days	3,156 days	1,201 days
<b>Profitability ratios</b>			
- gross margin	24%	46%	32%
- return on capital employed	(43)%	10%	15%
<b>Liability ratios</b>			
- gearing ratio	20%	13%	29%
- payables turnover	51 days	36 days	99 days
	<b>31.12.2011</b>	<b>31.12.2010</b>	<b>31.12.2009</b>
<b>Liquidity ratios</b>			
- current ratio	1.4	6.1	1.5
- quick ratio	0.6	2.7	0.6



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

##### **The statement of financial position as at 31 December 2011**

###### **1. Investment property**

At the balance sheet date investment property amounted to PLN 534,404 thousand and decreased by PLN 219,812 thousand in comparison to the previous year. It resulted mainly from the loss from fair value adjustment on investment properties of PLN 214,710 thousand. In comparison with the year 2010, there was the change of approach in the valuation method of the majority of properties placed in Ursus, which in the prior year were valued using the residual method with phasing or without phasing of investment projects planned for particular parcels. The change of valuation method was connected with the change of Group's plans concerning properties located in Ursus, resulting from the fact that the local development plan has still not been adopted. As the time horizon for development of the investments projects in Ursus couldn't be estimated, the Group has changed its strategy regarding the investment properties, what in consequence impacted the change of valuation methodology.

###### **2. Inventories**

At the balance sheet date inventories amounted to PLN 66,283 thousand and decreased by PLN 10,015 thousand in comparison to the prior year. Inventories comprised mainly work in progress which included the properties under construction amounted to PLN 45,935 thousand, the finished goods and goods for resale which included mainly residential projects for sale in the ordinary course of business of total amount PLN 20,348 thousand. The change resulted mainly due to the selling of property in Montenegro, Magdalenka, the residential by the Koszykowa Street in Warsaw and Wilanów for total amount of PLN 24,071 thousand.

###### **3. Share capital of the Parent Company**

In the audited year the registered share capital of the Parent Company decreased by PLN 76,504.30 because of a redemption of 765,043 of own B-series shares with a nominal value of PLN 0.10 each.

###### **4. Borrowings**

The borrowings, including financial lease amounted to PLN 91,210 thousand as at 31 December 2011, of which the current part amounted to PLN 56,602 thousand. In comparison to the 31 December 2010 the total amount increased by PLN 9,953 thousand, which is a result of a new loan for the 'Iris' property construction (formerly 'Mokotów Plaza II'). Simultaneously the current borrowings increased by PLN 53,318 thousand. It is mainly due to the loan for operation activity which has a maturity date as at 27 March 2012. As at the date of issuing an opinion the Group did not finalise the negotiation with the bank relating to the prolongation of this loan repayment. According to the disclosure in note 13 of consolidated financial statements, as it is estimated by the Management Board, the risk that the Group will not succeed in prolongation of loan repayment day is very limited. However, according to above information it there is an uncertainty whether the Group will be able to realise the value of assets put as collateral for the bank loan in normal course of Group's operations.





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

##### **5. Sales and operating expenses**

Sales revenues generated in the audited year amounted to PLN 41,630 thousand and decreased in comparison to previous year by 10.7%.

The Group's revenues were generated mainly from:

- sale of inventory, that in 2011 amounted to PLN 16,224 thousand, in comparison to PLN 11,326 thousand in the prior year.
- asset management services, that in the audited period amounted to PLN 16,043 thousand, in comparison to PLN 20,491 thousand in the prior year.
- rent of storage and office areas that amounted to PLN 6,143 thousand and decreased by PLN 4.157 thousand compared to the prior year, i.e. by 40.4%. Revenues of the Group from leasing of office area were denominated in EUR and the decrease resulted mainly from the selling of Mokotów Plaza I property in 2011.

Cost of sales was mainly comprised of the following costs related to profits:

- Cost of inventories sold that represented the book value of the inventories as at the selling date and amounted to PLN 24,071 thousand, compared to PLN 9,674 thousand in previous year.
- Cost of provided services in the amount of PLN 6,510 thousand related mainly to cost of advisory services of PLN 4.2 million (PLN 8,763 thousand in 2010).

##### **6. Net gain / (loss) from fair value adjustments on investment property**

As at 31 December 2011 net loss from the fair value adjustment on investment properties amounted to PLN 214,710 thousand, compared to the net gain of PLN 16,077 thousand in the prior year. The valuation adjustments were presented in the point 1 of this report.

##### **7. Finance cost and income**

During the audited year the loss on financial activity amounted to PLN 3,759 thousand, compared to the gain of PLN 17,890 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.

Finance income of the Group for the audited period amounted to PLN 5,205 thousand and decreased by PLN 18,760 thousand in comparison to the previous period mainly as a result of negative exchange rate differences of PLN 2,995 thousand, in comparison to the prior year in which the Group's noted a positive exchange rate differences of PLN 18,074 thousand and a decrease of interest received from other entities of PLN 866 thousand.

Financial costs of the Group comprised mainly net exchange rate differences of PLN 2,955 thousand, the cost of bank loans of PLN 2,504 thousand, interest from financial

**Celtic Property Developments S.A. Group**  
**Report on the consolidated financial statements**  
**for the year from 1 January to 31 December 2011**

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

lease of PLN 2,150 thousand. The increase of finance cost in comparison to the prior year resulted mainly from the net exchange rate differences.

**8. Income tax**

Income tax, which is decreasing the net loss, amounted to PLN 418 thousand and was divided into current tax in amount of PLN 500 thousand and income tax payable for 2010 on Cyprus which amounted to PLN 1,829 thousand, decreased by the change in deferred part in amount of PLN (2,747) thousand.

**Celtic Property Developments S.A. Group**  
**Report on the consolidated financial statements**  
**for the year from 1 January to 31 December 2011**

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**V. Statements of the independent registered auditor**

- 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 consolidated accounting records 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 accounting policies and disclosures specified by the Parent Company's Management Board complied with the International Financial Reporting Standards as adopted by the European Union in all material respects. There were no changes to the accounting policies compared with the previous year.
- d. The consolidation of equity items and the determination of minority interests were carried out properly in all material respects.
- e. 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
- f. 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.
- g. The consolidation documentation was complete and accurate and it is stored in a manner ensuring its proper safeguarding.
- h. The consolidated financial statements of the Group as at and for the year ended 31 December 2010 were approved by Resolution No. 7 passed by the General Shareholders' Meeting of the Parent Company on 6 June 2011, filed with the National Court Register in Warsaw on 21 June 2011 and Published in Monitor Polski B No. 260 on 19 January 2012.
- i. The consolidated financial statements for the previous financial year were audited by PricewaterhouseCoopers Sp. z o.o. The registered auditor issued an unqualified opinion.
- j. The notes to the consolidated financial statements present all significant information required by IFRS as adopted by the European Union.
- k. The information in the Directors' Report for the year ended 31 December 2011 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 of 2009, No. 33, item 259, as amended) and consistent with that presented in the consolidated financial statements.

**Celtic Property Developments S.A. Group**  
**Report on the consolidated financial statements**  
**for the year from 1 January to 31 December 2011**

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**VI. Final information and comments**

This report has been prepared in connection with our audit of the consolidated financial statements of Celtic Property Developments S.A. Group of which Celtic Property Developments S.A. is the Parent Company with its registered office in Warsaw, Cybernetyki 7B Street. The consolidated financial statements were signed by the Parent Company's Management Board on 20 March 2012.

This report should be read in conjunction with the Independent Registered Auditor's unqualified. Opinion to the General Shareholders' Meeting and the Supervisory Board of Celtic Property Developments S.A. dated 20 march 2012, concerning the said consolidated financial statements. The opinion on the consolidated financial statements expresses 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

Group's Registered Auditor, Key Registered Auditor  
No. 6128

Warsaw, 20 March 2012

Celtic Property Developments S.A.

**Consolidated financial statements**  
for the year ended 31 December 2011

TRANSLATION ONLY

**Celtic Property Developments S.A.****Consolidated financial statements for the period from 1 January 2011 to 31 December 2011***(TRANSLATION ONLY)***Consolidated financial statement**

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**Celtic Property Developments S.A.****Consolidated financial statements for the period from 1 January 2011 to 31 December 2011***(TRANSLATION ONLY)*


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## Celtic Property Developments S.A.

## Consolidated financial statements for the period from 1 January 2011 to 31 December 2011 (TRANSLATED)

(All amounts in PLN thousand unless otherwise stated)

## Consolidated property portfolio

## INVESTMENT PROPERTY (Note 6)

		As at
		31 December 2011
Property	Company	Fair value
Aquarius	Robin Investments	30 477
Viterra	Lakia Investments	35 334
Jana Kazimierza	Mandy Investments	16 910
Ursus	Blaise Gaston Investments	54 720
Ursus	Challenge Eighteen	15 750
Ursus	1/95 Gaston Investments	23 920
Ursus	2/124 Gaston investments	19 140
Ursus	3/93 Gaston investments	28 720
Ursus	4/113 Gaston Investments	37 700
Ursus	5/92 Gaston Investments	29 240
Ursus	6/150 Gaston Investments	10 800
Ursus	7/120 Gaston Investments	10 600
Ursus	8/126 Gaston Investments	20 390
Ursus	9/151 Gaston Investments	6 830
Ursus	10/165 Gaston Investments	12 230
Ursus	11/162 Gaston Investments	10 380
Ursus	12/132 Gaston Investments	27 260
Ursus	13/155 Gaston Investments	19 620
Ursus	14/119 Gaston Investments	13 830
Ursus	15/167 Gaston Investments	17 280
Ursus	16/88 Gaston Investments	3 350
Ursus	18 Gaston Investments	10 900
Ursus	19/97 Gaston Investments	4 370
Ursus	20/140 Gaston Investments	4 700
Łopuszańska	Devin Investments	40 860
Wolbórz	HUB Developments	2 390
Capitalised rights of perpetual usufruct of land		26 703
		<b>534 404</b>

## INVESTMENT PROPERTIES CLASSIFIED AS ASSETS HELD FOR SALE

		Fair value as at 31 December 2011
Ursus	17/110 Gaston Investments	8 820
Capitalised rights of perpetual usufruct of land		1 966

## INVENTORIES (Note 9)

INVENTORIES (Note 9)		As at	
		31 December 2011	
Property	Company	Carrying amount	Fair value
IRIS (former Mokotów Plaza II)	Belise Investments	45 935	45 935
Magdalenka (Lesznowola)	Gaetan Investments	4 920	4 920
Koszykowa	Elara Investments	2 840	2 840
		<b>53 695</b>	<b>53 695</b>
Land in Risan	Tenth Planet	6 625	6 625
Land in Zagora	Tenth Planet	442	442
Apartament in Dobrota	Tenth Planet	883	883
Alsonemedi	Celtic Trade Park	4 638	4 638
		<b>12 588</b>	<b>12 588</b>
		<b>66 283</b>	<b>66 283</b>
<b>Total fair value of property portfolio</b>			<b>600 687</b>



## Celtic Property Developments S.A.

Consolidated financial statements for the period from 1 January 2011 to 31 December 2011

(TRANSLATION ONLY)

(All amounts in PLN thousand unless otherwise stated)

**Consolidated statement of comprehensive income**

		12 months ended	12 months ended
	Note	31 December 2011	31 December 2010
Revenue	15	41 630	46 616
<b>Cost of sales</b>	16	(29 721)	(24 158)
<i>Including: Costs of inventories sold</i>		(24 071)	(9 674)
<i>Inventory impairment</i>		860	(5 721)
<i>Cost of services sold</i>		(6 510)	(8 763)
<b>GROSS PROFIT</b>		<b>11 909</b>	<b>22 458</b>
Administrative expenses - property related	17	(30 716)	(29 022)
Administrative expenses - other	19	(15 727)	(20 961)
Selling and marketing expenses		(1 999)	( 957)
Other income	18	643	2 840
Net gain from fair value adjustments on investment property	5	(214 710)	16 077
Net gain / (loss) on sale of subsidiaries	27	0	(5 325)
Impairment of goodwill		(32 257)	0
<b>OPERATING PROFIT (LOSS)</b>		<b>(282 857)</b>	<b>(14 890)</b>
Finance income	20	5 205	23 965
Finance costs	20	(8 964)	(6 075)
<b>PROFIT (LOSS) BEFORE INCOME TAX</b>		<b>(286 616)</b>	<b>3 000</b>
Income tax expense	21	418	78 847
<b>PROFIT (LOSS) FOR THE YEAR</b>		<b>(286 198)</b>	<b>81 847</b>
<b>OTHER COMPREHENSIVE INCOME</b>			
Currency translation adjustment		6 252	(16 770)
<b>TOTAL COMPREHENSIVE INCOME</b>		<b>(279 946)</b>	<b>65 077</b>
<b>Profit attributable to:</b>			
Equity holders of the Group		<b>(286 198)</b>	<b>81 847</b>
<b>Total comprehensive income attributable to:</b>			
Equity holders of the Group		<b>(279 946)</b>	<b>65 077</b>
<b>BASIC AND DILUTED EARNINGS PER SHARE (PLN)</b>	30	-8,40	2,36

Andrew Morrison Shepherd  
Chairman of the Board

Christopher Bruce  
Board Member

Aled Rhys Jones  
Board Member

Elżbieta Donata Wiczowska  
Board Member

**Celtic Property Developments S.A.**

Consolidated financial statements for the period from 1 January 2011 to 31 December 2011

(TRANSLATION ONLY)

(All amounts in PLN thousand unless otherwise stated)

**Consolidated statement of financial position**

		As at	
		31 December 2011	31 December 2010
Note			
<b>ASSETS</b>			
<b>Non-current assets</b>			
	5	534 404	754 216
Investment properties			
Property, plant and equipment		1 032	1 067
Intangible assets, excluding goodwill		95	321
Investment in subsidiaries		37	34
Goodwill	7	22 967	49 504
Deferred income tax assets	14	2 264	7 884
Long term receivables	8	45	553
<b>Non-current assets</b>		<b>560 844</b>	<b>813 579</b>
<b>Current assets</b>			
Inventory	9	66 283	76 298
Trade and other receivables	8	23 233	23 046
Current income tax receivables		128	1 526
Cash and cash equivalents	10	16 249	37 306
		<b>105 893</b>	<b>138 176</b>
<b>Assets held for sale</b>	26	<b>10 871</b>	<b>0</b>
<b>Current assets</b>		<b>116 764</b>	<b>138 176</b>
<b>Total assets</b>		<b>677 608</b>	<b>951 755</b>

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 2011 to 31 December 2011

(TRANSLATION ONLY)

(All amounts in PLN thousand unless otherwise stated)

**Consolidated statement of financial position - cont.**

		As at	
	Note	31 December 2011	31 December 2010
<b>EQUITY</b>			
<b>Capital and reserves attributable to the parent Company's equity holders</b>			
Share capital	11	3 407	3 483
Supplementary capital	13	1 161	0
Other reserves		23 078	0
Translation reserve		(2 694)	(8 946)
Retained earnings/(accumulated losses)		518 329	830 941
<b>Total equity</b>		<b>543 281</b>	<b>825 478</b>
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Trade and other payables	12	638	134
Borrowings, including finance leases	13	34 608	78 173
Deferred income tax liabilities	14	17 221	25 449
		<b>52 467</b>	<b>103 756</b>
<b>Current liabilities</b>			
Trade and other payables	12	22 627	18 725
Current income tax liabilities		672	712
Borrowings, including finance leases	13	56 602	3 084
		<b>79 901</b>	<b>22 521</b>
Liabilities directly associated with assets held for sale		1 959	0
<b>Current liabilities including liabilities directly associated with assets held for sale</b>		<b>81 860</b>	<b>22 521</b>
<b>Total liabilities</b>		<b>134 327</b>	<b>126 277</b>
<b>Total equity and liabilities</b>		<b>677 608</b>	<b>951 755</b>

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

\_\_\_\_\_  
 Aled Rhys Jones  
*Board Member*

\_\_\_\_\_  
 Christopher Bruce  
*Board Member*

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

**Celtic Property Developments S.A.**

**Consolidated financial statements for the period from 1 January 2011 to 31 December 2011  
(TRANSLATION ONLY)**

(All amounts in PLN thousand unless otherwise stated)

**Consolidated statement of changes in equity**

	Note	Share capital CPD PLC	Share capital CPD SA	Translation reserve	Accumulated profit (loss)		Total
					Supplementary capital	Retained earnings	
<b>Balance at 1 January 2010</b>		<b>1 197 085</b>	-	<b>58 125</b>	-	<b>( 480 320)</b>	<b>774 890</b>
Own shares sold		3 478	-	-	-	-	3 478
Issuance of shares	1,1	-	3 483	-	-	-	3 483
Acquisition of own shares due to merger	1,1	-	500	-	-	-	500
Redemption of shares (registered)	1,1	-	( 500)	-	-	-	( 500)
Payment on account of redemption of shares (unregistered)	1,1	-	-	-	-	( 17 967)	( 17 967)
Change of the parent company	1,1	(1 200 563)	-	( 50 301)	-	1 247 381	( 3 483)
		(1197 085)	3 483	(50 301)	0	1 229 414	(14 489)
Currency translation differences		-	-	( 16 770)	-	-	(16 770)
Profit for the year (restated)		-	-	-	-	81 847	81 847
<b>Total comprehensive income</b>		<b>-</b>	<b>-</b>	<b>( 16 770)</b>	<b>-</b>	<b>81 847</b>	<b>65 077</b>
<b>Balance at 31 December 2010</b>		<b>-</b>	<b>3 483</b>	<b>( 8 946)</b>	<b>-</b>	<b>830 941</b>	<b>825 478</b>

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 2011 to 31 December 2011  
(TRANSLATION ONLY)**

(All amounts in PLN thousand unless otherwise stated)

**Consolidated statement of changes in equity - continued**

	Note	Share capital CPD SA	Translation reserve	Accumulated profit (loss)			Total
				Supplementary capital	Reserve capital	Retained earnings	
<b>Balance at 1 January 2011</b>		<b>3 483</b>	<b>( 8 946)</b>	-	-	<b>830 941</b>	<b>825 478</b>
2010 profit allocation		-	-	1 161	21 922	(23 083)	-
Shares cancelled	11	( 76)	-	-	-	76	-
Reserve for issue of share warrants	11	-	-	-	1 156	-	1 156
Interim dividend payment	29	-	-	-	-	( 3 407)	( 3 407)
		( 76)	-	1 161	23 078	( 26 414)	(2 251)
Currency translation differences		-	6 252	-	-	-	6 252
Profit for the year		-	-	-	-	( 286 198)	( 286 198)
<b>Total comprehensive income</b>		<b>0</b>	<b>6 252</b>	<b>0</b>	<b>0</b>	<b>(286 198)</b>	<b>(279 946)</b>
<b>Balance at 31 December 2011</b>		<b>3 407</b>	<b>( 2 694)</b>	<b>1 161</b>	<b>23 078</b>	<b>518 329</b>	<b>543 281</b>

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

Andrew Morrison Shepherd  
*Chairman of the Board*

Aled Rhys Jones  
*Board Member*

Christopher Bruce  
*Board Member*

Eiżbieta 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 2011 to 31 December 2011

(TRANSLATION ONLY)

(All amounts in PLN thousand unless otherwise stated)

**Consolidated cash flow statement**

	Note	12 months ended 31 December 2011	12 months ended 31 December 2010
<b>Cash flows from operating activities</b>			
Cash generated from operations	22	(16 074)	(23 444)
Interest paid		(2 437)	( 15)
Income tax paid		858	(1 624)
<b>Net cash generated from operating activities</b>		<b>(17 653)</b>	<b>(25 083)</b>
<b>Cash flows from investing activities</b>			
Capital expenditure on investment property		(5 684)	(8 787)
Purchases of property, plant and equipment		( 192)	( 543)
Purchases of subsidiaries		0	0
Proceeds from sale of subsidiaries		0	43 990
Purchases of shares in subsidiaries (excluded from consolidation)		0	( 34)
<b>Net cash used in investing activities</b>		<b>(5 876)</b>	<b>34 626</b>
<b>Cash flows from financing activities</b>			
Proceeds from borrowings		9 192	0
Repayments of borrowings		(3 313)	(4 389)
Share redemption		0	(17 967)
Interim dividend		(3 407)	0
<b>Net cash used in financing activities</b>		<b>2 472</b>	<b>(22 356)</b>
<b>Net (decrease)/increase in cash and cash equivalents</b>		<b>(21 057)</b>	<b>(12 813)</b>
Cash and cash equivalents at beginning of the year		<b>37 306</b>	<b>50 119</b>
Exchange losses on cash and cash equivalents			
<b>Cash and cash equivalents at end of the year</b>		<b>16 249</b>	<b>37 306</b>

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

\_\_\_\_\_  
 Aled Rhys Jones  
*Board Member*

\_\_\_\_\_  
 Christopher Bruce  
*Board Member*

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

## Celtic Property Developments S.A.

### Consolidated financial statements for the period from 1 January 2011 to 31 December 2011 (TRANSLATION ONLY)

(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 (02-667), ul. Cybernetyki 7B, 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. The Company's shares are quoted on the Warsaw Stock Exchange.

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 of nominal value of 3 483 thousand PLN. 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 of nominal value of 500 ths. PLN 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.

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.

The loss for the year presented in the consolidated statement of comprehensive income for the period ended at 31 December 2011 amounted to PLN 297 m. The loss for the year results mainly from decrease of fair value of investment properties in amount of PLN 215 m and impairment of goodwill in amount of 43 m PLN.

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
Elżbieta Donata Wiczowska	Board Member

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**Additional notes and explanations to the consolidated financial statement**Supervisory Board:

Marzena Bielecka	Chairman
Wiesław Oleś	Vice-Chairman
Mirosław Gronicki	Member of the Supervisory Board
Colin Kingsnorth	Secretary
Wiesław Rozłucki	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 2011 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	5 975 692	17,5%	17,5%
The Value Catalyst Fund plc	Cayman Islands	4 490 475	13,2%	13,2%
QVT Fund LP	Cayman Islands, USA	3 843 635	11,3%	11,3%
LP Value Ltd	British Virgin Islands	2 198 450	6,5%	6,5%
LP Alternative Fund LP	USA	2 196 668	6,4%	6,4%
Shareholders with stakes below 5%		5 280 402	15,4%	15,4%
		34 068 252	100%	100%

\* The above shareholder's structure is based on the number of shares registered as of the date of the right of dividend i.e. 15 December 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.

**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**

The consolidated financial statements of CPD S.A. were prepared as at 31 December 2011 and for the period from 1 January 2011 to 31 December 2011, while comparative data is for the period from 1 January 2010 to 31 December 2010.

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.



**Celtic Property Developments S.A.**

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(All amounts in PLN thousand unless otherwise stated)

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

**2.1 Basis of preparation - cont.**

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.

The amendments to IAS 24 "Transactions with related parties", valid for the period beginning on 1 January 2011 have been adopted by the Group for the first time in the financial statements ended 31 December 2010.

The other new and amended standards and interpretations did not affect these consolidated financial statements:

**In these consolidated financial statements the Group CPD has decided not to advance the following published standards or interpretations before their date of entry into force:**

**IFRS 9 "financial instruments"**

IFRS 9, published by the International Accounting Standards Board on November 12, 2009, replaces those parts of IAS 39, which concern the classification and measurement of financial assets. In October 2010, IFRS 9 has been supplemented by the matters of classification and measurement of financial liabilities. In accordance with amendments introduced in December 2011, a new standard is valid for periods of annual starting on January 1, 2015, or after that date.

Most of the requirements of IAS 39 for the classification and measurement of financial liabilities was transferred to IFRS 9 without a change. A key change is the requirement imposed on the unit of presentation in other total income effects of price of credit risk of financial liabilities designated as fair value through profit or loss.

The standard makes one model for only two categories of classification: depreciated cost and fair value. Approach IFRS 9 is based on the business model used by the entity for the management of assets and contractual characteristics of financial assets.

The group will apply IFRS 9 from 1 January 2013 at the date of preparation of the present financial statements, IFRS 9 is not yet approved by the European Union.

**IFRS 7 "transfers of financial assets"**

The amendments to IFRS 7 "Transfer of financial assets" were published by the International Accounting Standards Board in October 2010 and are valid for periods of annual starting on July 1, 2011, or after that date.

Changes require the disclosure of additional information about the risks arising from the transfer of financial assets. Include the requirement of disclosure, according to the nature of assets, the carrying amount and description of the risks and benefits of financial assets transferred to another entity, but which is still in the balance sheet. Disclosure of information is also required to enable a user to know the amount of possible related obligations and the relationship between the financial assets and the relevant obligation. In the case where financial assets have been removed from the balance sheet, but the body is still vulnerable to certain risks and can obtain some advantages of the transferred asset is required in addition to the disclosure of information to understand the consequences of such risks.

The group will apply the amendments to IFRS 7 since 1 January 2012. The group is in process of analysing of influence of this IFRS to the consolidated financial statements.

**IFRS 10 "Consolidated financial statements"**

IFRS 10 was published by the Board of the international accounting standards in May 2011 and shall be applicable for annual periods beginning on or after 1 January 2013 or after that date.

The new standard replaces the guidance on the inspection and consolidation contained in IAS 27 "consolidated and separate financial statements" and in interpretation SIC-12 consolidation-special purpose entities ". IFRS 10 redefines checks in such a way that for all the units were subject to the same criteria for the establishment of control. The amended definition is accompanied by extensive guidance on the application.

The group will apply IFRS 10 from 1 January 2013. The group is in process of analysing of influence of this IFRS to the consolidated financial statements.

At the date of preparation of this consolidated financial statements, IFRS 10 has not yet been authorized by the European Union.

**Celtic Property Developments S.A.**

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

**2.1 Basis of preparation - cont.**

**IFRS 11 "Joint ventures"**

IFRS 11 was published by the Board of the international accounting standards in May 2011 and shall be applicable for annual periods beginning on or after 1 January 2013 or after that date.

The new standard replaces IAS 31 "interests in joint ventures" and the interpretation SIC-13 jointly controlled entities-non-monetary contributions by venturers. Changes in definitions restrict the number of types of joint ventures to two: joint operations and joint ventures. At the same time avoiding the traditional choice of proportionate consolidation in respect of units under common control. All participants in the joint ventures they now have an obligation to their consolidation under the equity method.

The group will apply IFRS 11 from 1 January 2013. The group is in process of analysing of influence of this IFRS to the consolidated financial statements.

At the date of preparation of this consolidated financial statements, IFRS 11 has not yet been approved by the European Union.

**IFRS 12 "Disclosure of involvement in other units "**

IFRS 12 was published by the Board of the international accounting standards in May 2011 and applies to annual periods beginning on or after January 1, 2013 or after that date.

The new standard applies to individuals who have participated in the subsidiary, joint venture, an associate or unconsolidated structure. The Standard replaces the requirements for the disclosure of the information currently contained in IAS 28 investments in associates.

IFRS 12 requires that entities disclose information that will help users of financial statements to assess the nature, risks and financial impact of investments in subsidiaries, associates, joint ventures and unconsolidated structured entities. To this end, the new standard requires disclosure of information on many areas, including significant judgements and assumptions adopted in determining whether an entity has control or joint control of, or significant influence over, another entity; comprehensive information about the importance of non-controlling interest in the group operations and cash flows of the Group; summary financial information of subsidiaries with significant non-controlling interest as well as detailed information about the shares in the unconsolidated structured entities.

The group will apply IFRS 12 from 1 January 2013. The group is in process of analysing of influence of this IFRS to the consolidated financial statements.

At the date of preparation of this consolidated financial statements, IFRS 12 has not yet been approved by the European Union.

**IFRS 13 "Valuation at fair value"**

IFRS 13 was published by the Board of the international accounting standards in May 2011 and applies to annual periods beginning on or after January 1, 2013 or after that date.

The new standard is intended to improve consistency and reduce complexity through the formulation of a precise definition of fair value and concentrating in one standard requirements for fair value and the disclosure of relevant information.

The group applies the amendments to IFRS 13 from 1 January 2013. The group is in process of analysing of influence of this IFRS to the consolidated financial statements.

At the date of preparation of this consolidated financial statements, IFRS 13 has not yet been approved by the European Union.

**Amendments to IAS 1 "Presentation of financial statements"**

Amendments to IAS 1 "presentation of financial statements have been published by the international accounting standards in June 2011 and are valid for annual periods beginning on or after 1 July 2012 or after that date.

Changes require that individuals share positions presented in other comprehensive income into two groups based on whether the future will be able to be included in the financial result. In addition, changed the title of the report of the total revenue on the "report on the financial result and the rest of the total revenue."

The group applies the changes to IAS 1, after January 1, 2013. The group is in process of analysing of influence of this IFRS to the consolidated financial statements.

At the date of the report of the present consolidated financial statements, an amendment to IAS 1 have not yet been approved by the European Union.

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**Additional notes and explanations to the consolidated financial statement**
**2.1 Basis of preparation - cont.**
**Amendments to IAS 12 "recovery of the carrying amount of assets"**

Amendments to IAS 12 "Recovery of the carrying amount of assets" have been published by the International Accounting Standards Board in December 2010 and are valid for annual periods beginning on or after 1 January 2012 or after that date.

The changes relate to the valuation of the liabilities and deferred tax assets from investment property measured at fair value in accordance with IAS 40 "investment property" and introduce a rebuttable presumption that the value of the property investment can be recovered completely by selling. This presumption can be rebutted when the investment property is held in business model, which is designed to exploit substantially all economic benefits represented by an investment in time and not at the time of sale. SIC-21 "tax-recovery of revalued assets, which are not subject to depreciation" referring to the similar questions relating to the assets not subject to depreciation, which are valued in accordance with the model to update the values set out in IAS 16 "property, plant and equipment" was included in the IAS 12 after the exclusion of the guidelines on investment property measured at fair value.

The group applies the amendments to IAS 12 from 1 January 2012. The group is in process of analysing the influence of this IFRS to the consolidated financial statements.

At the date of the report of the present consolidated financial statements, an amendment to IAS 12 has not yet been approved by the European Union.

**Amendments to IAS 19 "Employee benefits"**

Amendments to IAS 19 "employee benefits" was published by the Board of the international accounting standards in June 2011 and are valid for annual periods beginning on or after January 1, 2013 or after that date.

Changes to introduce new requirements for recognising and measuring the costs of the programmes referred to the benefits and benefits in respect of the termination, which also changes the required disclosure for all employee benefits.

The group applies the changes to IAS 19 as from 1 January 2013. At the date of the report of the present consolidated financial statements, an amendment to IAS 19 has not yet been approved by the European Union.

This amendment does not apply to the financial statements of the group.

**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.

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.

Goodwill represents the surplus of the amount transferred for the acquisition, the amount of all non-controlling shares in an entity being acquired and fair value as at acquisition date of participation in a capital of an entity being acquired, before getting a control, over the net amount recognised at the date of acquisition of the value of identifiable acquired assets and liabilities of an acquired subsidiary.

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**Additional notes and explanations to the consolidated financial statement****2.2 Consolidation - cont.**

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

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

	<b>Name</b>	<b>Country</b>	<b>Shareholder</b>	<b>31 December 2011</b>	<b>31 December 2010</b>
1	Mandy Investments 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. in liquidation	Poland	Lakia Enterprises Limited	100%	100%
5	Gaetan Investments Sp. z o.o.	Poland	Lakia Enterprises Limited	100%	100%
6	Celtic Asset Management Sp. z o.o. (formerly 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	Hub Developments Ltd Sp. z o.o.	Poland	Lakia Enterprises Limited	100%	100%
12	Elara Investments Sp. z o.o.	Poland	Lakia Enterprises Limited	100%	100%
13	Celtic Investments Limited	Cyprus	CPD S.A.	100%	100%
14	KMA Sp. z o.o. (formerly Celtic Asset Management Sp. z o.o.)	Poland	Celtic Investments Limited	100%	100%
15	Gaston Investments Sp. z o.o.	Poland	Lakia Enterprises Limited	100%	100%
16	Buffy Holdings No 1 Ltd	Cyprus	CPD S.A.	100%	100%
17	Challange Eighteen Sp. z o.o.	Poland	Buffy Holdings No 1 Ltd	100%	100%
18	Celtic Trade Park Kft	Hungary	Lakia Enterprises Limited	100%	100%
19	Tenth Planet doo	Montenegro	CPD S.A.	100%	100%
20	Celtic Property Development Kft.	Hungary	Celtic Investments Limited	100%	100%
21	Celtic (Italy) Srl	Italy	Celtic Investments Limited	100%	100%
22	CAM Estates Ltd	Great Britain	Celtic Investments Limited	100%	100%
23	Blaise Gaston Investments Spółka z ograniczoną odpowiedzialnością Sp.k.	Poland	Blaise Investments Sp. z o.o. Gaston Investments Sp. z o.o.	99% 1%	99% 1%
24	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%	99% 1%
25	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%	99% 1%
26	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%	99% 1%
27	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%	99% 1%

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

	<b>Name</b>	<b>Country</b>	<b>Shareholder</b>	<b>31 December 2011</b>	<b>31 December 2010</b>
28	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%	99% 1%
29	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%	99% 1%
30	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%	99% 1%
31	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%	99% 1%
32	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%	99% 1%
33	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%	99% 1%
34	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%	99% 1%
35	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%	99% 1%
36	13/155 Gaston Investments Spółka z ograniczoną odpowiedzialnością Sp.k.	Poland	Challange Eighteen Sp. z o.o. Gaston Investments Sp. z o.o.	99% 1%	99% 1%
37	14/119 Gaston Investments Spółka z ograniczoną odpowiedzialnością Sp.k.	Poland	Challange Eighteen Sp. z o.o. Gaston Investments Sp. z o.o.	99% 1%	99% 1%
38	16/88 Gaston Investments Spółka z ograniczoną odpowiedzialnością Sp.k.	Poland	Challange Eighteen Sp. z o.o. Gaston Investments Sp. z o.o.	99% 1%	99% 1%
39	17/110 Gaston Investments Spółka z ograniczoną odpowiedzialnością Sp.k.	Poland	Challange Eighteen Sp. z o.o. Gaston Investments Sp. z o.o.	99% 1%	99% 1%
40	15/167 Gaston Investments Spółka z ograniczoną odpowiedzialnością Sp.k.	Poland	Challange Eighteen Sp. z o.o. Gaston Investments Sp. z o.o.	99% 1%	99% 1%
41	18 Gaston Investments Spółka z ograniczoną odpowiedzialnością Sp.k.	Poland	Challange Eighteen Sp. z o.o. Gaston Investments Sp. z o.o.	99% 1%	99% 1%
42	19/97 Gaston Investments Spółka z ograniczoną odpowiedzialnością Sp.k.	Poland	Challange Eighteen Sp. z o.o. Gaston Investments Sp. z o.o.	99% 1%	99% 1%
43	20/140 Gaston Investments Spółka z ograniczoną odpowiedzialnością Sp.k.	Poland	Challange Eighteen Sp. z o.o. Gaston Investments Sp. z o.o.	99% 1%	99% 1%
44	Belise Investments Sp. z o.o.	Poland	Lakia Enterprises Limited	100%	100%

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**Additional notes and explanations to the consolidated financial statement**
**2.3 Change in Group structure**

There weren't any changes in the Group structure within the financial year ended 31 December 2011.

On 1 June 2011, a subsidiary Darvest Investments Sp. z o. o. entered into liquidation.

**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.

*(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.

**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.

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**Additional notes and explanations to the consolidated financial statement**
**2.5 Investment property - cont.**

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).

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.

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**2.7 Leases - cont.**

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.

**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.

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.



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### 2.11 Financial assets - cont.

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.

The category comprise also 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.

### 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.

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.

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

### **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.

### **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**

#### *(a) 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.

#### *(a) Share-based payments*

The group conducts a programme of wages in the form of subscription warrants entitling to the purchase of shares at a preferential price. The Program is certified as applied in instruments of capital. The fair value of the employee services received in exchange for the grant of the warrants is recognised as an expense and accounted for the acquisition of rights. At the same time, the Group recorded an increase in the reserve. Unit at each balance sheet date, adjusted their estimates of the number of warrants, which are predicted for execution. The effects of adjustments to the original estimates, if there are, are recognised in the financial result together with the respective adjustment of own capital.

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**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.

*(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.

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

The effective interest rate method is a technique for calculating the amortised cost of a financial asset or a financial liability as well as apportioning interest income or interest cost over financial periods. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to the net carrying amount of the financial asset or liability. When calculating the effective interest rate the Group estimates cash flows taking into account all the contractual terms of a financial instrument (for example advance payment opportunities), but does not include future losses. The calculation comprises all amounts paid or received by a party to the agreement, transaction costs as well as any other fees or discounts.

**2.25 Share-base payments**

The Group recognises an expense of goods or services acquired as consideration for the share-based payment when they are received. The corresponding entry in the accounting records will either be a liability or an increase in the equity of the company depending upon whether the transaction is to be settled in cash or equity shares.

The Group values employee services received or acquired in a transaction the payment in the form of shares at fair value and recognises in the costs for the acquisition of rights.

**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.

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**Additional notes and explanations to the consolidated financial statement****3 Financial risk management - cont.****3.1 Financial risk factors - cont.**

	Year ended at 31 December 2011	Year ended at 31 December 2010
Debt in foreign currencies - EUR	63 214	52 521
Assumed change in PLN/EUR exchange rate	+/-1%	+/-1%
Tax shield	120	100
Effect on net profit/(loss)	512	425

## (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.

	Year ended at 31 December 2011	Year ended at 31 December 2010
Variable interest rate loans	64 507	52 588
Cost of interest in the period	3 752	4 309
Assumed change in interest rates	+/-1pp	+/-1pp
Effect of the change on the cost of interest	645	526
Tax shield	123	100
Effect on net profit/(loss)	523	426

Trade receivables and other receivables and liabilities as at 31.12.2011 are interest-free and due within 1 year, with the exception of long-term receivables of PLN 45 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, BZ WBK, 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.

The write-offs are applied to:

- Receivables overdue 91 – 180 days – the write-off in the amount of 50% of the value of overdue receivable is applied

- Receivables overdue more than 180 days – the write-off in the amount of 100% of the value of overdue receivable is applied

## (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:

As at 31.12.2011

	Within 1 year	1 – 5 years	More than 5 years
Loans and leases	60 697	16 458	146 715
Trade payables and other payables	19 643	638	0
	80 340	17 096	146 715

As at 31.12.2010

	Within 1 year	1 – 5 years	More than 5 years
Loans and leases	7 326	58 647	159 639
Trade payables and other payables	18 488	134	0
	25 814	58 781	159 639

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

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%.

	<b>31 December 2011</b>	<b>31 December 2010</b>
Total loans (Note 13)	91 210	81 257
Trade payables and other payables (Note 12)	23 265	18 859
Less: cash and cash equivalents (Note 10)	-16 249	-37 306
<b>Net debt</b>	<b>98 226</b>	<b>62 810</b>
Equity	543 281	825 478
<b>Total capital</b>	<b>641 507</b>	<b>888 288</b>
<b>Financing structure ratio</b>	<b>15,3%</b>	<b>7,1%</b>

The financing structure ratio increased significantly in relation to the previous year. The main reason for the change in this ratio was the write down of the investment property portfolio of the Group.

**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.

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**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, Cybertyki 7b) were valued by the discounted cash flow method. Land not intended for development (Wolbórz, Jana Kazimierza, Ursus, Łopuszańska) was valued by the comparative method.

In comparison to 2010 the valuation assumptions have been changed regarding the majority of the properties located in Ursus, which in the previous financial year were valued using the residual method. The valuation method was changed also in case of properties in Wolborz, at Jana Kazimierza in Warsaw, which in 2011 were valued using the comparison method, since in 2010 by the use of residual method. The change in valuation method was due to the change of plans of the Group related to the investment properties and the anticipated project term. It was caused by lack of zoning plan for Ursus, that stops the Group with starting projects in this area.

The lack of a start time for when the group will be able to begin the implementation of the investment project in Ursus has caused that changed the strategy of approach to the project, which led to the amendment by the valuer methodology of valuation.

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% (in 2010: 7.25% - 8%) and discount rates of 7.5% to 9% were used (in 2010: 7.5% - 8%).

In 2011, the Group's loss from re-measurement of investment properties to the fair value amounted to PLN 214.7 million (in 2010 profit - 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.

As at 31.12.2011

Investment properties by the valuation method	Fair value	Effect of estimated variables			
		Discount and capitalization rates (+0.25 pp) / (-0.25 pp)	Expected rent rates (+2.5%) / (-2.5%)	Construction costs (+2.5%) / (-2.5%)	Sale prices (+2.5%) / (-2.5%)
discounted cash flow	65 811	-1727 / 1727	1060 / - 1060	n/d	n/d
comparative	441 890	n/d	n/d	n/d	11047 / - 11047
perpetual usufruct of land	26 703	-846 / 846	n/d	n/d	n/d
	<b>534 404</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>

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

As at 31.12.2010

Investment properties by the valuation method	Fair value	Effect of estimated variables			
		Discount and capitalization rates (+0.25 pp) / (-0.25 pp)	Expected rent rates (+2.5%) / (-2.5%)	Construction costs (+2.5%)/(-2.5%)	Sale prices (+2.5%) / (-2.5%)
discounted cash flow	63 048	-2056 / 2056	1414 / 1414	n/d	n/d
residual	604 468	n/d	n/d	-71842 / 71842	88045 / -88045
comparative	58 030	n/d	n/d	n/d	1450,75 / -1450,75
perpetual usufruct of land	28 669	-909 / 909	n/d	n/d	n/d
	<b>754 215</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</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.

*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.

Calculation of the cash flows is based on the considerable assumption as to the amount of the preferential dividends and other flows resulting from the contract portfolio management. In 2011 the Group received a dividend amounting to 4.4 million PLN from this title and has developed the right to payment of a further EUR 2 million of dividends, which the Group has obtained in 2012. At present, the agreement on the basis of which the former estimated cash flows from dividends, expired in December 2011 and in its place was signed another agreement to the amended terms, which, however, still provides for remuneration for the management of the investment portfolio in the period 2012-2013. As a result of dividends received by the group in 2011 and the signing of the agreement on the management of the investment portfolio to the new conditions, the Group recognised the loss of goodwill as at December 31, 2011.

Test impairment of business carried out by the Group on the basis of the analysis of recoverable amount at the balance sheet date, all sectors showed a loss of value in the height of 32.3 million PLN. Goodwill after an extract thereof amounts to PLN 23.0 million.

Discount rate used in the calculation of after tax was adopted at the level of 8% (2010: 8%). If the discount rate after tax cash flow for other operations of the group, the CPD will be higher than estimated by the Board of Directors (9% instead of 8%) is the impairment of company not that substantial modification.

As a result of the test carried out at the balance sheet date of December 31, 2010, the company did not recognize the loss of goodwill. Test for impairment undertaken in 2010 was based on the assumption that the agreement concerning the preference dividend will be continued in the years 2011-2013 and the proceeds from this contract will amount to 20 million EUR in the years 2012-2013, 15 million EUR of which in the years 2012-2013.



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

	Year ended	Year ended
	31 December 2011	31 December 2010
<b>At the beginning of the period</b>	<b>754 216</b>	<b>861 876</b>
Capital expenditure	5 684	8 787
Change in the balance of capitalized financial liability	(1 966)	(1 474)
Disposals	0	(131 050)
Net gain from fair value adjustment on investment property	(214 710)	16 077
Transfer to assets held for sale	(8 820)	0
	<b>534 404</b>	<b>754 216</b>

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 2011 and 31 December 2010 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 2011, 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 2011	31 December 2010
Investment property acc. to external valuation	507 701	725 546
Liabilities in respect of perpetual usufruct	26 703	28 670
<b>Investment property presented in the statement of financial position</b>	<b>534 404</b>	<b>754 216</b>

In December 2011, in connection with the signed agreement przedwstępna the sale of the subsidiary 17/110 Gaston Investments SP. z o.o. S.k., property belonging to the company was transferred to assets held for disposal and in the report on 31 December 2011, presented under the heading "fixed assets held for sale" (Note 28).

In June 2010 in connection with the signed preliminary sale agreement relating to the sale of the subsidiary Mokotów Plaza SP. z o.o., the property in Mokotów Plaza was transferred to "assets held for disposal" and in the report on 30 June 2010, presented under the heading "fixed assets held for sale". On July 28, 2010, this investment property was disposed of, which resulted in reducing the balances reported as investment property of the 131.050 kPLN. in 2010. The loss on this transaction in amount of PLN 5.3m was recognised in the comprehensive income in the results on a disposal of subsidiary.

Direct operating expenses relating to investment properties:

	12 months ended	12 months ended
	31 December 2011	31 December 2010
- generating income from rent	3 418	3 944
- other	3 916	3 957
	<b>7 334</b>	<b>7 901</b>

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

	31 December 2011	31 December 2010
Aquarius	30 477	31 445
Łopuszańska	40 860	59 206
Ursus	54 720	69 330
Jana Kazimierza	16 910	25 742
Cybernetyki 7b	35 334	31 603
Mokotow Plaza (IRIS)	45 935	0
	<b>224 236</b>	<b>217 326</b>

The above-mentioned properties constitute security under the loan agreement with HSBC in amount of PLN k178.301 and BZ WBK in amount of PLN k45.935 (in 2010 security of loan agreements with HSBC).

**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 2011 showed an impairment in amount of PLN 32.3 m. The test is described in Note 4(c).

	31 December 2011	31 December 2010
Opening balance	<b>49 504</b>	<b>51 353</b>
Foreign exchange gains (losses)	5 720	(1 849)
Impairment write down	(32 257)	0
Closing balance	<b>22 967</b>	<b>49 504</b>

**8 Trade receivables and other receivables**

	31 December 2011	31 December 2010
Trade receivables	3 380	7 880
Other receivables	5 665	5 620
Prepayments and accruals	5 471	4 869
Deferred income	198	160
Receivables from the state budget	6 416	673
Receivables from related entities	2 103	3 844
<b>Short-term trade receivables and other receivables</b>	<b>23 233</b>	<b>23 046</b>
Long-term receivables	45	553
<b>Total trade receivables and other receivables</b>	<b>23 278</b>	<b>23 599</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 1 733 thousand in respect of impairment and write-off of receivables in the year ended 31 December 2011 (year ended 31 December 2010: PLN 962 thousand). The loss was recognized under "other administrative expenses" in the consolidated profit/(loss).

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

<b>Trade receivables</b>	<b>31 December 2011</b>	<b>31 December 2010</b>
Current	3 110	7 610
Overdue, no impairment	270	270
Overdue, with recognized impairment (provided for in full)	2 115	742

<b>Receivables from related entities</b>	<b>31 December 2011</b>	<b>31 December 2010</b>
Current	484	2 094
Overdue, no impairment	369	1 750
Overdue, with recognized impairment (provided for in full)	1 250	0

<b>Impairment of receivables</b>	<b>31 December 2011</b>	<b>31 December 2010</b>
- <i>trade receivables:</i>		
Opening balance	742	1 154
- increases	1 733	962
- decreases	(360)	(1 374)
Closing balance	<b>2 115</b>	<b>742</b>

- <i>other receivables:</i>		
Opening balance	31	1 306
- increases	0	31
- decreases	0	(1 306)
Closing balance	<b>31</b>	<b>31</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 2011</b>	<b>31 December 2010</b>
Work in progress	45 935	28 989
Finished goods	2 840	15 438
Goods for resale	17 508	31 871
	<b>66 283</b>	<b>76 298</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 and Magdalena (Poland), but also completed construction projects, i.e. Koszykowa (Poland) and Alsonemedi (Hungary).

In 2010, work in progress comprised the following properties under construction: IRIS (Mokotów Plaza II). Finished goods and goods for resale comprised properties intended for sale in the normal course of business activity. Such properties were located in Montenegro, Józefostaw, Magdalena and Alsonemedi.

## Celtic Property Developments S.A.

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

	31 December 2011	31 December 2010
<b>At the beginning of the period</b>	<b>76 298</b>	<b>93 298</b>
Capital expenditure	10 080	1 350
Disposals	(24 071)	(9 674)
Reclassification to other receivables	1 222	(2 038)
Write-downs	(7 249)	(5 721)
Reversed write-downs	8 109	0
Foreign exchange gains/ (losses)	1 894	( 917)
<b>As at the balance sheet date</b>	<b>66 283</b>	<b>76 298</b>

**10 Cash and cash equivalents**

	31 December 2011	31 December 2010
Cash in hand and at bank	16 098	25 319
Cash and cash equivalents with restricted availability for use	0	9 374
Short-term bank deposits	151	2 613
	<b>16 249</b>	<b>37 306</b>

Cash and cash equivalents with restricted availability for use as at 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 2011	31 December 2010	31 December 2011	31 December 2010
Ordinary shares (in thousands)	34 068	34 833	3 407	3 483
Total	<b>34 068</b>	<b>34 833</b>	<b>3 407</b>	<b>3 483</b>

The share capital presented in the statement of comprehensive income as at 31 December 2011 comprised 34,068 thousand shares with PLN 0.10 par value each (as at 31 December 2010 - 34 833 thousand shares).

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.

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**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 thousands PLN) 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 ordinary shares carrying full voting rights and paid for in full.

On 22 December 2011 Board of Directors has made the resolution of the payment to the members of the Board of Directors of remuneration in shares. The company offered to cover the issue at the price lower than the market price. For the purposes of the preparation of the financial statements, the group identified an increase in the equity capital of value due to the Executive Board for the year 2011 of remuneration in the amount of 1.2 million PLN. Details are described in note 17.

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

	31 December 2011	31 December 2010
Deposits of tenants	638	134

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

	31 December 2011	31 December 2010
Trade payables	7 382	2 093
Liabilities to related entities	8	49
Other liabilities	2 153	1 933
Output VAT and other tax liabilities	2 984	237
Deposits of tenants	90	400
Accruals and deferred income	10 010	14 013
<b>Total</b>	<b>22 627</b>	<b>18 725</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 2011	31 December 2010
<b>Long-term</b>		
Bank loans	7 905	49 504
Finance lease liabilities	26 703	28 669
	<b>34 608</b>	<b>78 173</b>
<b>Short-term</b>		
Bank loans	56 512	3 017
Loans from unrelated entities	90	67
	<b>56 602</b>	<b>3 084</b>
<b>Total loans and borrowings</b>	<b>91 210</b>	<b>81 257</b>

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

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 2008-2011, the companies repaid the loan in the amount of EUR 11.5 million EUR. Based on an annex to the agreement signed in mid 2009, the loan repayment deadline was extended until March 27, 2012. The group is in advanced negotiations with HSBC on the extension of the current funding for the next 2 years. The Board believes that the risk of not extension loan from HSBC is limited.

On 31 December 2011, the balance of the credit facility from HSBC is presented as short-term and is PLNk 55.266.

At the moment of the preparation of the present consolidated financial statements, the group is in advanced negotiations with HSBC to extend the repayment date of the current funding for the next 2 years, while the binding agreement on this question has not yet been concluded. In the assessment of the Board, the possible consequences resulting from the renewal date for repayment of the credit by HSBC and, consequently, risk of immediate repayment would cause drawing of those claims by the bank within the framework of the sale of assets pledged as security for the credit (property, shares), after the amounts lower than shown in the consolidated financial statements at December 31, 2011 (the value of the property subject to lien of mortgage bonds is shown in note 6) in the assessment of the Board of Directors, the risk does not extend the term of repayment of the credit by the bank is very limited.

On 12 August 2011 was signed loan agreement between its subsidiary Belise investments SP. z o.o. as borrower and the guarantor, which are CPD SA, Lakia Enterprises Ltd and East Europe Property Financing AB, and the West Bank WBK S.A. under the agreement the borrower has been granted investment credits up to an amount of EUR 20.141.000, to finance or refinance part of the costs of the design surface of the IRIS building rental and revolving credit of VAT to the amount of PLN 2.100.000.

The final repayment of the investment facility will be made not later than 12 August 2019, VAT credit no later than 12 August 2014.

As collateral a mortgage has been established on perpetual usufruct of the property and ownership of the buildings, located in Warsaw, Cybernetyki 9.

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 2011	31 December 2010
<b>Repayment of the principal amount of lease liabilities based on the effective interest rate due within:</b>		
1 year	7	6
from 1 to 5 years	32	31
after more than 5 years	26 664	28 632
	<b>26 703</b>	<b>28 669</b>
	<b>31 December 2011</b>	<b>31 December 2010</b>
<b>Par value of minimum lease payments due:</b>		
within 1 year	2 010	2 157
from 1 to 5 years	8 039	8 629
after more than 5 years	146 715	159 639
	<b>156 764</b>	<b>170 425</b>
<b>Future financial costs</b>	<b>(130 061)</b>	<b>(141 756)</b>
	<b>26 703</b>	<b>28 669</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:

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

	31 December 2011	31 December 2010
up to 6 months	56 512	1 599
from 6 months to 1 year	90	1 485
from 1 to 5 years	7 905	49 504
more than 5 years	0	0
	<b>64 507</b>	<b>52 588</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 2011	31 December 2010
PLN	1 246	0
HUF	47	67
EUR	63 214	52 521
	<b>64 507</b>	<b>52 588</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.

In connection with the loan received from BZ WBK, one company made a pledge on the shares up to the amount of EUR 20 million and PLN 2 million.

**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 2011	31 December 2010
<b>Deferred tax assets before offset</b>	<b>16 693</b>	<b>20 590</b>
Set off	(14 429)	(12 706)
<b>Deferred tax assets</b>	<b>2 264</b>	<b>7 884</b>
- to be utilized after more than 12 months	0	0
- to be utilized within 12 months	2 264	7 884
	<b>2 264</b>	<b>7 884</b>
<b>Deferred income tax liabilities before offset</b>	<b>31 650</b>	<b>38 155</b>
set off	(14 429)	(12 706)
<b>Deferred income tax liabilities after offset</b>	<b>17 221</b>	<b>25 449</b>
- to be paid after more than 12 months	17 221	25 449
- to be paid within 12 months	0	0
<b>12 months ended</b>		
	<b>31 December 2011</b>	
Change in deferred tax assets	(3 897)	
Change in deferred tax liabilities	(6 505)	
<b>Amount charged/(credited) to profit or loss</b>	<b>2 608</b>	
<b>Impact on net profit - corporate income tax</b>	<b>2 747</b>	
<b>Impact on revaluation reserve</b>	<b>( 139)</b>	

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

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)	0	33 394
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
Currency translation adjustment	0	0	( 898)	( 898)
Other	760	1 614	0	2 374
<b>Total</b>	<b>130 263</b>	<b>-91 210</b>	<b>-898</b>	<b>38 155</b>

	2010	Charged to profit/(loss)	Charged to capital on translation	2011
Property valuation at fair value	33 394	(9 516)	0	23 878
Accrued interest on loans	1 686	5 273	0	6 960
Provision for income	1 539	(1 100)	0	439
Foreign exchange	60	63	0	123
Currency translation adjustment	( 898)	0	139	( 759)
Other	2 374	(1 365)	0	1 009
<b>Total</b>	<b>38 155</b>	<b>-6 645</b>	<b>139</b>	<b>31 650</b>

**As at 1 January 2010**

	<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)

**As at 31 December 2010**

	<b>25 449</b>
Foreign exchange gains/(losses)	139
Amount charged/(credited) to profit or loss	(8 367)
Change due to disposal of a subsidiary	0

**As at 31 December 2011**

	<b>17 221</b>
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Significant amounts of deferred income tax liabilities arise mainly in respect of adjustments to fair value measurement of investment properties (Note 6).



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**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)	2010
Accrued, interest unpaid	7 435	1 829	9 264
Foreign exchange gains/(losses)	4 010	-3 342	668
Provisions	1 341	636	1 976
Property measurement at fair value	0	1 815	1 815
Other	85	-23	62
Tax losses	8 770	-1 965	6 805
	21 641	-1 050	20 590

	2010	Charged to profit/(loss)	2011
Accrued, interest unpaid	9 264	-5 792	3 472
Foreign exchange gains/(losses)	668	1 062	1 730
Provisions	1 976	-739	1 237
Property measurement at fair value	1 815	-1 273	542
Other	62	6 701	6 763
Tax losses	6 805	-3 855	2 950
	20 590	-3 897	16 693

\* The net profit in 2010 includes the reversal of deferred tax asset and deferred tax liability in Mokotów Plaza I, whose shares were sold in 2010. The total impact of the reversal amounts to 9 974 ths. PLN.

	31 December 2011	31 December 2010
Tax losses	15 524	35 816
Deductible temporary differences on loans and borrowings (foreign exchange differences and accrued interest)	18 271	52 275
Other deductible temporary differences	54 063	20 295
Total	87 858	108 386
Deferred tax assets before offset	16 693	20 593
Offset of deferred tax assets against liabilities within individual companies	(14 429)	(12 709)
Net deferred tax assets	2 264	7 884

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 as at 31.12.2011**

	2012	2013-2014	2015-2016	Total
- Losses on which deferred tax was recognized	129	4 059	11 336	15 524
- Losses on which deferred tax was not recognized	23 186	31 234	23 181	77 601

**Expiry of tax losses as at 31.12.2010**

	2012	2013-2014	2015-2016	Total
- Losses on which deferred tax was recognized	1 422	14 674	19 720	35 816
- Losses on which deferred tax was not recognized	5 454	19 017	10 898	35 369

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

Revenues by category:

	12 months ended	12 months ended
	31 December 2011	31 December 2010
Rental income	6 143	10 300
Sales of inventories	16 224	11 326
Real estate advisory services	16 043	20 491
Services relating to rental	3 127	4 454
Accounting services	93	45
	<b>41 630</b>	<b>46 616</b>

Inventories and advisory services are predominant in sales. 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). In 2011 inventory sales concerned mainly the properties located in Montenegro (PLN 5 million), Magdalena (PLN 3.2 million), flats at Koszykowa, Warsaw (PLN 6.7 million) and Wilanów (PLN 1.3 million).

In 2010 year, revenues from real estate advisory services were mainly generated by Celtic Investments (PLN 10.3 million), CAM Estates (PLN 4.6 million) and Celtic Italy (PLN 5.5 million). In 2011 such revenues were achieved by Celtic Investments (PLN 6.9 million), Celtic Italy (PLN 5 million) and CAM Estates (PLN 4 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	12 months ended
	31 December 2011	31 December 2010
up to 1 year	5 569	4 250
from 1 to 5 years	21 222	7 321
more than 5 years	8 937	797
	<b>35 728</b>	<b>12 368</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.

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**Additional notes and explanations to the consolidated financial statements**
**16 Cost of sales**

	12 months ended 31 December 2011	12 months ended 31 December 2010
Cost of inventories sold	24 071	9 674
Changes in impairment write-downs of inventories	( 860)	5 721
Cost of services provided	6 510	8 763
	<b>29 721</b>	<b>24 158</b>

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 1 m (in 2010: PLN 5.8 m), Magdalenka of PLN 1.1 m, Wilanów about PLN 0.4 m, a decrease in the value of the real estate portfolio in Montenegro of PLN 4.7 m (in 2010: PLN 2.7 m) and an increase in the value of the Iris property (Mokotów Plaza II), which was previously written down, of PLN 8.1 m (in 2010: 2.8 m PLN).

Advisory services of PLN 4.2 m constitute the main item of the cost of the services provided (in 2010: PLN 6.6 m).

**17 Administrative expenses – relating to properties**

	12 months ended 31 December 2011	12 months ended 31 December 2010
Employee expenses	17 818	18 337
Cost of services services acquired as consideration for the share-based payment*	1 156	0
Property maintenance	3 258	4 880
Real estate tax	4 574	3 229
Perpetual usufruct	3 374	2 061
Depreciation and amortization	536	515
	<b>30 716</b>	<b>29 022</b>

 \* *Share-based programme*

On 22 December, 2011 the Supervisory Board has taken a resolution concerning the remuneration of the members of the Board. At the request of the Executive Board of the remuneration shall be paid to the Board Members in shares offered to cover the price of the issue reduced to market price. Supervisory Board passes its recommendation to the Shareholders Meeting to take the resolutions to increase share capital by the amount of 25,000 PLN by emissions of 250,000 bearer shares series C, having a par value of PLN 0.10 per share. At the same time, the Supervisory Board recommends the issuance of free of charge subscription warrants of C series to which coverage shall be entitled only to the members of the Management Board. Holders of the C series subscription warrants will be the only people entitled to purchase shares of series C. In effect, the members of the Management Board will have the right to purchase the shares at a price of par (PLN 0.10 per share).

On 22 December, 2011 Board of Directors the company has taken a resolution on the establishment of rules for the remuneration of the members of the Board. At the request of the Executive Board of the remuneration shall be paid to the members of the Board of Directors in shares offered to cover the price of the issue reduced to market price.

Supervisory Board has recommended Shareholders Meeting to take the resolutions to increase share capital by the amount of 16,321,40 through the emission of 163,214 bearer shares of series C, having a par value of PLN 0.10 per share. At the same time, the Supervisory Board has recommended zarekomendowała to conduct a free issue of warrants subscription series and in the amount of 163,214 pieces, which will cover the permission only to the members of the Management Board. Holders of the warrants subscription series and will be the only individuals entitled to the purchase of shares of series C, in proportion one warrant per share.

In effect, the members of the Management Board will have the right to purchase the shares at a price of par (PLN 0.10 per share). Condition of payment of remuneration shall serve on the Board of the company by the holder of the warrants at the time of lodging the Declaration of taking action, the C series.

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**Additional notes and explanations to the consolidated financial statements**
**17 Administrative expenses – relating to properties**

The total value of the remuneration in shares is PLN 2.775 k, of which the costs of the financial year 2011 falls PLN 1.156 k. The value was determined on the basis of the difference between the maximum and the reduced level of remuneration to the Board by the Supervisory Board. To calculate the amount of the remuneration of the company has adopted the average exchange rate NBP of 22 December 2011 of PLN 4,4438 and 1 shares equal to PLN 17, corresponding to a course of closing action Celtic Property Developments S.A. on the stock exchange in Warsaw on December 20, 2011.

**18 Other income**

	12 months ended	12 months ended
	31 December 2011	31 December 2010
Reversal of unutilized accruals	302	1
Forgiven or expired liabilities	108	244
Contractual penalties received	0	426
Other	233	2 169
	<b>643</b>	<b>2 840</b>

**19 Administrative expenses - other**

	12 months ended	12 months ended
	31 December 2011	31 December 2010
Advisory services	4 808	6 089
Audit fee	855	528
Transport	1 035	836
Taxes	51	3 073
Office maintenance	3 664	3 859
Other services	1 536	1 697
Costs of not deductible VAT	520	3 917
Impairment write-down in respect of receivables	1 733	962
Other costs	1 525	0
	<b>15 727</b>	<b>20 961</b>

The main factor which contributed to the increase in administrative expenses in 2010 (in comparison to 2011) 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.

## Celtic Property Developments S.A.

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**Additional notes and explanations to the consolidated financial statements****20 Financial income and costs**

	12 months ended	12 months ended
	31 December 2011	31 December 2010
Interest expenses:		
- bank loans	(2 504)	(3 161)
- interest on finance lease	(2 150)	(2 214)
- other interest expenses	(1 248)	(1 148)
Net foreign exchange loss	(2 955)	
Other	( 107)	448
<b>Financial costs</b>	<b>(8 964)</b>	<b>(6 075)</b>
Interest income:		
- bank interest	332	330
- interest from unrelated entities	726	1 592
- dividends received	4 147	3 969
Net foreign exchange gains	0	18 074
<b>Financial income</b>	<b>5 205</b>	<b>23 965</b>
<b>Financing activities, net</b>	<b>(3 759)</b>	<b>17 890</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.

**21 Income tax expense**

	12 months ended	12 months ended
	31 December 2011	31 December 2010
Current tax	500	1 338
Prior years tax	1 829	0
Deferred tax (Note 14)	(2 747)	(80 185)
	<b>( 418)</b>	<b>(78 847)</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.

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**Additional notes and explanations to the consolidated financial statements****21 Income tax expense - cont**

Country:	Applicable tax rate	Profit/(Loss) before tax	Tax at the rate applicable in a given country	Difference in the amount of tax at the local rate and at 19%
Sweden	26,3%	151	( 40)	( 11)
Cyprus	10%	0	0	0
Italy	53,0%	431	( 229)	( 147)
United Kingdom	28%	568	( 159)	( 51)
Hungary	10%	394	( 39)	35
Montenegro	9%	3 348	( 301)	335
				<b>161</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:

	12 months ended 31 December 2011	12 months ended 31 December 2010
<b>Profit before tax</b>	<b>(286 616)</b>	<b>3 000</b>
Estimated tax liability at the 19% tax rate	54 457	( 570)
Impact on tax:		
- of different tax rates applicable to the Group companies and the tax on consolidation adjustments	161	7 472
- non-taxable income (Cyprus)	(5 142)	841
- adjustments relating to increase in the tax value of properties contributed in kind (reversal of deferred tax provision)	0	71 633
- revaluation of limited partnerships	(37 964)	0
- goodwill impairment	(6 129)	0
-the adjustment related to the loss of value of investments in subsidiaries-a loan impairment	6 763	0
-the adjustment related to the difference in the intercompany interest capitalised and interest which give rise to the provision for deferred taxes in individual Companies	(4 098)	0
- adjustments relating to increase in the tax value of inventories	0	2 500
- irrecoverable tax losses	(6 988)	(5 894)
- previous years tax	(1 829)	0
- other	1 187	2 865
<b>Income tax expense</b>	<b>419</b>	<b>78 847</b>

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**Additional notes and explanations to the consolidated financial statements**
**22 Cash generated from operations**

	12 months ended	12 months ended
	31 December 2011	31 December 2010
Profit before income tax	(286 616)	3 000
Adjustments for:		
- depreciation	532	516
- foreign exchange differences on translating foreign operations	4 746	(15 842)
- revaluation of investment properties to fair value	214 710	(16 077)
- gains/(losses) on disposal of subsidiaries	0	5 325
- interest expenses	2 426	( 18)
- impairment of inventories	( 860)	5 721
- deferred income tax on a sold entity	0	(10 174)
- goodwill impairment	32 257	0
- costs of warrants granted	1 156	0
- cash reclassified to asset held for sale	( 19)	0
- other adjustments	0	514
Movements in working capital:		
- change in receivables	335	(7 197)
- change in inventories	12 769	10 362
- change in trade payables and other payables	2 490	425
	<b>(16 074)</b>	<b>(23 444)</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.

With reference to the credit granted by the Bank BZ WBK S.A. to a subsidiary Belise Investments Sp. z o.o. for the purpose of development of Project IRIS at Cybernetyki 9 in Warsaw, Celtic Property Developments S.A. has provided a guarantee for the period upto 12 August 2022 year:

- Amounts that are required (or may be required) to cover any cost overruns of the project outside of costs defined in the credit agreement, up to a maximum of EUR 20.666.000;
- Amounts that are required (or may be required) to cover the debts or any other outstanding payments due to pay, up to a maximum amount of EUR 20.666.000,
- Amounts that are required (or may be required) to settle the debt coverage ratio was not less than 100% (i.e. the proceeds of rental agreements should cover costs cover the handling of long), to a maximum amount of EUR 20.666.000.

**23 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 expired in September 2011.

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**Additional notes and explanations to the consolidated financial statements****24 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	12 months ended
	31 December 2011	31 December 2010
<b>a) Transactions with key managers</b>		
Remuneration of the Management Board members	100	429
Salaries and Cost of services provided by the Management Board members	2 994	4 005
Redemption of shares for a consideration	0	23
Total receivables	0	72
Value of warrants for the board members	1 156	0
<b>b) Transactions with the significant investor</b>		
Redemption of shares for a consideration	0	6 072
Interim dividend	1 008	0
<b>c) Transactions with other related parties</b>		
Revenues		
<i>Spazio Investments</i> - real estate advisory services	8 247	
<i>Braslink Ltd</i> - interest	0	124
<i>Vigo Investments Sp. z o.o.</i> - rental and accounting services	10	10
<i>Antigo Investments Sp. z o.o.</i> - rental services	25	5
<i>Prada Investments Sp. z o.o.</i> - rental services	24	5
<i>Quant Investments Sp. z o.o.</i> - rental services	17	5
Costs		
<i>Kancelaria Radców Prawnych Oleś i Rodzynkiewicz</i> - costs of legal services	102	199
<i>Exepior Sp. z o. o.</i> - advisory services	0	71
Liabilities		
<i>Kancelaria Radców Prawnych Oleś i Rodzynkiewicz</i> - trade payables	8	49
Receivables		
<i>Palladian Finance</i> - other receivables	342	302
<i>Vigo Investments Sp. z o.o.</i> - trade receivables	3	0
<i>Prada Investments Sp. z o.o.</i> - trade receivables	9	0
<i>Prada Investments Sp. z o.o.</i> - loans	74	0
<i>Quant Investments Sp. z o.o.</i> - trade receivables	6	
<i>Antigo Investments Sp. z o.o.</i> - trade receivables	9	0
<i>Spazio Investments</i> - receivables invoiced next year	1 660	
<i>Braslink Ltd</i> - receivables in respect of the sale of shares and loans granted	0	3 470
Doubtful debts cover by the bad debt provision		
<i>Braslink Ltd</i>	1 250	0



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**Additional notes and explanations to the consolidated financial statements**
**25 Seasons of activity and unusual events**

The activity of the Group of the CPD is not seasonal or cyclical. In the current period there was no unusual events.

**26 Assets and liabilities held for sale**

Assets and liabilities of the company's 17/110 Gaston Investments Sp. z o.o. S.k. were classified as held for sale. At the date of preparation of this report the financial transaction, the sale has not yet been completed. The final share Umowa sale agreement is to be signed till 15 June, 2012. The share price was agreed PLN 9.4 m. The preliminary agreement may be cancelled any time by 15 June 2012 by the Purchasers. in this case, the Group will not make any claims against Customers.

**(a) Assets held for sale**

	<b>31 December 2011</b>
Investment property	10 779
Trade and other receivables	74
Cash and cash equivalents	18
	<b>10 871</b>

**(b) Liabilities classified as held for sale**

	<b>31 December 2011</b>
Borrowings, including finance leases	<b>1 959</b>

<b>Net assets</b>	<b>8 912</b>
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**27 Events after the balance sheet date**

31 January 2012 the liquidation of the subsidiary Darvest Investments has been completed.

**28 Contingent liabilities**

In 2011, the Celtic Group declared its willingness to unpaid transfer to the authorities of the capital city of Warsaw of 20 ha of land, which are located within the Celtic land located in Ursus in Warsaw, and which, in accordance with proposed zoning plan are areas intended under the investment of urban roads and schools. The value of these areas, according to the forecasts of the financial consequences of the enactment of the local zoning plan prepared on behalf of the capital city of Warsaw, is estimated at CA. 70 million PLN. Under the offer declaration made by the Celtic Group, the free transfer is to facilitate the re-zoning of the land and to assist the City budget in this regard.

In addition, the aforementioned declaration by the Group applies only in respect of land which, is still owned by the Group at the moment of enactment of the local plan.

On the day of the publication of the report, the city has not acknowledged or replied to the offer, also the zoning planning has not been adopted and the date when this is to occur is unknown.

In accordance with the intention of the Board of Directors, said the Declaration was intended to bring the City to take action as soon as possible the adoption of the zoning plan, and at the same time support the budget of the city.

At 31 December 2011 the Celtic Group is the owner of the above described land, which is the subject of the Declaration to the unpaid transfer. At the same time, on 31 December 2011, the Group is not legally bound to comply with the Declaration. As a result, the Declaration is not treated as an obligation or provision, in its report on 31 December 2011 and the whole land, located in Ursus, held by the group is valued to fair value (in accordance with accepted accounting policy in this regard) and presented in the report on the financial situation as real estate investment property.

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**Additional notes and explanations to the consolidated financial statements**
**29 Dividend distribution**

In 2011, the Group paid an advance on the dividends of PLN 3.4 million, which is PLN 0.10 per share. No dividend was paid in 2010.

**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.

	12 months ended	12 months ended
	31 December 2011	31 December 2010
Profit attributable to equity holders of the Parent Company	(286 198)	81 847
Weighted average number of ordinary shares (in thousands)	34 068	34 619
Earnings per share	-8,40	2,36

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	12 months ended
	31 December 2011	31 December 2010
Poland	20 613	26 131
Cyprus	6 942	10 276
United Kingdom	4 120	4 568
Italy	4 977	5 550
Montenegro	4 975	91
Hungary	3	0
	41 630	46 616

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**Additional notes and explanations to the consolidated financial statements****31 Reporting segments - cont.**

Non-current assets, including: investment properties, property, plant and equipment, intangible assets and goodwill are allocated as follows:

	<b>31 December 2011</b>	<b>31 December 2010</b>
Poland	534 404	755 308
Cyprus	23 049	49 503
Other	1 129	884
	<b>558 582</b>	<b>805 695</b>

These consolidated financial statements were prepared and approved by the Management Board of the Company on 20.03.2012 and signed on its behalf by:

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

\_\_\_\_\_  
 Aled Rhys Jones  
*Board Member*

\_\_\_\_\_  
 Christopher Bruce  
*Board Member*

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

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