ANNUAL REPORT 2012

Celtic

CELTIC PROPERTY DEVELOPMENTS S.A.

ANNUAL REPORT

FOR THE YEAR ENDED 31 DECEMBER 2012

TRANSLATORS' EXPLANATORY NOTE

The following document is a free translation of the Annual Report of CELTIC PROPERTY DEVELOPMENTS S.A. published on March 21, 2013.

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 financial statements have 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.

CONTENTS

I. SUPERVISORY BOARD OF CELTIC PROPERTY DEVELOPMENTS S.A.

As at the day of the report publication, the Supervisory Board of Celtic Property Developments S.A. included the following persons:

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

Ms Marzena Bielecka was appointed to the Supervisory Board of the second term on 24 May, 2012. The term of office of Ms Marzena Bielecka expires on 24 May, 2015. Ms 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 second term on 24 May, 2012. The term of office of Mr. Wiesław Oleś expires on 24 May, 2015. 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 second term on 24 May, 2012. The term of office of Mr Colin Kingsnorth expires on 24 May, 2015. 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 MIROSŁAW 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 second term on 24 May, 2012. The term of office of Mr Mirosław Gronicki expires on 24 May, 2015. 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 second term on 24 May, 2012. The term of office of Mr Wiesław Rozłucki expires on 24 May, 2015. 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 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.

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, par. 2 of the Commercial Code), on May 24, 2012 the General Meeting, acting on the basis of article 385 § 1 of the Commercial Code and on the § 6.2.4 of the Company's Statute, appointed the Supervisory Board of the second term, in the composition mentioned above. The second term of the Supervisory Board expires on 24 May, 2015.

II. MANAGEMENT BOARD OF CELTIC PROPERTY DEVELOPMENTS S.A.

As at the day of the report publication, the Management Board of Celtic Property Developments S.A. included the following persons:

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

  Mr Andrew Shepherd was appointed to the Management Board of second 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 second 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).

- **MR ANDREW PEGGE – MEMBER OF THE MANAGEMENT BOARD**

  Mr Andrew Pegge was appointed to the Management Board of second term on 10 January, 2013. The term of office of Mr Andrew Pegge expires on 21 July 2015. Mr Andrew Pegge has higher education. He graduated from Sussex University (United Kingdom) and has completed postgraduate studies in marketing in the Chartered Institute of Marketing (United Kingdom) as well as the MBA (Finance) in City University Business School (United Kingdom). Mr Andrew Pegge holds also qualifications of Chartered Financial Analyst (CFA) of the Association for Investment Management Research (USA).

- **MS ELŻBIETA WICZKOWSKA – 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 Wiczkowska 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).

Compared to the end of 2011, the composition of the Management Board of the Celtic Property Developments S.A. has changed following the resignation of Mr Christopher Bruce from the position of the member of the Management Board with effect from July 13, 2012 and the appointment of Mr Andrew Pegge on the position of member of the Management Board on 10 January 2013.

III. INFORMATION ON THE PARTICIPATION OF MEN AND WOMEN ON THE MANAGEMENT BOARD AND SUPERVISORY BOARD

Celtic Property Developments S.A., according to the *Good Practices of the Companies Listed on the Warsaw Stock Exchange* (Chapter II.1.2a) presents below the information about the participation of women and men, respectively, in the Management Board and Supervisory Board of the Company during past two years:

Supervisory Board of Celtic Property Developments S.A.

As at:	Women	Men
31 December 2011	1	4
31 December 2012	1	4

Management Board of Celtic Property Developments S.A.

As at:	Women	Men
31 December 2011	1	3
31 December 2012	1	2

IV. CELTIC PROPERTY DEVELOPMENTS S.A. – MANAGEMENT BOARD'S ACTIVITY REPORT

1. CELTIC PROPERTY DEVELOPMENTS S.A. HISTORY AND PROFILE OF ACTIVITIES

The company was founded under the original name the Celtic Development Corporation S.A. based in Kraków and registered in the Register of Entrepreneurs of the National Court Register kept by the District Court in Krakow, Office XI of the National Court Register under the KRS number 0000277147 on the basis of the provisions issued by the District Court in Krakow, Office XI of the National Court Register on 23 March 2007. The Company's head office was changed pursuant to the resolution of the General Meeting of 27 April 2007, which was registered in the Register of Entrepreneurs of the National Court Register kept by the District Court in Krakow, Office XI of the National Court Register on 28 May 2007. The name of the Company was changed to POEN Spółka Akcyjna pursuant to the resolution of General Meeting of February 22, 2008, which was registered in the Register of Entrepreneurs of the National Court Register kept by the District Court in Warsaw.

On June 22, 2010 the Extraordinary General Meeting of Celtic Property Developments Plc (hereinafter referred to as the CPD Plc) has taken a resolution on cross-border merger of Celtic Property Developments Plc and Poen S.A. Following the registration on August 23, 2010, CPD Plc ceased to exist while Poen S.A. has become the parent company. As a result of the merger, previous shareholders of CPD Plc became at 100% shareholders in Poen S.A. Additionally, Poen S.A. acquired by means of the general succession its own shares from CPD Plc for the purpose of redemption. On September 2, 2010 the Extraordinary General Meeting has taken a resolution to amend the Company's statutes, consisting among others on the change of the company's name to Celtic Property Developments S.A., which was registered in the National Court Register on 10 September 2010.

From 23 December 2010 Celtic Property Developments S.A. shares are listed on the Warsaw Stock Exchange.

Today, Celtic Property Developments S.A. is the holding company controlling a group of 38 subsidiaries, focusing on the development projects in the office and residential segments. The main market of Celtic Group's activities is Warsaw. In the year 2012, due to a change in strategy and concentrating activities on the Polish market, the Group ended operations in Britain, Italy, Hungary and in the Republic of 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 provided also advisory services for the management of commercial premises belonging to external entities and institutions.

2. CELTIC PROPERTY DEVELOPMENTS S.A. AS THE PARENT COMPANY IN THE GROUP STRUCTURE

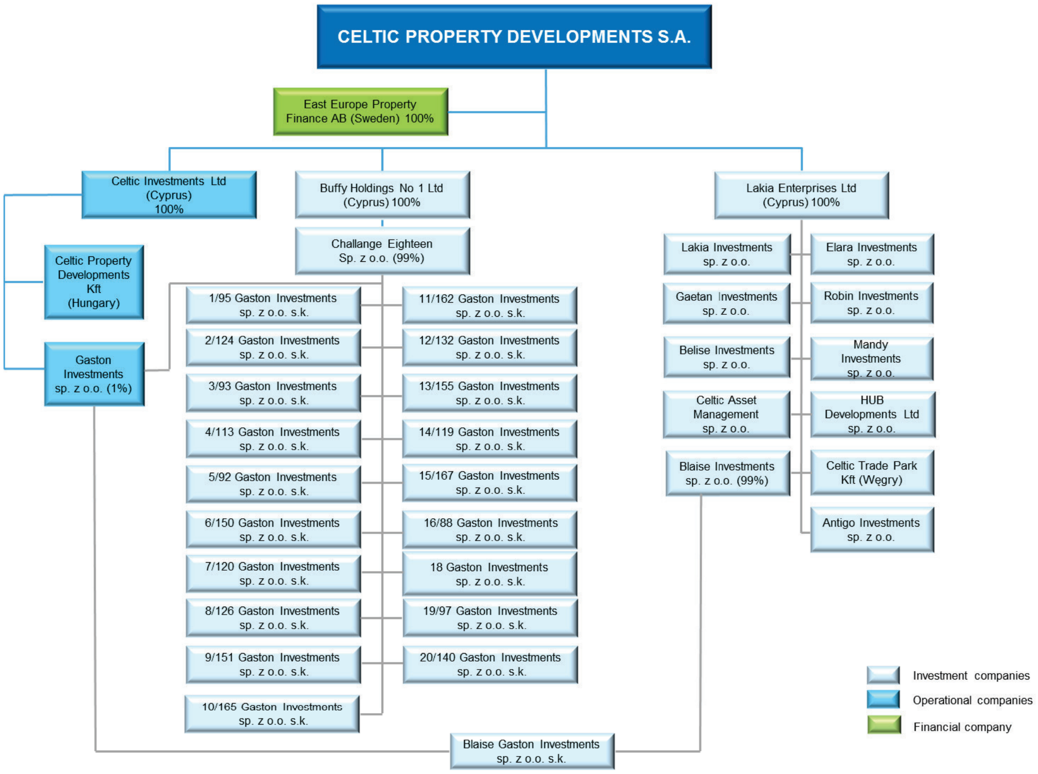
At report publication date, the Celtic Group (hereinafter the Group, Celtic Group) was composed of a dominant entity – Celtic Property Developments S.A. (hereinafter the Company) and 38 subsidiaries.

Celtic Property Developments S.A. directly controls 4 entities responsible for different segments of Celtic Group activities:

- **Celtic Investments Ltd (Cyprus)** – the company holds shares in operational companies;
- **Buffy Holdings No1 Ltd (Cyprus)** – the company holds shares in the investment companies involved in the Ursus project;
- **Lakia Enterprises Ltd (Cyprus)** – the company holds shares in investment companies involved in investment projects in Poland and Hungary;
- **East Europe Property Finance AB (Sweden)** – the company is responsible for financial operations of the Group.

Celtic Property Developments S.A. co-ordinates and supervises activities of subsidiaries, being in the same time strategic decisions taking center. Celtic Property Developments S.A. undertakes initiatives focusing on the Group's operational costs optimization and creates and co-ordinates Group's investment and marketing activities.

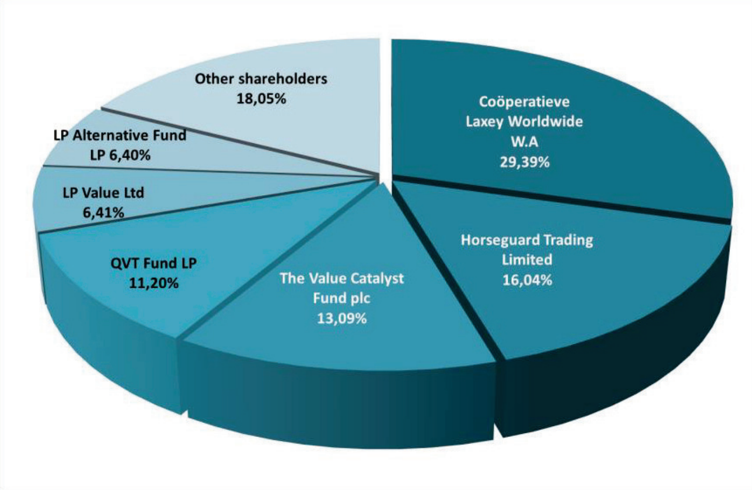
Celtic Group structure on the day of the report publication



3. SHAREHOLDERS

- ### CONTROLLING SHARES

CELTIC PROPERTY DEVELOPMENTS S.A. SHAREHOLDING STRUCTURE



According to 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:

Akcjonariusz	Liczba posiadanych akcji	Liczba posiadanych głosów	Akcjonariat według liczby głosów	Akcjonariat według liczby akcji
Coöperatieve Laxey Worldwide W.A	10 082 930	10 082 930	29,39%	29,39%
Horseguard Trading Limited	5 501 681	5 501 681	16,04%	16,04%
The Value Catalyst Fund plc	4 490 475	4 490 475	13,09%	13,09%
QVT Fund LP	3 843 635	3 843 635	11,20%	11,20%
LP Value Ltd	2 198 450	2 198 450	6,41%	6,41%
LP Alternative Fund LP	2 196 668	2 196 668	6,40%	6,40%

The above shareholding structure is presented in relation to the total number of shares amounting to 34.307.488 shares and including shares of series B, C and D, which represent 100% of votes at the General Meeting of the Company and registered by the District Court for City of Warsaw in Warsaw, XIII Commercial Division of the National Court Register as on 8 January, 2013.

- ### 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**

All hitherto issued B, C and D series 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 and Management Board by-laws. All these documents are available on the Company website: www.celtic.pl.

In 2012 the Company applied principles of corporate governance included in the document *Good Practices of the Companies Listed on the Warsaw Stock Exchange*, available on *http://www.corp- gov.gpw.pl/assets/library/polish/regulacje/dobre_praktyki_19_10_2011_final.pdf.* This text is an annex to the resolution of the Council of the Warsaw Stock Exchange No 20/1287/2011 of 19 October 2011.

The intention of the Company is the continuous compliance with all principles 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 General Meeting of Shareholders through the Internet and does not disclose the General Meeting on its website.

The Company does not also apply the rule IV.10 concerning the possibility to provide shareholders to participate in the general meeting by electronic means of communication.

Derogation to the above principles occurred due to the lack of technical capacity and lack of interest of Company’s shareholders in such transmission. The Company will consider in the future transmission of General Meetings.

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, DISMISSAL, 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 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. 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. STRATEGY AND POLICY REGARDING FURTHER GROUP DEVELOPMENT

The strategy of Celtic Property Developments S.A. is realized within Celtic Group strategy. In the incoming years, the Group strategy will be oriented toward the achievement, in the shortest possible 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 realized 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. In the case of absence of the master plan approval, the Group intends to consider other options, including the implementation of smaller projects in collaboration with other developers, in order to start financial income stream in the shortest possible time.

An important element of the strategy implemented is also the effort to optimize operating costs. In this context, in the year 2012, foreign Group's entities, operating in Montenegro, UK and Italy were sold or dissolved, while the Hungarian company closing procedure is under way. Additionally, during the year 2012, aiming to optimize Company's expenses, the remuneration for the Management Board and the Supervisory Board were reduced and the remuneration in the form of subscription warrants for the Management Board's members was introduced, which gave the savings amounting to PLN 1.2 million. The results of the adopted strategy are reflected both in financial terms and in the Group's capital and organisational structure.

The change of approach to Ursus project and lack of the valid master plan as well as changes of plans regarding other properties owned by Celtic Property Developments S.A. subsidiaries decreased the value of these properties, and by consequence influenced on the value of shares of the Compan'ys in these subsidiairies, which has directly translated to the amount of the loss in 2012 amounting to PLN 175.6 mln PLN.

Regardless of the strategic assumptions adopted for the incoming years the Company does not exclude that in the future 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, executed in very demanding market conditions, determined by the overall economic slowdown, decrease in demand for real estate and more difficult access to the capital, defines the guidelines for each of the areas of Group's activity during next few years and aims to optimize our Shareholders investment return.

6. CELTIC GROUP ACTIVITIES AND IMPORTANT EVENTS IN THE REPORTING PERIOD

- **REVENUES STRUCTURE AND INFORMATION ON PRODUCTS**

The Company operates as a single operating segment. In the year 2012, the highest position in revenues was represented by the interest income from loans to other entities of the Group. These loans are described in the Section *16 LOANS, CREDITS AND GUARANTEES.* The revenue from sales in 2012 has reached an amount of PLN 3.2 million, of which 80% came from foreign sales for services provided to non-Celtic Group companies.

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

➢ CHANGE OF SHARES VALUE IN SUBSIDIARIES

The increase in the value of shares in the subsidiary Belise Investments Ltd. Completion of construction and commitment to use of the office building IRIS located at street Cybernetyki 9 in Warsaw, conducted by the subsidiary Belise Investments Sp. z oo, was reflected in the increase in the property value by PLN 36.7 million compared to the balance at the end of 2011. Therefore, the value of shares of the subsidiary Belise Investments Ltd accordingly has increased in the Celtic Property Developments SA's books.At the date of this report IRIS building was rented at 46%, for the remaining areas we running the negotiating with potential tenants. The construction and the fitout of the building were financed from own funds and the investment-construction loan and the revolving VAT loan, granted by the Bank BZ WBK SA to the subsidiary Belise Investments Sp. of o.o, that is implementing the project IRIS.

Acquisition of shares in Antigo Investments Sp. z o.o.

In October 2012, the Group acquired 100% shares in Antigo Investments Sp. z oo, which owns real estate in Lodz (land and building) and plots in Czosnów, Nowa Piasecznica and Jaktorow. These real estates offer a high potential for the development, which will be possible to release as a result of the revitalization of properties or of change of plots category from the agricultural land to the construction land. The value of the acquired properties is 7.5 million PLN.

Sale of the real estate and the shares in the subsidiaries

In 2012, Celtic Group sold the shares of the certain subsidiaries of the Group Celtic in accordance with the Group's strategy, which is based on the concentration in the Polish market with particular emphasis on the project in Ursus and optimization of the operating costs of the Group.

In 2012, the following transactions were the sale of shares in subsidiaries:

- the sale of all shares of 17/110 Gaston Investments Sp. of o.o. LLP;
- the sale of all the shares in Devin Investments Sp. z oo, which owned the property located at Łopuszańska 22 in Warsaw;
- the sale of all shares in the company KMA Ltd.;
- the sale of all shares in the company Tenth Planet doo, based in Kotor, Montenegro

In addition, the structure has been simplified Celtic Group by:

- removal from the National Court Register of Darvest Investments Sp. of o.o. in liquidation, following the completion of its liquidation;
- solution CAM Estates Ltd, a company based in the UK, in conjunction with the completion of the project conducted by this company
- the start of the winding-up of Celtic Property Developments Kft based in Budapest in August 2012 in the District Court of Budapest (Fővárosi Törvényszék Cégbírósága) (the end of the process is expected by the end of March 2013);
- the transaction, which results in changes of the shareholders and of their shares in Celtic (Italy) Srl based in Milan, Italy. As a result of the transaction, Celtic Property Developments SA and its subsidiaries do not have a stake in Celtic (Italy) Srl

Write-offs for the reduction in the shares value

The impairment loss on investments in subsidiaries for the year 2012 amounted to PLN 194.9 million and included an impairment loss on the shares in the subsidiaries (Buffy Holdings No 1 Ltd, Lakia Enterprises Ltd and Celtic Investments Ltd) in the amount of 67.0 million PLN and the impairment loss on the loans in the amount of PLN 127.9 million. The impairment loss of the shares is mainly due to a reduction in the value of properties included in the portfolios of subsidiaries, mainly in relation to the project in Ursus (Buffy Holdings No 1 Ltd), resulting from the current market situation and the lack of adoption of the master plan for the area in Ursus. As on the day of the report publication, Warsaw City authorities still did not did not succeed to close works on the approval of the Plan for the post-industrial area of former ZPC Ursus factory in the area of Orłów Piastowskich street in Ursus. 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. According to the amended version of the Master Plan, Celtic Group will be able to realise investment plans regarding construction of 740 thousand sqm of floor surface. In the absence of an approved Master, Celtic Group intends to realize smaller projects in cooperation with other recognized developers in order to generate revenue stream in the shortest possible time.

With respect to receivables from loans granted to subsidiaries, the Company recognized a write-down in the amount of PLN 127.9 million, as the Company's opinion, due to the negative value of the net assets of these subsidiaries there is a real risk that these entities will not be able to repay in full contracted loans. Details of charges are set out in notes 3.3, 4 and 5 of the financial statements of the Company.

- **EXTRAORDINARY MEETING OF SHAREHOLDERS – RESOLUTION ON THE ACQUISITION OF THE COMPANY'S SHARES FOR THE PURPOSE OF REDEMPTION**

On 10 August 2012 the Extraordinary General Meeting has taken a resolution on the acquisition of the Company's shares for redemption. The General Meeting authorised the Management Board of the Company to purchase from Company's shareholders no later than by until the 31st of December 2013 up to 11,541,891 (in words: eleven million five hundred forty-one thousand eight hundred and ninety-one) of Company's shares, with the nominal value of 0,10 zł (ten groszy) each and total nominal value up to PLN 1,154,189.10. The shares could be purchased on the regulated market: during a stock exchange session or outside session as well as outside of the regulated market. The Shares shall be purchased by the Company pursuant to Art. 362 § 1 point 5) of the Code of Commercial Companies for the purpose of redemption for the price no lower than its nominal value and no higher than PLN 15.89 zł (in words: fifteen złotych and eighty nine groszy) for one share. The General Meeting authorized the Company's Management Board to establish detailed terms and conditions of share's purchase in the scope which is not regulated by this resolution and authorised the Company's Management Board to carry out all practical and legal actions aiming to the realization of the resolution including the conclusion of the agreement with an investment firm. In the purpose of redemption of shares, immediately after the finalization of their purchase procedure, the Company's Management Board shall convene the General Meeting with an agenda including at least the adoption of resolutions on the redemption of the Company's shares, on the decrease of the Company's share capital and amendments to the Company's statute.

The rationale of the Management Board's recommendation for the resolution of on the acquisition of the Company's shares for the purpose of redemption was the downturn on the Warsaw Stock Exchange, which is part of the global trends on the capital markets and results in a decrease of the market price of shares of Celtic Property Developments S.A. In the opinion of the Management Board market valuation diverges from the fundamentals of the Company's value growth in the long term. The acquisition of Company's shares is therefore optimal from the point of view of the interests of all Company's shareholders. The Supervisory Board of the Company approved the draft resolution of the Extraordinary General Meeting of the Company through the resolution adopting the draft resolutions of the General Meeting.

7. ASSESSMENT OF INVESTMENT POSSIBILITIES AND PROJECT OPPORTUNITIES

The Company does not conduct its own development projects. These projects are carried out by the subsidiaries from the Group and are financed both by using its own resources and bank loans. In the future, the Group assumes the implementation of activities through subsidiaries or jointly controlled, and financed construction projects investment and (targeted loans) would be collected directly by the companies or through the Celtic Property Developments.

8. FACTORS AND UNUSUAL EVENTS AFFECTING GROUP FINANCIAL RESULTS

In the Management Board opinion, in the year 2012 there were not unusual events which have an impact on the Company's results.

9. FACTORS IMPORTANT FOR FURTHER COMPANY'S DEVELOPMENT

Factors essential for the further development of the Company are synonymous with the factors influencing the development of the whole Group. Decline in properties market prices during last four years 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 investments, at the end of 2011 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. In the year 2012 this strategy was consistently implemented – the Group sold the property on Łopuszańska 22 street and sold or dissolved foreign operating companies.

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

- Macroeconomic situation on the Polish market shaping the demand for real estate and the purchasing power of customers;
- The situation on the financial markets, in particular the availability of sources of funding and the cost of the capital;
- Banks' credit policy and limitations of the availability of mortgage loans;
- Governmental Policy supporting acquisition of first housing
- Implementation of 'Developers Law' (Ustawa z dnia 16 września 2011 r. o ochronie praw nabywcy lokalu mieszkalnego lub domu jednorodzinnego, Dziennik Ustaw Nr 232, poz. 1377), imposing on developers additional legal, financial and informational requirements;
- Administrative decisions on lands.

10. OVERVIEW OF BASIC ECONOMIC AND FINANCIAL INFORMATION

Selected items of the statement of comprehensive income

	12 months ended		
	31.12.2012 (PLN ths.)	31.12.2011 (PLN ths.)	*Change* %
Revenues	3 182	1 378	*130,9%*
Costs of sales	0	0	-
Profit on sales	**3 182**	**1 378**	***130,9%***
Administrative costs	-9 424	-5 196	*81,4%*
Marketing costs	-564	-256	*120,3%*
Result from the sale of subsidiaries	0	-9	*-100,0%*
Dividends received from the related parties	0	3 134	*-100,0%*
Impairment of investments in subsidiaries	-194 981	-302 639	*-35,6%*
Interest income on loans	29 505	27 737	*6,4%*
Other operational income	772	0	-
Other operational cost	-2 564	-625	*310,2%*
Operating result	**-174 074**	**-276 476**	***-37,0%***
Financial income	1 079	614	*75,7%*
Financial costs	-2 638	-583	*352,5%*
Profit (loss) before income tax	**-175 633**	**-276 445**	***-36,5%***
Income tax	0	-352	*-100,0%*
PROFIT (LOSS) FOR THE YEAR	**-175 633**	**-276 797**	***-36,5%***
Diluted earnings per share (PLN)	-5,15	-8,12	*-36,6%*

In 2012 the Company generated income at the level of 3,2 mln PLN, which was higher by 1,8 mln PLN higher compared to 2011. 80% of revenue came from foreign sales for services provided to non-Celtic Group companies.

Interest on loans granted to subsidiaries amounted to PLN 29.5 mln and was the most substantial income item. It rose by 1.8 mln PLN in comparison with 2011. The detailed list of intercompany loans has been presented in Section *16 Loan agreements*.

In 2012 Celtic Property Developments S.A. decreased its net loss by 101.2 mln PLN in comparison with 2011. The net loss in 2012 amounted to 175.6 mln PLN. Write-down of investment in subsidiaries, which amounted to 194,9 mln PLN, had the biggest impact on the final result in 2012. This write-down includes the write-down of the value of shares in subsidiaries (Buffy Holdings No 1 Ltd, Lakia Enterprises Ltd and Celtic Investments Ltd) totalling PLN 67.0 mln and the write-down of loans amounting to PLN 127.9 mln PLN. The former results mainly from lower market value of properties held by subsidiaries, especially properties located in Ursus (Buffy Holdings No 1 Ltd), which was a result of the current market performance and the lack of master plan for plots in Ursus.

With regard to loans granted to subsidiaries (receivables), the Company recognised a write-down totalling 127.9 mln PLN, as in the Company's view there is a threat that subsidiaries will not be able to repay these loans in full (due to their negative net assets). The detailed information about these write-downs was presented in notes 3.3, 4 and 5 in the Company's Financial statement.

What is more, the final net result was influenced by a rise in administrative costs of 4.2 mln PLN in comparison with 2011. It resulted mainly from increased demand of the Company for advisory services in connection with services provided to entities outside the Group, the changes in the structure and organisation of the Group carried out and with the outsourcing of certain services that were previously provided to other entities of the Group.

Selected items of the balance sheet

	As at:		Change
	31.12.2012 (PLN ths.)	31.12.2011 (PLN ths.)	2011/2010 (%)
Total assets	**385 673**	**562 078**	***-31,4%***
Non-current assets, including:	**344 660**	**556 709**	*-38,1%*
Property, plant and equipment	*12*	*6*	*100,0%*
Intangible assets, excluding goodwill	*13*	*0*	*-*
Long-term receivables	*334 809*	*479 816*	*-30,2%*
Shares in subsidiaries	*9 826*	*76 887*	*-87,2%*
Current assets, including:	**41 013**	**5 369**	*663,9%*
Trade receivables and other receivables	*23 139*	*4 344*	*432,7%*
Cash and cash equivalents	*17 874*	*1 025*	*1643,8%*
Total equity and liabilities	**385 673**	**562 078**	***-31,4%***
Equity, including:	**372 951**	**544 161**	*-31,5%*
Share capital	*3 431*	*3 407*	*0,7%*
Supplementary capital	*0*	*1 161*	*-100,0%*
Reserve capital	*4 399*	*23 078*	*-80,9%*
Share premium	*796 643*	*796 643*	*0,0%*
Retained earnings	*-431 522*	*-280 128*	*54,0%*
Non-current liabilities	**-**	**0**	*-*
Current liabilities	**12 722**	**17 917**	*-29,0%*

As of the end of 2012 the Company's assets dropped by 176,4 mln PLN compared to the end of 2011. The decrease in assets stemmed mainly from the before-mentioned write-downs of investment in subsidiaries.

With regard to fixed assets, they were made up mainly of long-term receivables resulting from intercompany loans. These loans have been described in point *16 Loan agreements.*

The value of current assets increased by 35,6 mln PLN in comparison with 2011. This increase comprised a rise in receivables resulting from the loans granted of 18,8 mln PLN, as a result of reclassification of long-term loans into short-term loans. It also included an increase in cash & cash equivalents' of 16,8 mln PLN due to sale of shares in subsidiaries.

As of 31 December 2012 the equity of Celtic Property Developments S.A. totalled 372,9 mln PLN and accounted for 96,7% of the balance sum.

As at 31 December 2012 the Company had no long-term liabilities, whereas short-term liabilities amounted to 12,7 mln PLN and accounted for 3,3% of the balance sum.

11. RISK FACTORS AND THREATS

The Company's activities are exposed to financial, operational and economic risks. Risk management policy adopted by the Company 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 business, its financial situation, prospects of development, or Company 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.

- **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.

According to first estimations in 2012 Polish economy grew by approx. 2.4%, which was less than 4.3% registered in 2011. While the recent forecast of the Polish government on 2013 year provide for growth of the Polish GDP at 2.2%, 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 GEOGRAPHICAL CONCENTRATION OF THE COMPANY'S AND GROUP'S PROJECTS**

The concentration of the majority of proprieties portfolio in Warsaw, including the residential project in the Ursus District, 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 market, on which the Company's has its properties is Hungarian market, characterised with political and economic instability. It cannot be excluded that the negative perceptions by investors of the Hungarian economy may have a negative impact on the financial position or results of operations of the Group.

- **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 2012 to PLN 88.5 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.

- **LIQUIDITY RISK**

The liquidity risk arises when assets and liabilities payment periods are not matching. This situation increase potential profitability, but also increases the risk of loss. The Company applies the procedures aimed at minimizing such losses by keeping an adequate level of cash and other assets that are easy to sell, as well as by adequate access to lines of credit. The level of the Company's liquidity is continuously controlled by the Management Board.

12. LEGAL PROCEEDINGS WITH VALUE OF OVER 10% OF THE EQUITY

Celtic Property Developments S.A. and 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.

13. ORGANIZATIONAL OR CAPITAL RELATIONSHIPS

Celtic Property Developments S.A. organizational and capital relationships as well as the structure of the Group are presented in the Section *2 CELTIC PROPERTY DEVELOPMENTS S.A AS THE PARENT COMPANY IN THE GROUP STRUCTURE.*

14. SIGNIFICANT AGREEMENTS

In the year 2012, one significant agreement was concluded and one was amended in which the Company was a part. These agreements are significant under the meaning given by the Decree of Minister of Finance dated 19th of February 2009 on current and periodic information published by issuers of securities and conditions for recognizing as equivalent information required by law of non-member state as their value is higher than 10% of the Company's equity.

- **DEBT ASSUMPTION AND SET-OFF AGREEMENTS**

On 31 May 2012 the Company received signed agreements (hereinafter in this section "Agreements") for assumption of debt and set-off. The Agreements are related to the loan granted by Celtic Property Developments S.A to its subsidiary East Europe Property Financing AB headquartered in Stockholm, Sweden („EEPF"), on the basis of the agreement signed 31 December 2009 („the Loan"). The principal amount of the Loan, including accrued and unpaid interests, amounted to PLN 389,874,573.30 as at the 1st May 2012. With regard to the above, the liabilities of EEPF to Celtic Property Developments S.A. were assumed by other subsidiaries from the Celtic Group on the basis of Agreements for assumption of debt and set-off. The intercompany loans are presented in the Section *17. LOANS AGREEMENTS.*

The above steps are part of actions taken by the Group aimed to simplify its organizational structure and optimize its operating costs. The Agreements constitute a significant agreement in the meaning of Decree of Minister of Finance dated 19th of February 2009 on current and periodic information published by issuers of securities and conditions for recognizing as equivalent information required by law of non-members of state, due to their total value of 389,874,573.30 PLN. This amount exceeded the value of 10% of Celtic Property Developments S.A. equity which at the end of the quarter preceding the signature of agreements i.e. at 31 March 2012 amounted to PLN 550,870 ths.

- **AMENDMENT OF THE CREDIT AGREEMENT WITH HSBC BANK**

In March 2012 the Company has signed an amendment to the loan agreement from 21 December 2006 (hereinafter in this section "The Agreement'). The parties of the Agreement are: Bank HSBC (HSBC Bank Plc and HSBC Bank Polska S.A.), subsidiaries of the Company: 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. ("Subsidiaries", "Borrowers") 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 as guarantors. This Amendment was signed with regard to the maturity of the existing loan occurring on 27 March, 2012, with purpose to refinance an existing loan in the amount of EUR 12.500.000.

Criterion for the recognition of agreement as significant is the value of the loan, amounting to PLN 51,658,750 (calculated on the basis of the average rate of EUR published by NBP on 3RD April 2012 of 4,1327 PLN/EUR), representing 10% of the Celtic Property Developments S.A. equity as at the end of quarter preceding the signature of the annex (i.e. at 31 December 2011).

Except the above mentioned agreements the Company did not conclude in 2012 any agreements the value of which exceeds 10% of the capital of the 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 terms. Transactions with related parties are described in the explanatory note No. 22 to the Company's financial statements.

16. CREDIT AND LOANS AGREEMENTS, PLEDGES AND GUARANTEES

In the year 2012 no new credit or loan agreement, in which the Company would be a party, was not concluded. Obligations arising from existing credit agreements with the Bank, BZ WBK S.A. and HSBC Bank, in which Celtic Property Developments S.A. is the guarantor were regulated in due time. In the year 2012 and security guarantees for these loans have not changed.

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The above steps are part of actions taken by the Group aimed to simplify its organizational structure and optimize its operating costs. The Agreements constitute a significant agreement in the meaning of Decree of Minister of Finance dated 19th of February 2009 on current and periodic information published by issuers of securities and conditions for recognizing as equivalent information required by law of non-members of state, due to their total value of 389,874,573.30 PLN. This amount exceeded the value of 10% of Celtic Property Developments S.A. equity which at the end of the quarter preceding the signature of agreements i.e. at 31 March 2012 amounted to PLN 550,870 ths.

Loans raised and granted between Celtic Property Developments S.A. and companies within Celtic Group are presented in the table below:

Subsidiary	Currency	Principal ('000 PLN)	Interests ('000 PLN)	Interest rate	
Loans granted					
Long-term loans					
1/95 Gaston Investments	PLN	1 193	209	3M WIBOR +	1,55%
2/124 Gaston Investments	PLN	1 238	144	3M WIBOR +	1,55%
3/93 Gaston Investments	PLN	688	115	3M WIBOR +	1,55%
4/113 Gaston Investments	PLN	3 851	389	3M WIBOR +	1,55%
Write-off for the loan granted to 4/113 Gaston		*(1 266)*			
5/92 Gaston Investments	PLN	723	128	3M WIBOR +	1,55%
6/150 Gaston Investments	PLN	932	139	3M WIBOR +	1,55%
7/120 Gaston Investments	PLN	731	85	3M WIBOR +	1,55%
8/126 Gaston Investments	PLN	1 566	196	3M WIBOR +	1,55%
9/151 Gaston Investments	PLN	434	57	3M WIBOR +	1,55%
10/165 Gaston Investments	PLN	560	48	3M WIBOR +	1,55%
11/162 Gaston Investments	PLN	458	49	3M WIBOR +	1,55%
12/132 Gaston Investments	PLN	1 473	159	3M WIBOR +	1,55%
13/155 Gaston Investments	PLN	1 253	128	3M WIBOR +	1,55%
14/119 Gaston Investments	PLN	1 162	156	3M WIBOR +	1,55%
15/167 Gaston Investments	PLN	433	40	3M WIBOR +	1,55%
16/88 Gaston Investments	PLN	250	36	3M WIBOR +	1,55%
18 Gaston Investments	PLN	1 009	84	3M WIBOR +	1,55%
19/97 Gaston Investments	PLN	264	31	3M WIBOR +	1,55%
20/140 Gaston Investments	PLN	325	37	3M WIBOR +	1,55%
Antigo Investments	PLN	4 884	58	3M WIBOR +	1,55%
Write-off for the loan granted to Antigo		*(490)*		+	
Blaise Gaston Investments	PLN	1 844	301	3M WIBOR +	1,55%
Blaise Investments	PLN	24 864	4 238	3M WIBOR +	1,55%
Belise Investments	PLN	28 506	4 667	3M WIBOR +	1,55%
Buffy Holdings No 1 Ltd	PLN	137 782	18 755	3M WIBOR +	0,75%
Write-off for the loan granted to Buffy Holdings	*PLN*	*(139 892)*			
Celtic Asset Management	PLN	1 383	238	3M WIBOR +	1,55%
Write-off for the loan granted to CAM		*(1 380)*			
Celtic Investments Ltd	EUR	736	4	3M LIBOR +	0,75%
Challange 18	PLN	165 941	31 150	3M WIBOR +	1,55%
EEPF	PLN	6 367	1 131	3M WIBOR +	0,75%
Write-off for the loan granted to EEPF		*(7 498)*			
Elara Investments	PLN	3 128	562	3M WIBOR +	1,55%
Write-off for the loan granted to Elara Invest's		*(2 615)*			
Gaston Investments	PLN	2 565	461	3M WIBOR +	1,55%
HUB Developments	PLN	1 846	319	3M WIBOR +	
Lakia Enterprises Limited	PLN	22 116	3 349	3M WIBOR +	1,55%
Total long-term loans		**267 347**	**67 462**		
Short-term loans					
Gaetan Investments	PLN	12 601	2 259	3M WIBOR	1,55%
Write-off for the loan granted to Gaetan		*(11 279)*			
Mandy Investments	PLN	27 696	4 941	3M WIBOR	1,55%
Write-off for the loan granted to Mandy		*(18 477)*			
Robin Investments	PLN	4 027	746	3M WIBOR	1,55%
Write-off for the loan granted to Robin		*(41)*			
Total short-term loans		**14 527**	**7 946**		
TOTAL LOANS GRANTED		**281 874**	**75 408**		
Borrowings					
Lakia Entreprises	PLN	7 853	1 158	3M WIBOR	0,50%
TOTAL BORROWINGS		**7 853**	**1 158**		

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

17. SECURITIES ISSUES

- **C SERIES SHARES**

On 24 May 2012 the Ordinary General Meeting of Shareholders adopted resolution No. 22 on the issue of subscription warrants series A with the right to take up the Company's shares Series C and deprivation of current shareholders of the pre-emption right with respect to subscription A series warrants and resolution no. 23 on the conditional increase of the Company's share capital with the exclusion of the pre-emption right with respect to shares Series C, amendment to the Company Statute, deprivation of current shareholders of the pre-emption right with respect to the shares Series C, dematerialization of the shares Series C and application to admit and introduce the shares Series C to the regulated market.

On the basis of the resolution No. 22 the Company has issued 163.214 registered A series subscription warrants (hereinafter: „Subscription Warrants"), with the right to take-up in total 163.214 Company's ordinary bearer shares Series C, with the nominal value of 0.10 zlotys (in words: ten groszy) each and total nominal value of PLN 16.321,40. Subscription Warrants were offered only to the entitled Management Board's members, who performed their functions at the day of presenting the declaration of taking-up Subscription Warrants:

- Mr Andrew Morrison Shepherd, President of the Management Board, was offered 54.919 Subscription Warrants;
- Mr Aled Rhys Jones, Member of the Management Board, was offered 54.919 Subscription Warrants;
- Mr Christopher Bruce, Member of the Management Board, was offered 26.688 Subscription Warrants;
- Ms Elżbieta Wiczkowska, Member of the Management Board, was offered 26.688 Subscription Warrants.

Subscription Warrants were issued free of charge and the issue price of one C series share taken-up in the execution of rights from Subscription Warrant was established as equivalent of its nominal value i.e. 0.10 PLN (ten groszy). Each Subscription Warrant gave the right to take-up one C series share and the right to take-up C series shares has been realized in the manner specified in Art. 451 of the Code of Commercial Companies i.e. by way of written statements submitted on forms prepared by the Company.

The issue of Subscription Warrants was carried out without a public offer referred to in Art. 3.3 of the Act of 29 July 2005 on Public Offering and Conditions for the Introduction of Financial Instruments to the Organized Trading System, and on Public Companies (Journal of Laws No. 184, section 1539 with further changes) due to the fact that the number of persons to whom the proposal to acquire Subscription Warrants was addressed did not exceed 99 (in words: ninety nine) persons.

On 19 June 2012 the District Court for the Capital City of Warsaw, XIII Commercial Division of the National Court Register has registered the conditional Company's share capital increase by the amount not higher than PLN 16,321.40. The conditional share capital increase was executed through the issue of up to 163,214 Company's ordinary bearer shares Series C, with the nominal value of 0.10 zlotys (in words: ten groszy) each and was carried out to enable entitled persons holding the Subscription Warrants series A to exercise their rights to take up no more than 163,214 C series shares.

Subscription Warrants were offered to entitled persons on 12 July 2012. Entitled persons owning A series Subscription Warrants have executed their rights and presented declarations of taking-up C series shares.

As a result of the increase, the share capital of the Celtic Property Developments S.A. are divided into 34,231,466 (in words: thirty-four million two hundred and thirty-one thousand four hundred and sixty-six) shares with a nominal value of PLN 0.10 (ten groszy) each, representing 100% of the votes at Company's general meeting. On 31 July 2012, C series shares were introduced to the listing on the parallel market of the Warsaw Stock Exchange S.A. on the basis of the resolution No 739/2012 of the WSE Management Board.

The proceeds from C series shares issue were assigned to finance current activities of the Company.

- **D SERIES SHARES**

On 15 October 2012 the Company's Management Board passed the resolution on increase of the Company's share capital within the limits of authorized capital. On the basis of this resolution, the Company's share capital was increased from the amount of PLN 3,423,146.60 to the amount of PLN 3,430,748.80, it means by the amount of PLN 7,602.20 through the issue of 76,022 ordinary bearer D series shares with a nominal value of PLN 0.10 (ten groszy) each share, within the limits of Company's authorized capital. The increase of the Company's share capital by issuing D series Shares took place within the limits of the Company's authorized capital on the basis of the above described resolution of the Management Board. The Management Board is authorized to carry out the increase of the Company's share capital in this way on the basis of § 4(a) of the Company's Statute.

The increase of the Company's share capital through the issue of D series Shares was made with the consent of the Supervisory Board, with entire exclusion of pre-emptive rights of existing shareholders, in the form of the private offer addressed to selected advisors to the Management Board.

The Management Board decided that the issue price of one D series share is equal to its nominal value of the amount of PLN 0.10 (ten groszy) per share, on what the Company's Supervisory Board agreed. D series Shares were entirely covered with monetary contribution. The proceeds from D series shares issue were assigned to finance current activities of the Company.

The increase of the share capital was registered the District Court for the Capital City of Warsaw, XIII Commercial Division of the National Court Register on 8 January 2013. After the registration of D series shares, the Company's share capital amounts to 3,430,748.80 PLN and is divided into 34.307.880 ordinary bearer shares series B, C and D and with a nominal value of PLN 0.10 (ten groszy) each share, entitling to 34.307.880 votes at the general meeting of shareholders.

On 7 March 2013, D series shares were introduced to the listing on the parallel market of the Warsaw Stock Exchange S.A. on the basis of the resolution No 255/2013 of the WSE Management Board of 5 March 2013.

- **RESOLUTIONS OF THE EXTRAORDINARY GENERAL MEETING ON THE ISSUE OF B SERIES SUBSCRIPTION WARRANTS WITH RIGHT TO TAKE-UP E SERIES COMPANY'S SHARES**

On 10 January 2013 the Extraordinary General Meeting of Celtic Property Developments S.A. adopted resolution No. 3 on the issue of subscription warrants series B with the right to take up E series Company's shares and deprivation of current shareholders of the pre-emption right with respect to B series subscription warrants and resolution no. 4 on the conditional increase of the Company's share capital with the exclusion of the pre-emption right with respect to shares Series E, amendment to the Company Statute, deprivation of current shareholders of the pre-emption right with respect to the shares series E, dematerialization of the shares series E and application to admit and introduce the shares series E to the regulated market.

On the basis of the resolution No. 3 the Company shall issue up to 88,776 registered B series subscription warrants with the right to take-up in total up to 88,776 Company's ordinary bearer shares Series E, with the nominal value of 0.10 zlotys (in words: ten groszy) each and total nominal value up to PLN 8.877,60.

Subscription warrants shall be issued as part of one issue procedure.

Subscription warrants shall be offered exclusively to the Members of the Company's Management Board:

- President of the Management Board Andrew Morrison Shepherd shall be entitled to take up 36,483 subscription warrants series B;
- Member of the Management Board Aled Rhys Jones shall be entitled to take up 36,483 subscription warrants series B;
- Member of the Management Board Elżbieta Wiczkowska shall be entitled to take up 15,810 subscription warrants series B.

- providing that at the date of submission of the declaration on taking up of the shares they still hold their positions in the Management Board. Subscription warrants shall be offered to the entitled persons indicated in the preceding sentence within 14 days of the date of service on the Company of the decision of the competent registry court concerning the entry in the register of the amendment to the Company's Statute as regards the conditional increase of the share capital.

The issue of B series subscription warrants shall not take the form of public offering as referred to in art. 3 par. 3 of the act of 29 July 2005 on public offerings and terms of introduction of securities to the organized trading system and on public companies (Journal of Laws no 184, item 1539 as amended) due to the fact that the number of persons to whom the offer to purchase the subscription warrants is directed shall not exceed 99 (in words: ninety nine) persons.

Subscription warrants shall be issued free of charge. The issue price of one share Series E taken up as part of the exercising of rights under the Subscription warrant shall be equal to its nominal value which at the date of the adoption of the resolution amounts to PLN 0.10 (in words: ten groszys).

Each subscription warrant shall entitle [the holder thereof] to take up 1 (in words: one) share of the Company Series E. Right to take up shares Series E may be exercised in the manner as specified in art. 451 CCC i.e. in the form of written declarations submitted on the forms prepared by the Company.

Entitled persons who hold the Subscription warrants shall be eligible to take up shares Series E from the date at which the Subscription warrants series B have been taken up until 10 January, 2023 – provided that at the time of submitting of the declaration on taking up of the shares Series E they still hold their positions in the Management Board.

Exclusion of the pre-emption right to which the current Shareholders have been entitled with respect to the subscription warrants series B and shares series E is economically justified and is in the best interest of both the Company and the Shareholders.

On the basis of the resolution No. 4 the share capital of the Company shall be conditionally increased by the amount of up to PLN 8,877.60. Share capital conditional increase shall be effected by the issue of up to 88,776 Company's ordinary bearer shares Series E, with the nominal value of PLN 0.10 (in words: ten groszys) each and total nominal value of up to PLN 8,877.60. Conditional increase of the share capital shall be effected in order to enable entitled persons who hold the subscription warrants series B to exercise the rights to take up no more than 88,776 E series shares.

On the day of publication of this report, the Company has not yet received the Court decision on the registration of the conditional share capital increase.

Except the above described issues, the Company did not proceed to issuance of other securities.

18. FORECASTED FINANCIAL RESULTS

The Company did not publish financial results forecasts for the year 2012.

19. FINANCIAL RESOURCES MANAGEMENT ASSESSMENT

The Company finances its operations primarily from own funds. In 2012 Company's financial resources were used in accordance with the plans, purpose and current needs. The Company has regularly met all its obligations to counterparties, banks and mandatory contributions to the State. Total liabilities represented 3,3% of total Group assets and do not represent a threat to the financial condition of the Company.

20. CHANGES IN MANAGEMENT POLICIES

In 2012, following the implementation of the Group strategy of the concentration of activities on the Polish market, with focus on Ursus project, the Group sold, dissolved or put under liquidation procedure foreign operational entities of the Group (Montenegro, UK, Italy, Hungary) together with sale or dissolution of two project companies in Poland. These actions contributed to simplify the Group structure and reduced the number of subsidiaries from 44 at the end of the year 2011 to 38 on the day of publication of this report, and by consequence - to simplify the rules for the management of the overall Celtic Group. The Group structure is presented in the Section *2 of this report.* Excepted Group structure changes no other changes were implemented in the management policies in the Company and in the Group. As a result of the adopted strategy, the Company continued to work on optimizing and simplifying existing procedures in both Celtic Property Developments and other entities being part of the Group.

21. REMUNERATION OF THE SUPERVISORY BOARD AND THE MANAGEMENT BOARD

- **SUPERVISORY BOARD REMUNERATION**

Name		CCY	Amount ('000)	For the period	Comments
Marzena Bielecka	President of the Supervisory Board	PLN	69,5	01.2012 - 12.2012	
Wiesław Oleś	Vice President of the Supervisory Board	PLN	50,7	01.2012 - 12.2012	
Colin Kingsnorth	Secretary of the Supervisory Board	PLN	-	01.2012 - 12.2012	Mr C. Kingsnorth renounced from the remuneration for the function in the Supervisory Board
Mirosław Gronicki	Member of the Supervisory Board	PLN	50,7	01.2012 - 12.2012	
Wiesław Rozłucki	Member of the Supervisory Board	PLN	50,7	01.2012 - 12.2012	
Total			**221,8**		

The amounts indicated above take into account reduction of the remuneration of the Supervisory Board provided by the resolution No. 21 of the Ordinary General Meeting of 24 May 2012 on the remuneration of the Supervisory Board of second term. Pursuant to this resolution, the remuneration of the President of the Supervisory Board was fixed at PLN 5,000.00 per month while the remuneration of other members (including Vice President and Secretary) – at PLN 3,720.00 per month. Other principles of Supervisory Board remuneration have remained unchanged. The resolution entered into force on the date of its adoption.

- **MANAGEMENT BOARD REMUNERATION**

In 2012 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. In 2012, Management Board members received a part of their remuneration for the year 2012 in the form of subscription warrants in respect of which they took up in July 2012 a total of 163,214 Company's shares series C.

Remuneration paid in 2012 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 ('000)	Period	Comments
Andrew Morrison Shepherd	President of the MB	PLN	60,0	01.2012 - 12.2012	
Aled Rhys Jones	Member of the MB	PLN	60,0	01.2012 - 12.2012	
Elżbieta Wiczkowska	Member of the MB	PLN	60,0	01.2012 - 12.2012	
Christopher Bruce	Member of the MB	PLN	32,1	01.2012 - 12.2012	Mr C. Bruce has resigned from the function of the member of the Management Board on 13 July 2012.
Total			**212,1**		

Remuneration payable to the members of Celtic Property Developments S.A. Management Board in 2012 for services rendered to the companies from Celtic Group, taking into account the part of the payment in the form of subscription warrants:

Name		Cash remuneration for the year 2012 ('000 PLN)	Remuneration in warrants for the year 2012 ('000 PLN)	Comments
Andrew Morrison Shepherd	President of the MB	570,9	853,6	
Aled Rhys Jones	Member of the MB	570,9	853,6	
Elżbieta Wiczkowska	Member of the MB	508,4	398,6	
Christopher Bruce	Member of the MB	117,4	264,7	Remuneration for the period from 1.01.2012 to 31.03.2012 following the resignation of Mr C. Bruce
TOTAL		**1 767,6**	**2 370,5**	

The remuneration in form of warrants in 2012 includes:

- A series subscription warrants, the rights of which were executed on 12 July 2012 following the take-up of C series shares by members of the Management Board, for the part of the annual remuneration for the period from 01.01.2012 to 31.07.2012 and
- B series subscription warrants according the resolution No. 3 adopted by the Extraordinary Meeting on 10 January 2013, for the period from 1.08.2012 to 31.12.2012. The issue of B series warrants is presented in the Section *17. SECURITIES ISSUE*S of this report.

Changing the way of remuneration for the Management Board through the payment of the part of the remuneration in the form of subscription warrants is one of elements of the cost optimization strategy launched in 2011 and constitutes an additional motivating factor for the Management Board members.

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 following an acquisition.

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

The following table presents the number of shares of the Company, owned by the members of the Management Board holding their function at the day of the report publication, according to the information held by the Company:

Shareholder		Number of shares owned	Nominal value of the owned shares	Shares as % of total number of shares	Votes as % of total number of votes
Andrew Morrison Shepherd	President of the Management Board	54 919	5 492	0,16%	0,16%
Aled Rhys Jones	Member of the Management Board	54 919	5 492	0,16%	0,16%
Elżbieta Wiczkowska	Member of the Management Board	26 688	2 669	0,08%	0,08%
TOTAL		**136 526**	**13 653**	**0,40%**	**0,40%**

*Total number of shares = 34,307,488.

Compared to the previous reporting period and following the take-up of C series shares on 12 July 2012 and their registration on securities accounts on 31 July 2012:

- the number of the Company's shares owned by Mr Andrew Morrison Shepherd increased by 54,919 shares;

- the number of the Company's shares owned by Mr Aled Rhys Jones increased by 54,919 shares;

- the number of the Company's shares owned by Ms Elżbieta Wiczkowska increased by 26,688 shares.

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

Additionally, on 10 January 2013 the Extraordinary General Meeting of Celtic Property Developments S.A. adopted resolution No. 3 on the issue of subscription warrants series B with the right to take up E series Company's shares and deprivation of current shareholders of the pre-emption right with respect to B series subscription warrants and resolution no. 4 on the conditional increase of the Company's share capital with the exclusion of the pre-emption right with respect to shares Series E, amendment to the Company Statute, deprivation of current shareholders of the pre-emption right with respect to the shares series E, dematerialization of the shares series E and application to admit and introduce the shares series E to the regulated market. On the basis of this resolution the Company shall issue up to 88,776 registered B series subscription warrants with the right to take-up in total up to 88,776 Company's ordinary bearer shares Series E, with the nominal value of 0.10 zlotys (in words: ten groszy) each and total nominal value up to PLN 8.877,60. Subscription warrants shall be offered exclusively to the Members of the Company's Management Board:

- President of the Management Board Andrew Morrison Shepherd shall be entitled to take up 36,483 subscription warrants series B;
- Member of the Management Board Aled Rhys Jones shall be entitled to take up 36,483 subscription warrants series B;
- Member of the Management Board Elżbieta Wiczkowska shall be entitled to take up 15,810 subscription warrants series B.

- providing that at the date of submission of the declaration on taking up of the shares they still hold their positions in the Management Board.

24. AGREEMENTS CHANGING OWNERSHIP STRUCTURE

Following the resolution adopted by the Extraordinary General Meeting on 10 August 2012 on the purchase of the Company's shares for the purpose of redemption, in the event of the buy-back process execution, changes in proportion of shares owned by existing shareholders may occur. The General Meeting authorised the Management Board of the Company to purchase from Company's shareholders no later than by until the 31 of December 2013 up to 11,541,891 of Company's shares, with the nominal value of 0,10 zł (ten groszy) each and total nominal value up to PLN 1,154,189.10. The shares could be purchased on the regulated market: during a stock exchange session or outside session as well as outside of the regulated market. The Shares shall be purchased by the Company pursuant to Art. 362 § 1 point 5) of the Code of Commercial Companies for the purpose of redemption for the price no lower than its nominal value and no higher than PLN 15.89 zł (in words: fifteen złotych and eighty nine groszy) for one share. The General Meeting authorized the Company's Management Board to establish detailed terms and conditions of share's purchase in the scope which is not regulated by this resolution and authorised the Company's Management Board to carry out all practical and legal actions aiming to the realization of the resolution including the conclusion of the agreement with an investment firm. In the purpose of redemption of shares, immediately after the finalization of their purchase procedure, the Company's Management Board shall convene the General Meeting with an agenda including at least the adoption of resolutions on the redemption of the

Company's shares, on the decrease of the Company's share capital and amendments to the Company's statute.

The rationale of the Management Board's recommendation for the resolution of on the acquisition of the Company's shares for the purpose of redemption was the downturn on the Warsaw Stock Exchange, which is part of the global trends on the capital markets and results in a decrease of the market price of shares of Celtic Property Developments S.A. In the opinion of the Management Board market valuation diverges from the fundamentals of the Company's value growth in the long term. The acquisition of Company's shares is therefore optimal from the point of view of the interests of all Company's shareholders. The Supervisory Board of the Company approved the draft resolution of the Extraordinary General Meeting of the Company through the resolution adopting the draft resolutions of the General Meeting.

25. CONTROL SYSTEM FOR EMPLOYEE SHARES SCHEMES

During the reporting period the Company did not implemented employees shares schemes.

26. AGREEMENTS WITH THE COMPANY'S AUDITOR

In years 2011 and 2012 Celtic Property Developments S.A. financial statements as well as consolidated financial statements of the Capital Group were reviewed and audited by audit firm PricewaterhouseCoopers Sp. z o.o., based in Warsaw (hereinafter the Auditor).

Total Auditor's fees for the year ended 31 December 2012 amounted to PLN 170,000.00 PLN and included:

- The fees of PLN 70,000.00 for the review of Celtic Property Developments S.A. financial statements and consolidated financial statements for the period from 1 January 2012 to 30 June 2012 (agreement of 6 August 2012);
- The fees of PLN 100,000.00 for the audit of Celtic Property Developments S.A. financial statements and consolidated financial statements for the period from 1 January 2012 to 31 December 2012 (agreement of 21 December 2012).

Total Auditor's fees for the year ended 31 December 2012 amounted to PLN 514,800.00 and included:

- PLN 302,000.00 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);
- PLN 212,800.00 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).

27. STRUCTURE OF ASSETS AND LIABILITIES – BY LIQUIDITY

The Company assets structure on 31 December 2012 and changes compared with the status at the end of 2011:

	Na dzień: 31.12.2012 (w tys. PLN)	31.12.2011	Udział w aktywach razem 2012	Udział w aktywach razem 2011	Zmiana 2012/2011
Rzeczowe aktywa trwałe	12	6	0,003%	0,001%	*100,0%*
Wartości niematerialne, z wyłączeniem wartości firmy	13	0	0,003%	0,000%	-
Należności długoterminowe	334 809	479 816	86,8%	85,4%	*-30,2%*
Udziały w jednostkach zależnych	9 826	76 887	2,5%	13,7%	*-87,2%*
Aktywa trwałe	**344 660**	**556 709**	**89,4%**	**99,0%**	***-38,1%***
Należności handlowe oraz pozostałe należności	23 139	4 344	6,0%	0,8%	*432,7%*
Środki pieniężne i ich ekwiwalenty	17 874	1 025	4,6%	0,2%	*1643,8%*
Aktywa obrotowe razem	**41 013**	**5 369**	**10,6%**	**1,0%**	***663,9%***
AKTYWA RAZEM	**385 673**	**562 078**	**100,0%**	**100,0%**	***-31,4%***

	As at: 31.12.2012 (PLN ths.)	31.12.2011 (PLN ths.)	% in total assets 2012	% in total assets 2011	*Change 2012/2011 (%)*
Property, plant and equipment	12	6	0,003%	0,001%	*100,000%*
Intangible assets, excluding goodwill	13	0	0,003%	0,000%	-
Long term receivables	334 809	479 816	86,8%	85,4%	*-30,2%*
Investment in subsidiaries	9 826	76 887	2,5%	13,7%	*-87,2%*
Non-current assets	**344 660**	**556 709**	**89,4%**	**99,0%**	***-38,1%***
Trade and other receivables	23 139	4 344	6,0%	0,8%	*432,7%*
Cash and cash equivalents	17 874	1 025	4,6%	0,2%	*1643,8%*
Current assets	**41 013**	**5 369**	**10,6%**	**1,0%**	***663,9%***
TOTAL ASSETS	**385 673**	**562 078**	**100,0%**	**100,0%**	***-23,0%***

The Company's liabilities structure on 31 December 2012 and changes compared with the status at the end of 2011:

	As at: 31.12.2012 (PLN ths.)	31.12.2011 (PLN ths.)	% in total assets 2012	% in total assets 2011	*Change 2012/2011 (%)*
Share capital	3 431	3 407	0,9%	0,6%	*0,7%*
Supplementary capital	0	1 161	0,0%	0,2%	*-100,0%*
Other reserves	4 399	23 078	1,1%	4,1%	*-80,9%*
Translation reserve	796 643	796 643	206,6%	141,7%	*0,0%*
Retained earnings/(accumulated losses)	-431 522	-280 128	-111,9%	-49,8%	*54,0%*
Equity	**372 951**	**544 161**	**96,7%**	**96,8%**	***-31,5%***
Non-current liabilities	**0**	**0**	**0**	**0**	**-**
Trade and other payables	3 711	5 415	1,0%	1,0%	*-31,5%*
Borrowings, including finance leases	9 011	12 502	2,3%	2,2%	*-27,9%*
Current liabilities	**12 722**	**17 917**	**3,3%**	**3,2%**	***-29,0%***
Total liabilities	**12 722**	**17 917**	**3,3%**	**3,2%**	***-29,0%***
TOTAL EQUITY AND LIABILITIES	**385 673**	**562 078**	**100,0%**	**100,0%**	***-31,4%***

MANAGEMENT BOARD STATEMENT

V. MANAGEMENT BOARD STATEMENT

The Management Board of Celtic Property Developments S.A. ("the Company") confirms that according to its best knowledge, the financial statements of Celtic Property Developments S.A. for the year ending 31 December 2012 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 Company and its financial results, and that the Company annual activity report includes the true picture of the Company's development, achievements and situation, including threats and risks.

The Management Board confirms that the entity authorized to audit the annual 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 financial statements, in accordance with the applicable regulations and professional standards. In years 2012 and 2011 financial statements were reviewed and audited by audit firm PricewaterhouseCoopers Sp. z o.o., based in Warsaw.

ANDREW MORRISON SHEPHERD PRESIDENT OF THE MANAGEMENT BOARD	ALED RHYS JONES MEMBER OF THE MANAGEMENT BOARD
ANDREW PEGGE MEMBER OF THE MANAGEMENT BOARD	ELŻBIETA DONATA WICZKOWSKA MEMBER OF THE MANAGEMENT BOARD

VI. INDEPENDENT REGISTERED AUDITOR'S OPINION AND REPORT ON THE FINANCIAL STATEMENTS FOR THE YEAR FROM 1 JANUARY TO 31 DECEMBER 2012

VII. CELTIC PROPERTY DEVELOPMENTS S.A. FINANCIAL STATEMENTS FOR THE YEAR FROM 1 JANUARY TO 31 DECEMBER 2012

Celtic Property Developments S.A.

Financial statements
for the year ended 31 December 2012

(All amounts in PLN thousands unless otherwise stated)

Statement of comprehensive income

	Notes	12 months ended December 31, 2012	12 months ended December 31, 2011
Revenues	13	3 182	1 378
Administrative costs	14	(9 424)	(5 196)
Marketing costs		(564)	(256)
Result from the sale of subsidiaries	25	0	(9)
Dividends received from the related parties	14	0	3 134
Impairment of investments in subsidiaries	4 , 5	(194 981)	(302 639)
Interest income on loans	18	29 505	27 737
Other operating income	15	772	0
Other operating cost	16	(2 564)	(625)
OPERATING RESULT		(174 074)	(276 476)
Financial income	16	1 079	614
Financial costs	16	(2 638)	(583)
(LOSS) BEFORE INCOME TAX		**(175 633)**	**(276 445)**
Income tax	17	0	(352)
(LOSS) FOR THE YEAR		**(175 633)**	**(276 797)**
TOTAL COMPREHENSIVE INCOME		**(175 633)**	**(276 797)**
BASIC AND DILUTED EARNINGS PER SHARE	**25**	**(5.15)**	**(8.12)**

Andrew Morrison Shepherd
Chairman of the Board

Aled Rhys Jones
Board Member

Andrew Pegge
Board Member

Elżbieta Donata Wiczkowska
Board Member

(All amounts in PLN thousands unless otherwise stated)

Statement of financial position

	Notes	As at December 31, 2012	As at December 31, 2011
ASSETS			
Non-current assets			
Property, plant and equipment		12	6
Intangible assets, excluding goodwill		13	0
Long-term receivables	4	334 809	479 816
Shares in subsidiaries	5	9 826	76 887
		344 660	**556 703**
Current assets			
Trade receivables and other receivables	6	23 139	4 344
Cash and cash equivalents	7	17 874	1 025
		41 013	**5 369**
TOTAL ASSETS		**385 673**	**562 072**
EQUITY			
Share capital	8	3 431	3 407
Supplementary capital		0	1 161
Reserve capital		4 399	23 078
Share premium	24	796 643	796 643
Retained earnings		(431 522)	(280 128)
Total equity		**372 951**	**544 161**
LIABILITIES			
Non-current liabilities			
Liabilities from deferred tax	12	0	0
		0	**0**
Current liabilities			
Trade payables and other liabilities	10	3 711	5 415
Borrowings, including financial leasing	11	9 011	12 502
		12 722	**17 917**
TOTAL EQUITY AND LIABILITIES		**385 673**	**562 078**

Andrew Morrison Shepherd
Chairman of the Board

Aled Rhys Jones
Board Member

Andrew Pegge
Board Member

Elżbieta Donata Wiczkowska
Board Member

(All amounts in PLN thousands unless otherwise stated)

Statement of changes in equity

	Notes	Share capital	Share premium	Accumulated profit (loss) Supplementary capital	Reserve capital	Retained earnings	Total
Balance at 1 January 2011		**3 483**	**796 643**	**0**	**0**	**23 083**	**823 209**
2010 profit allocation	1.8	0	0	1 161	21 922	(23 083)	0
Shares cancelled	1.8	(76)	0	0	0	76	0
Interim dividend payment	1, 8	0		0	0	(3 407)	(3 407)
Reserve for issue of share warrants	24	0	0	0	1 156	0	1 156
		(76)	**0**	**1 161**	**23 078**	**(26 414)**	**(2 251)**
Profit for the year		0	0	0	0	(276 797)	(276 797)
		0	**0**	**0**	**0**	**(276 797)**	**(276 797)**
Balance at 31 December 2011		3 407	796 643	1 161	23 078	(280 128)	544 161
Balance at 1 January 2012		**3 407**	**796 643**	**1 161**	**23 078**	**(280 128)**	**544 161**
Cover the losses for the year 2011	9	0	0	(1 161)	(23 078)	24 239	0
Capital increase	1.8	24	0	0	0	0	24
Reserve for issue of share warrants	22	0	0	0	2 370	0	2 370
Conversion of liability to Board of Advisors-to-equity	13	0	0	0	2 038	0	2 038
The costs incurred in connection with the issuance of new shares	1.8			0	(9)	0	(9)
		24	0	(1 161)	(18 678)	24 239	4 424
Loss for the year				0	0	(175 633)	(175 633)
		0	0	0	0	(175 633)	(175 633)
Balance at 31 December 2012		**3 431**	**796 643**	**0**	**4 399**	**(431 522)**	**372 951**

Andrew Morrison Shepherd
Chairman of the Board

Aled Rhys Jones
Board Member

Andrew Pegge
Board Member

Elżbieta Donata Wiczkowska
Board Member

(All amounts in PLN thousands unless otherwise stated)

Cash flow statement

	Notes	12 months ended December 31, 2012	12 months ended December 31, 2011
Cash flow from operating activities			
Cash generated from operations	19	(4 139)	241
Interest paid		(557)	0
Net cash from operating activities		(4 696)	241
Cash flows from investing activities			
Acquisition of property, plant and equipment		(15)	0
Loans		(23 804)	(7 224)
Repayment of loans		44 168	11 501
Interest received		4 707	1 254
Net cash from investing activities		25 056	5 531
Cash flow from financing activities			
Received the credits and loans		0	0
Share redemption	1	(3 511)	(1 503)
Interim dividend		0	(3 407)
Net cash from financing activities		(3 511)	(4 910)
Change in net cash and cash equivalents		16 849	862
Cash and cash equivalents at the beginning of year		1 025	163
Cash and cash equivalents at the end of the year		17 874	1 025

Andrew Morrison Shepherd
Chairman of the Board

Aled Rhys Jones
Board Member

Andrew Pegge
Board Member

Elżbieta Donata Wiczkowska
Board Member

(All amounts in PLN thousands unless otherwise stated)

Notes to the financial statements

1 General information

Celtic Property Developments S.A. ("Company", "CPD") with its registered office in Warsaw (02-677), 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.

On September 2, 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 subject of the company's activities (in accordance with the Statute of the company) is the activity of financial holding companies, activities linked to the real estate market, central business support (head offices).

The company is the parent of the Celtic Group Property Developments S.A. Annual consolidated financial statements of the group have been prepared in accordance with the requirements of IFRS in the EU.

In order to fully understand the financial position and results of operations CPD SA As the parent company of the Group of these financial statements should be read in conjunction with the annual consolidated financial statements for the period ended 31 December 2012, the reports will be available on the Company's website at www.celtic.pl in time according to the current report on time the annual report of the Company and the consolidated annual report of the Group for the year 2012.

On 8 June 2010, according to Rep. Notarial Deed. A No. 7263/2010 the Extraordinary General Meeting at which a resolution was passed on the cross-border merger Poen SA and CPD Plc. Consequently, the share capital of SA Poen was increased from PLN 500,000 to PLN 3,983,329.50, ie the amount of PLN 3,483,329.50 by issuing new bearer shares of series B with a nominal value of PLN 0.10 and PLN 3,483,329.50 total.

August 23, 2010, in the National Court Register registered the previous cross-border merger of the parent company in the Group, ie Celtic Property Developments Plc (Target Company) and Poen SA (Acquiring company) by transferring all assets of the Acquired Company to the Acquirer, in exchange for newly issued shares of the Acquiring Company. The merger took place on the basis of the Plan of Merger, which assumed the acquisition of Celtic Property Developments Plc, the company Poen SA which is a 100% subsidiary of Celtic Property Developments Plc. Following the merger: (i) existing shareholders of Celtic Property Developments Plc became a 100% shareholder Poen SA, and (ii) Poen SA purchased by the general succession - to redeem, own shares of Celtic Property Developments Plc. The share exchange ratio of Celtic Property Developments Plc share Poen SA, was adopted at a level that did not cause any changes in the ownership structure Poen SA

On 2 September 2010, the notarial deed Rep. A No. 11438/2010 reduced the Company's equity of PLN 3,983,329.50 3,483,329.50 to PLN, ie the amount of PLN 500,000.00 by the redemption of 5,000,000 shares of its value PLN 0.10. The redemption was without any benefit to the shareholders.

On 20 September 2010, the notarial deed Rep. A No. 12176/2010 reduced the Company's equity of PLN 3,483,329.50 3,406,825.20 to PLN, ie the amount of PLN 76,504.30 by the redemption of 765,043 shares of its value PLN 0.10. The redemption was paid at Eur 6 per share and was paid to shareholders in the total amount of PLN 17 967 thousand in 2010 and was recognized as a reduction of capital surplus of the issue price over the par value of shares in 2010. Registration in the Register of Entrepreneurs of the redemption took place on 14 January 2011.

The shares of the Company are listed on the Warsaw Stock Exchange.
Share capital on December 31, 2012, includes 34 307 thousand. of shares with a nominal value of PLN $ 0.10 each, including:
-34.068.252 bearer ordinary shares of series B,
-163.214 bearer ordinary shares of series C,
-76.022 bearer ordinary shares of series D.

This financial statement has been adopted by the Management Board on March 21, 2013.

The company has statistical and tax numbers:
REGON 120423087
NIP 677-22-86-258

The Board of Directors of the Company consists of:
Andrew Morrison Shepherd - Chairman of the Board
Aled Rhys Jones - Board Member
Andrew Pegge - Board Member (from 10/01/2013)
Elżbieta Donata Wiczkowska - Board Member

(All amounts in PLN thousands unless otherwise stated)

Notes to the financial statements

The membership of the Supervisory Board of the company is as follows:
Colin Kingsnorth

Wiesław Piotr Oleś

Marzena Beata Bielecka

Mirosław Jerzy Gronicki

Wiesław Rozłucki

Statements have been prepared on a going business for the foreseeable future, as the Board is not aware of any circumstances indicating a threat to the continued activity.

2 The accounting principles

Accounting policies are in accordance with the principles applied in the annual financial statements for the year ended December 31, 2011. these principles have been applied consistently to all periods presented.

2.1 Basis of preparation

The company's financial statements have been drawn up in accordance with international financial reporting standards ("IFRS") adopted by the European Commission and applicable at the reporting date of this financial statements. IFRS standards and interpretations that were extant include approved by the international accounting standards Board ("IASB") and to the Commission. The Interpretation of International Financial Reporting.

Interpretations and amendments to standards, the CPD Group adopted in 2012

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 January 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 amendment to this standard had no impact on the financial statements of the Company.

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

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

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

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

(All amounts in PLN thousands unless otherwise stated)

Notes to the financial statements

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 (in EU effective date: annual periods beginning 1 January 2014).

New standard applies to applies to entities that have an interest in a subsidiary, a joint arrangement, an associate or an unconsolidated structured entity. IFRS 12 sets out the required disclosures for entities reporting under the two new standards: IFRS 10, Consolidated financial statements, and IFRS 11, Joint arrangements, and replaces the disclosure requirements currently found in IAS 28, Investments in associates. IFRS 12 requires entities to disclose information that helps financial statement readers to evaluate the nature, risks and financial effects associated with the entity's interests in subsidiaries, associates, joint arrangements and unconsolidated structured entities. To meet these objectives, the new standard requires disclosures in a number of areas, including significant judgments and assumptions made in determining whether an entity controls, jointly controls, or significantly influences its interests in other entities, extended disclosures on share of non-controlling interests in group activities and cash flows, summarised financial information of subsidiaries with material non-controlling interests, and detailed disclosures of interests in unconsolidated structured entities.

The Company will apply IFRS 12 from 1 January 2014. The group is in process of analysing of influance of this IFRS to the consolidated financial statements.

IFRS 13 "Fair value measurement"

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 influance of this IFRS to the consolidated financial statements.

IAS 28 "Investments in Associates and Joint Ventures"

IAS 28 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 (in EU effective date: annual periods beginning 1 January 2014).
The amendment of IAS 28 resulted from the Board's project on joint ventures. When discussing that project, the Board decided to incorporate the accounting for joint ventures using the equity method into IAS 28 because this method is applicable to both joint ventures and associates. With this exception, other guidance remained unchanged.

The Company will apply IAS 28 from 1 January 2014.

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.

The amendments require entities to separate items presented in other comprehensive income into two groups, based on whether or not they may be reclassified to profit or loss in the future. The suggested title used by IAS 1 has changed to 'statement of profit or loss and other comprehensive income'.

The group applies the changes to IAS 1, after January 1, 2013.

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

Amendments to IAS 12 "Recovery of Underlying Assets"

Amendments to IAS 12 "Recovery of underlying 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 (in EU effective date: annual periods beginning 1 January 2013).

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 refutable 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 Company applies the changes to IAS 1, after January 1, 2013.

(All amounts in PLN thousands unless otherwise stated)

Notes to the financial statements

Amendments to IAS 19 "Employee benefits"

Amendments to IAS 19 "employee benefits" were 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 Company applies the changes to IAS 19 as from 1 January 2013. At the date of the report of the present financial statements, an amendment to IAS 19 have not yet been approved by the European Union.

The other amendments do not apply to the financial statements of the group.

Amendments to IFRS 1 ' severe hyperinflation and the withdrawal of fixed dates for adopting IFRSS for the first time "

This change does not apply to financial statements.

Amendments to IAS 32 "Offsetting Financial Assets and Financial Liabilities" were issued in December 2011 and are

Amendments to IAS 32 "Offsetting Financial Assets and Financial Liabilities" were issued in December 2011 and are effective for annual periods beginning on or after 1 January 2014.

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 1 July 2012.

The Company applies the changes to IAS 1, after January 1, 2013. 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.

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 from 1 January 2013, the group is in the analysis of the impacts of this standard on the interim condensed consolidated financial statements. On the day of the drawing up of this report on the interim condensed consolidated financial statements, amendments to IAS 19 have not yet been approved by the European Union.

2.2 Tangible fixed assets

Tangible fixed assets are reported in historical value, which shall be reduced by the write-off. Historical cost includes expenditure directly related to the acquisition of data assets.

Subsequent expenditure included in the carrying amount of an asset or are recognised as a separate asset (where appropriate) only when it is probable that in respect of this item there will be inflow of economic benefits to the company and the cost of the item can be measured reliably. All other expenditure on repair and maintenance related to the profit or loss in the accounting period in which they are incurred.

The depreciation of fixed assets (or components, if any) shall be calculated on a straight-line basis in order to share their initial value, minus the residual value, the useful life of these assets. At each balance sheet date the verification is carried out (and any changes) the residual value and periods of service life of the asset. Fixed assets are depreciated over the period of their use (three to five years).

In the case when the carrying amount of an asset exceeds its estimated recoverable amount of its carrying amount seems immediately to the recoverable amount.

2.3 Shares in subsidiaries

Shares in subsidiaries are valued at acquisition price adjusted for any subsequent impairment losses.

At each balance sheet date the company shall carry out an analysis of the ownership interest in subsidiaries for impairment. An impairment loss is recognised in the amount by which the carrying amount of the asset exceeds its recoverable amount. Recoverable amount is the higher of the two amounts: the fair value of the asset, less the cost of sales, or value in use. Shares in respect of which a previously stated impairment at each balance sheet date, shall be assessed for the presence of indications on the possibility of the reversal of impairment.

(All amounts in PLN thousands unless otherwise stated)

Notes to the financial statements

2.4 Financial assets

CPD accounts include a financial assets loans and receivables category. The classification is based on the criterion for the acquisition of financial assets. The Board determines the classification of its financial assets at initial recognition, as well as reassesses the classification at each balance sheet date.

Loans and receivables that are not counted as derivative financial assets as there are agreed or possible to determine payments, they are not quoted in an active market, nor intended for sale. They are classified as current assets, in so far as the term of their maturity does not exceed 12 months from the balance sheet date. Assets with maturities over 12 months are classified as long term assets. Loans and receivables are accounted for under the heading "trade Receivables and other receivables" in the report on the financial situation.

Financial assets are excluded from the accounts when the rights to cash flows from them have expired or have been transferred and the title Company has transferred substantially all the risks and all the proceeds from their property. Loans and receivables are recognised initially at fair value and then are valued at amortised cost using effective interest rates.

CPD evaluation carried out company at the end of each reporting period whether there is objective indications of impairment of any component or group of financial assets.

Impairment of loans and receivables is determined in the case of objective indications that the company CPD you will not be able to receive a single or group of accounts receivable in accordance with the original maturity. Serious financial difficulties of the debtor, a high probability of bankruptcy or other financial reorganization of the debtor, breach of contract or non-payments are indications that point to the loss of value of trade receivables and loans. The amount of impairment is defined as the difference between the book value and the present value of estimated future cash flows discounted by the original effective interest rate. The book value of the asset shall be reduced by the use of the account and the amount of the write-down is a copy included in the financial result. In the case of trade receivables and loans, when they are bad, they are written down to the recoverable amount.

The subsequent recovery of the amounts originally written off are recognised in the results for the year.

2.5 Cash and equivalents

Cash equivalents include cash on hand, bank deposits payable on demand, other short-term investments with a high degree of liquidity and with an original maturity of up to three months or less.

2.6 Share capital

Share capital is the nominal value of the issued shares.

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

2.7 Trade liabilities

Trade payables are recognized initially at fair value and, after initial recognition, they are measured at amortized cost using the effective interest method.

In the case when the difference between the value of accumulated amortized cost and the value of the amount due does not have a significant impact on the financial results of the Company, such liability is recognized in the balance sheet at cost.

2.8 Credits and loans

Loans and advances are recognised initially at fair value less transaction costs incurred. Mortgages and loans are then shown at amortised cost.

Loans and advances are classified as current liabilities, provided that the company does not have the unconditional right to postpone payments for at least 12 months after the balance sheet date.

(All amounts in PLN thousands unless otherwise stated)

Notes to the financial statements

2.9 Deferred income tax

Deferred tax recognized in full using the balance sheet liability method, due to temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements and tax losses. However, if the deferred income tax was raised from the initial recognition of an asset or liability in a transaction other than a business combination and that affects neither the profit nor the taxable income (tax loss), do not recognize it. Deferred income tax is determined using enacted or substantively enacted at the balance sheet date rates (and laws), that are expected to apply when the related realization of deferred tax assets or settle such liabilities.

Deferred tax assets are recognised only when it is probable that taxable income will be achieved in the future, which will allow the use of temporary differences or tax losses.

Deferred tax assets and deferred tax liabilities are subject to set off.

2.10 Employee benefits

a) Reserve Retirement
CPD Company pays contributions to the Polish pension system, according to current rates in proportion to the gross salary for the duration of employment. The National pension scheme is based on a pay-as-you-go, ie CPD Company is only required to pay fees at the time of the due date calculated in relation to the remuneration rate, and when the Company ceases to employ members of the state pension scheme, it is not required to payment of any additional benefits. National pension scheme is a defined contribution system. The cost of premiums is recognized in profit or loss in the same period in which the expense is recognized for its related remuneration.

In accordance with rules a retirement reserve has not been created. Potential reserves would not have significant impact on the financial statements. In the event of it being necessary this will be done on a cash basis.

b) Share-based remuneration
The company runs a program where staff may be issued subscription warrants entitling them to purchase shares at a preferential price. The program is certified as an equity-settled. The fair value of employee services received in exchange for the grant of warrants is recognized as an expense and amortized over the vesting period. At the same time, the Company recognizes a corresponding increase in reserves.
Unit at each balance sheet revises its estimates of the number of warrants that are expected to be issued. Impact of the revision of original estimates, if it exists, is recognized in profit or loss with a corresponding adjustment to equity.

2.11 Provisions

Provisions are recognized when the Company has a legal or constructive obligation as a result of a past event and it is probable that an outflow of resources will be required to comply with this obligation, and its size can be estimated reliably

If there are a number of similar obligations, the likelihood of an outflow of resources in order to meet with them shall be determined in respect of the category of obligations as a whole. A provision is recognised even if there is a low probability of an outflow of resources in relation to a position the category. The amount of the reserves shall be shown in the current value of inputs, which is expected to be required to settle the obligation.

2.12 Revenue recognition

Sales revenue is reported in the fair value of the consideration received or receivable from the sale of services in the ordinary course of business. Revenues are presented net of tax on goods and services. Proceeds from the sale are recognised in the period in which they were made.

2.13 Other income

Interest income in arrears are recognised using the effective interest rate if they get is not questionable. Dividend income is recognised when the right to receive payment is established.

2.14 Costs

Operating costs fully charged to the profit or loss of the company with the exception of those which relate to subsequent reporting periods and in accordance with the principle of preservation of the adequacy of the revenues and expenses, related to accrued expenses.

(All amounts in PLN thousands unless otherwise stated)

Notes to the financial statements

2.15 Interest costs

The cost of funding from interest income is recognised in the item "financing costs" in the financial result, based on the effective interest method.

2.16 Foreign currencies

The financial statements are presented in Polish zloty (PLN), which is the functional currency and presentation currency of the CPD Group.
At the balance sheet date, assets and liabilities which are subject to valuation shall be converted into PLN at the exchange rate for the currency set medium on this day by the Polish National Bank.

Exchange differences arising from foreign currency transactions and the monetary valuation of assets and liabilities at the balance sheet date are presented as income persaldo or financial costs. Transactions in foreign currencies are translated into PLN using the exchange rates prevailing on the dates of the transactions.

3 Financial risk management

3.1 Financial risk factors

The activities carried out by the company exposes CPD to many different types of financial risks: market risk (including: the risk of changes in exchange rates or cash flows as a result of changes in interest rates), credit risk and liquidity risk. Financial risks are associated with the following financial instruments: loans received and granted trade duties, the remaining claims, cash equivalents, Payables trade and other payables. The accounting policy relating to the above financial instruments is described in note 2. The General Programme Of CPD for risk management focuses on the unpredictability of financial markets, in an effort to minimize potential adverse effects on the financial results of the CPD Company.

(a) market risk

(i) the risk of exchange rate changes

The company is exposed to the risk of fluctuation due to changes in balances in currencies other than the currency of the parties involved. This risk applies to loans and debts and receivables that are denominated in euro. Exchange rate changes risk arises when future transactions relating to financing of the received/transferred or included assets and liabilities are denominated in a currency other than the functional currency of the entity.

As of 31.12.2012, the Company did not have any debts or liabilities balances denominated in foreign currencies and as a result was not significantly exposed to currency exchange risk.

	December 31, 2012	2011
Loans in EUR	764	5,355
Assumed change in PLN/EUR exchange rate	+/-1%	+/-1%
The result of changes in interest income	8	54
Tax shield	1	10
Effect on net profit/(loss)	7	43

	December 31, 2012	2011
Receivables in EUR	201	93
Assumed change in PLN/EUR exchange rate	+/-1%	+/-1%
The result of changes in interest income	2	1
Tax shield	0	0
Effect on net profit/(loss)	2	1

	December 31, 2012	December 31, 2011
Liabilities in EUR	126	1,603
Assumed change in PLN/EUR exchange rate	+/-1%	+/-1%
The result of changes in interest income	1	16
Tax shield	0	3
Effect on net profit/(loss)	1	13

(All amounts in PLN thousands unless otherwise stated)

Notes to the financial statements

The CPD Board of Directors on a regular basis monitors currency fluctuations and acts according to the situation. Hedging activities are be subject to regular assessment in order to adapt to the current situation, interest rates and a specific willingness of risk. Currently, the company is not involved in any hedging transactions, however this can be changed if, on the basis of the judgment of the Board, this will be required.

(b) risk of changes in cash flows due to changes in interest rates

Interest rate risk is the risk to which it is exposed, resulting from changes in market interest rates. In the case of the risk of changes in interest rates associated with loans and those loans (Note 4 and note 11). Loans and variable-yield obtained at the risk of fluctuations in the Company compromise future cash flows. The company does not protect against changes in interest rates. The Board constantly monitors fluctuations in interest rates.

Trade and other receivables and payables are interest-free with a maturity of up to 1 year

	December 31, 2012	**December 31, 2011**
Loans bear interest at variable interest rates	464,811	480,509
Assumed interest rate change	+/-1pp	+/-1pp
The result of changes in interest income	4,648	4,805
Tax shield	883	913
Effect on net profit/(loss)	+/-3764	+/-3892

	December 31, 2012	**December 31, 2011**
Borrowings bear interest at floating rates	9 011	12 502
Assumed interest rate change	+/-1pp	+/-1pp
The result of changes in interest income	90	125
Tax shield	17	24
Effect on net profit/(loss)	+/-72	+/-101

(c) credit risk

Credit risk arises in the case of cash, bank deposits and for loans, trade receivables and other receivables - which includes outstanding receivables.

Cash and cash equivalents are deposited with a bank that has a high credit rating (HSBC). With respect to receivables from loans, they are all granted to related parties. Related credit risk of loans is continuously analyzed by the Board with respect to current operations and ann evaluation of investment projects of these companies., the Company analyzes the collectability of loans granted to related parties on the basis of the net asset value of the borrowers. It is assesses that the loans shown on the balance sheet are fully recoverable.

With respect to trade receivables and other receivables in the Company applies procedures to assess the creditworthiness of the Company's customers.

(d) liquidity risk

Liquidity risk is the risk that arises when assets and liabilities payment periods do not overlap. This condition raises the potential profitability, but also increases the risk of loss. The company shall apply to the procedure, the company minimizes such losses by keeping an adequate level of cash and monitoring and forecasting cash requirements. The company has sufficient amount of current assets to satisfy any expected obligations. Liquidity of the company is monitored by the Management Board continually.

The nominal value of the company's liabilities, together with interest:

	December 31, 2012	**December 31, 2011**
Loans with interest to maturity *	9,011	12,502
Trade liabilities and other liabilities	3,711	5,415
	12,722	17,917

**The loans are payable on demand to the nominal value of interest calculated from the balance sheet date to maturity is equal to 0.*

(All amounts in PLN thousands unless otherwise stated)

Notes to the financial statements

3.2 Capital management

The company's objective in managing capital is to safeguard the CPD Company's ability to continue in business, to provide a return for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce costs.

In order to maintain or adjust the capital structure, the company may change the amount of dividends declared CPD to be paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

The financing structure factor reflecting the structure of the capital is calculated as net debt divided by total capital. Net debt is calculated as borrowings (including current and non-current borrowings as shown in the balance sheet), and other less cash and equivalents. Total capital is calculated as equity capital shown in the balance sheet with net debt.

Given the current global market situation of the Company's strategy is to maintain a low coefficient of financial structure so that the target does not exceed 20%

	December 31, 2012	**December 31, 2011**
Loans received	9,011	12,502
Trade liabilities and other	3,711	5,415
Less cash and equivalents	-17,874	-1,025
Net borrowing	**-5,152**	**16,892**
Equity capital	372,951	544,161
Total	**367,799**	**561,053**
The financing structure factor	**-1%**	**3%**

According to the plans of the Board structure of funding should not be subject to a radical change, which would lead to cross the threshold of 20% over the next few years. Developments on the capital markets and the real estate market of the Company's strategy is to increase the coefficient of financial structure so that eventually reached 20%.

3.3 Significant estimates

(a) Fair value of net assets at which they have been included in the books of CPD at the time of the acquisition on 23.08.2010.

In connection with the settlement of August 23, 2010, the acquisition of Celtic Property Developments Plc in the books of the parent CPD SA, the Board has estimated the fair value of net assets acquired (for the settlement of the transaction in the books of CPD SA assets acquired are not a business as defined in IFRS 3, according to the disposition of this standard transaction was treated as an acquisition of a set of assets and liabilities in exchange for a payment in the form of shares). As a result, the acquired assets and liabilities are measured at their fair values at the moment of connection and the values recorded in the books of the acquiring company). The most important items of acquired net assets were shares in subsidiaries and receivables from loans..
The fair value has been set at the estimated amount to be paid at the acquisition date, using current market interest rates for similar financial instruments.
In the case of shares in Celtic Investments Ltd valuation is based on the discounted cash flow method. Adopted value of future cash flows were based on the actual current and expected future service contracts and reasonable estimate of future costs. The valuation uses a discount rate of 7.96%.

In the event of the shares in subsidiaries Buffy Holdings 1 Ltd, Lakia Enterprises Ltd and East Europe Property Financing AB, their fair value was established on the basis of the adjusted net assets method, which is an approximation of the expected future cash flows available to shareholders in respect of shares held. The value of these cash flow has been estimated, among others. based on the fair value of real estate owned by their subsidiaries and about the value of discounted future operating costs related to the operation of companies.

In the case of shares in subsidiaries Buffy Holdings No 1 Ltd, Lakia Enterprises Ltd and East Europe Property Financing AB, their fair value was based on the adjusted net asset method, representing an approximation of the expected future cash flows available for shareholders in respect of shares held. The value of those cash flows were estimated including based on the fair value of property owned by their subsidiaries, and the value of the discounted future operating costs associated with the operation of companies.

(b) Balance sheet valuation of shares in subsidiaries and loans to subsidiaries

The company recognized impairment at the balance sheet date, shares in subsidiaries in relation to the values set at the moment of taking over and made a copy of the value impairment loss loans. The total amount of impairment of shares in subsidiary units made in the year of the balance sheet date amounted to PLN 67.061 thousand while the title loans PLN 127.911.

Notes to the financial statements

At the balance sheet date, the company has carried out an analysis of the loss of the value of shares in subsidiaries, by comparing the book value of the shares to their recoverable amount. Recoverable amount is the higher of the two amounts: the fair value of the asset, less the cost of sales, or value in use. In the evaluation of the company there are no grounds to consider that value in significantly deviated from the fair values at the balance sheet date except as stated below. As a result, the analysis of the loss of value was based on fair value.

(i) The decrease in the fair value of the shares in Celtic Investments Ltd. resulted from a decline in the value of the estimated future cash flows generated by the Celtic Investments Ltd. and its subsidiaries.
In recent years, the cash flow calculation was based on the assumption that a significant amount of the preferred dividend and other cash flows resulting from the contract portfolio management. In 2011, the Group received a dividend in the amount of PLN 4.4 million for this and earned the right to be paid a further 2 million dividend, the Group to be paid in 2012. At the same time the previous contract which was estimated cash flows from dividends, expired in February 2012 in its place, a new agreement was signed on the management of the investment portfolio until the end of August 2013. During 2012, the Group did not generate Celtic additional revenue in relation to the agreement and according to estimates, the Board does not have the expected future cash flows from the title. On 31 December 2012, the Management Board on the basis of expected future cash flows generated by the Celtic Invenstments Ltd. and its subsidiaries estimated recoverable value of the shares to zero and decided to provide for the full value of the shares. As a result, the net value of the shares in Celtic Investments Ltd on December 31, 2012 was 0.

(ii) In the case of a subsidiary Buffy Holdings No 1 Ltd and Lakia Enterprises Ltd., a decrease in the fair value determined based on the method of adjusted net assets resulted primarily from a decrease in the valuation of properties owned by subsidiaries of Buffy No1 Holdings Ltd. and Lakia Enterprises Ltd and the sale of individual properties during 2012, in 2012 the total reduction created on revaluation of investment property to fair value amounted to PLN 55 million. The appropriate method of estimating the fair value of investment property is determined by the independent external valuer. The key assumptions used by the experts are mainly based on market conditions existing at the balance sheet as well as the existing lease agreements.

Real estate, in which there are significant rental income (Aquarius, Cybernetyki 7B, Cybernetyki 9) been valued using the discounted cash flow. Land not intended for building (Wolborz, Jana Kazimierza, Ursus) were measured by the comparative method. Property located in an area of Ursus were also valued by the comparative method, taking into account the current situation of planning (not the plan, the current study, the existing environment). In comparison with the previous year changed assumptions used in the valuation of Ursus. In previous years, the valuation has been prepared taking into account the changing nature of the local plan the location and introducing significant changes in land use and existing infrastructure. Due to the lengthy work on the local plan and the decisions of the Administrative Court last year, which resulted in the need to change a study of conditions and directions of spatial Warsaw, the likelihood of adoption of the plan in the resulting form decreased significantly. Therefore, the current valuation as at 31 December 2012, reflecting the diversity of the various properties and their management capabilities expected in the absence of planning arrangements under the local plan.

Also in the case of a unit subsidiary Lakia Enterprises Ltd. decrease in fair value is mainly due to the decrease in the valuation of real estate owned by the subsidiaries. real estate located in Ursus and Jan Kazimierz Street real estate and Łopuszańska.

Impairment of loans was recognized for loans receivable from subsidiaries of the company. In the evaluation of Companies in view of the negative value of the net assets of these subsidiaries, there is a real risk that these companies will not be able to repay all borrowings. The details are described in Notes 4 and 11.

(All amounts are expressed in thousands)

Notes to the financial statements

4 Notes to the financial statements	**December 31, 2012**	**December 31, 2011**
Long-term loans to related parties (Note 24), including:		
-loan	420 488	484 255
-interest	67 462	50 587
Impairment	(153 141)	(55 026)
	334,809	**479,816**

Details of the loans granted to related parties 31.12.2012

Related party	Currency of the loan	Principal amount in PLN	Accrued interest in PLN	The Interest Rate	Margin	Maturity
1/95 Gaston Investments	PLN	1 193	209	3M WIBOR	1.55%	on demand
2/124 Gaston Investments	PLN	1 238	144	3M WIBOR	1.55%	on demand
3/93 Gaston Investments	PLN	688	115	3M WIBOR	1.55%	on demand
4/113 Gaston Investments	PLN	3 851	389	3M WIBOR	1.55%	on demand
Impairment		(1 266)				
5/92 Gaston Investments	PLN	723	128	3M WIBOR	1.55%	on demand
6/150 Gaston Investments	PLN	932	139	3M WIBOR	1.55%	on demand
7/120 Gaston Investments	PLN	731	85	3M WIBOR	1.55%	on demand
8/126 Gaston Investments	PLN	1 566	196	3M WIBOR	1.55%	on demand
9/151 Gaston Investments	PLN	434	57	3M WIBOR	1.55%	on demand
10/165 Gaston Investments	PLN	560	48	3M WIBOR	1.55%	on demand
11/162 Gaston Investments	PLN	458	49	3M WIBOR	1.55%	on demand
12/132 Gaston Investments	PLN	1 473	159	3M WIBOR	1.55%	on demand
13/155 Gaston Investments	PLN	1 253	128	3M WIBOR	1.55%	on demand
14/119 Gaston Investments	PLN	1 162	156	3M WIBOR	1.55%	on demand
15/167 Gaston Investments	PLN	433	40	3M WIBOR	1.55%	on demand
16/88 Gaston Investments	PLN	250	36	3M WIBOR	1.55%	on demand
18 Gaston Investments	PLN	1 009	84	3M WIBOR	1.55%	on demand
19/97 Gaston Investments	PLN	264	31	3M WIBOR	1.55%	on demand
20/140 Gaston Investments	PLN	325	37	3M WIBOR	1.55%	on demand
Antigo Investments	PLN	4 884	58	3M WIBOR	1.55%	on demand
Impairment		(490)				
Blaise Gaston Investments	PLN	1 844	301	3M WIBOR	1.55%	on demand
Blaise Investments	PLN	24 864	4 238	3M WIBOR	1.55%	on demand
Belise Investments	PLN	28 506	4 667	3M WIBOR	1.55%	on demand
Buffy Holdings No 1 Ltd	PLN	137 764	18 755	3M WIBOR	0.75%	on demand
Impairment	PLN	(139 892)				
Celtic Asset Management	PLN	1 383	238	3M WIBOR	1.55%	on demand
Impairment		(1 380)				
Celtic Investments Ltd	EUR	736	4	3M LIBOR	0.75%	on demand
Challange 18	PLN	165,941	31,150	3M WIBOR	1.55%	on demand
EEPF	PLN	6,367	1,131			
Impairment		(7 498)		3M WIBOR	0.75%	on demand
Elara Investments	PLN	3,128	562	3M WIBOR	1.55%	on demand
Impairment		(2 615)				on demand
Gaston Investments	PLN	2,565	461	3M WIBOR	1.55%	on demand
HUB Developments	PLN	1,846	319	3M WIBOR		
Lakia Enterprises Limited	PLN	22,116	3,349	3M WIBOR	1.55%	on demand
		267,347	**67,462**			

(All amounts are expressed in thousands)

Notes to the financial statements

Details of the loans granted to related parties 31.12.2011

Buffy Holdings No1 Ltd	PLN	116,041	10,825	3M WIBOR	0.75%	on demand
EEPF	PLN	309,111	39,200	3M WIBOR	1.55%	on demand
Celtic Investments Ltd	EUR	4,076	561	3M LIBOR	0.75%	on demand

On May 1, 2012 in accordance with the contract of acquisition debt the company took over all loans granted by the company East Europe Property Financing AB other related parties. Amount of the acquired loans totalled 389.875 PLN plus interest in the amount of PLN 46.650. The proportion of debt in accordance with what was settled to the principal and interest in individual Companies was the ratio of the amount of interest to the loan amount (46.650/389.875) and amounted to 11,97%.

In accordance with the intention of the Board of the loans will be repaid over a period of from 3 to 5 years. the maximum value of the credit risk associated with the loans and trading duties is equal to their carrying amount. Loans are not secured.

Status of the impairment of loans at 31.12.2011	**55,026**
Impairment for 2012	127 911
Status of the impairment of loans at 31.12.2012	**182,937**

Rationale to justify the permanent impairment charges on loans are described in note 3.3.

5 Shares in subsidiaries

Name	**Country**	**Share**	**December 31, 2012**	**December 31, 2011**
Lakia Enterprises Ltd	Cypr	100%	105,000	105,000
Impairment			-95,174	-51,080
Celtic Investments Ltd	Cypr	100%	48,000	48,000
Impairment			-48,000	-25,033
Buffy Holdings No1 Ltd	Cypr	100%	184,000	184,000
Impairment			-184,000	-184,000
East Europe Property Financing AB	Szwecja	100%	601	601
Impairment			-601	-601
			9,826	**76,887**

Status of the impairment of loans at 31.12.2011	**260,713**
Impairment for 2012	67 061
Status of the impairment of loans at 31.12.2012	**327,774**

Rationale to justify the permanent impairment charges on loans are described in note 3.3.

6 Trade receivables and other receivables

	December 31, 2012	**December 31, 2011**
Trade receivables from related parties	575	345
Short-term loans with related parties	22 473	705
- loans	44 323	698
- interest	7 946	7
- impairment	(29 796)	0
Public-legal duties	1	183
Other receivables from related parties	16	641
Other receivables from other parties	60	1 983
Accrued costs	14	487
	23 139	**4 344**

The significant increase in loans receivable is the result of a reclassification of long-term loans in the short term. In accordance with the intentions of Board Members these loans will be repaid within 12 months of the balance sheet date. This is consistent with the Board's strategy and plans sales of assets/shares in these parties.

(All amounts are expressed in thousands)

Notes to the financial statements

Details of the loans granted to related parties

Related party		**Principal amount**	**Accrued interest**	**The Interest Rate**	**Margin**	**Maturity**
Gaetan Investments	PLN	12 601	2 259	3M WIBOR	1.55%	na żądanie
Impairment of loan		*(11 279)*				
Mandy Investments	PLN	27 696	4 941	3M WIBOR	1.55%	na żądanie
Impairment of loan		*(18 477)*				
Robin Investments	PLN	4 027	746	3M WIBOR	1.55%	na żądanie
Impairment of loan		(41)				

7 Cash and equivalents

	December 31, 2012	**December 31, 2011**
Cash in the accounts (HSBC Bank)	17 874	1 025
	17 874	**1 025**

Cash equivalents for the purpose of reports shall include cash in bank accounts in HSBC Bank.

The maximum value of the credit risk associated with cash equal to their carrying amount.

8 Share capital

	The number of shares		**Value of the shares**	
	31/12/2012	**31/12/2011**	**31/12/2012**	**31/12/2011**
Ordinary shares (in thousands)	34 307	34 068	3 431	3 407

As at 31 December 2012 Company's shareholders were*:

Company	Country	No. of shares	% owned capital	% posiadanych praw głosu
Cooperatieve Laxey Worldwide W.A.,	Netherlands	10,082,930	29.4%	29.39%
Horseguard Trading Ltd	Cyprus	5,501,681	16.0%	16.04%
The Value Catalyst Fund plc	Cayman Islands	4,490,475	13.1%	13.09%
QVT Fund LP	Cayman Islands	3,843,635	11.2%	11.20%
LP Value Ltd	British Virgin Islands	2,198,450	6.4%	6.41%
LP Alternative Fund LP	USA	2,196,668	6.4%	6.40%
Holders of less than 5% of the company's shares		5,993,649	17.5%	17.47%
Total issued shares		34,307,488	100%	100%

* The above shareholder's structure is based on own data of CPD.

Share capital on December 31, 2012, includes 34 307 thousand. of shares with a nominal value of PLN $ 0.10 each, including:

-34.068.252 bearer ordinary shares of series B,

-163.214 bearer ordinary shares of series C,

-76.022 bearer ordinary shares of series D.

On 12 July, 2012 A series subscription warrants were offered to entitled persons, according to the resolution No. 22 of the Annual General Meeting of Celtic Property Developments S.A. held on 24 May 2012. The entitled persons took-up all offered subscription warrants. Afterwards the entitled persons have exercised rights from subscription warrants and took-up 163.214 C series bearer shares of the Company of the nominal value 10 gr (ten groszy) each. The entitled persons were the persons who were performing a function in the Management Board of the Company's Management Board on 12 July 2012 and owned A series subscription warrants, entitling to take-up in total up to 163.214 C series shares. Following the take-up of C series shares, the subscription warrants have lost their validity.

(All amounts are expressed in thousands)

Notes to the financial statements

The C series shares issue was done on the basis of the resolution No. 23 of the Annual General Meeting of CELTIC PROPERTY DEVELOPMENTS S.A. held on 24 May 2012, on: conditional shares capital increase with exclusion of the pre-emption right with respect to C series shares, amendments to Company's statute, deprivation of current shareholders of the pre-emption right with respect to C series shares, dematerialization of the C series shares and application to admit and introduce the C series shares to the regulated market, communicated by the Company by the current report No.12/2012. The conditional share capital increase by the amount not higher than 16.321,40 PLN was registered by the District Court for the Capital City of Warsaw, XIII Commercial Division of the National Court Register on 19 June 2012.

On 31 July 2012 the Company's share capital was increased as a result of the registration of C series shares on the securities accounts of entitled persons, by the amount of PLN 16.321,40, to total amount of PLN 3.423.146,60. The above mentioned capital increase has been registered by the District Court for the Capital City of Warsaw, XII Commercial Division of the National Court Register on 12 November 2012.

On 15 October 2012 the Board of Directors of CPD S.A. adopted a resolution on capital increase under the authorised capital from PLN 3.423.146,60 to PLN 3.430.748,80, by the amount of PLN 7.602,20, by way of issuing of 76 022 bearer shares of series D at their nominal value of PLN 0,10. The share capital increase by way of D series shares issuance requires the consent of the Supervisory Board with a completele disapplication of the preemption rights of current shareholders.

The share capital increase by the amount of PLN 7.602,20 was registred by the National Court on 8 January 2013.

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

On August 10, 2012, the Extraordinary General Meeting of the Company passed a resolution to purchase the Company's shares for redemption. The general meeting of the company authorized the Executive Board to acquire from the shareholders of the company not later than 31 December 2013, a total of not more than 11.541.891 shares, with a nominal value of PLN 0.10 each and the total nominal value no higher than PLN 1.154.189,10. Shares may be purchased on the regulated market (during the trading session and transactions outside the session), and outside the regulated market. The shares will be acquired by the Company in accordance with Article. 362 § 1 point 5 of Code of Commercial Companies for redemption, at a price not lower than the nominal value of the shares and not more than PLN 15.89 per share. In addition, the General Meeting authorized the Board to determine the detailed conditions for the acquisition of the Shares not covered in the resolution, and to make any factual and legal efforts to implement the resolution, including a contract with an investment company. In order to redeem shares, the acquisition of all or part of the shares of the Company Board shall convene a General Meeting of the Company with an agenda including at least take a resolution on cancellation of shares and reduction of share capital and amendment to the Articles of the Company.

9 Reserve capital

	December 31, 2012	December 31, 2011
Profit for the year 2010	21 922	21 922
Board remuneration in warrants	3 527	1 156
Conversion of liability to Board of Advisors-to-equity	2 038	0
The costs incurred in connection with the issuance of new shares	(9)	0
Cover the losses for the year 2011	(23 078)	0
	4 399	**23 078**

Remuneration of the Board in the warrantach is described in note 14.

(All amounts are expressed in thousands)

Notes to the financial statements

10 Trade payables and other Payables

	December 31, 2012	December 31, 2011
Accrued expenses, including:	3 384	3 339
- reserve for tax for previous years	1 829	1 829
- reserve for shares	1 415	0
- reserve for auditing	100	200
- other provisions	40	1 310
Trade payables	154	21
Holiday provision	123	99
Public-legal duties	47	366
Other payables	3	1 590
	3 711	**5 415**

Trade liabilities are non-interest-bearing, and their payment dates fall during the year.

Decrease in other liabilities in the year 2012 due to the reverse of the provision pay for Board of advisors. In accordance with the resolution of the Board dated 15 October 2012 commitment to Board of Advisors has been converted to equity (note 8).

The estimated fair value of trade payables and other liabilities are discounted amount of expected future outflows that CPD SA pay and approximately corresponds to their book value.

11 Borrowings, including financial leases

	December 31, 2012	December 31, 2011
Loans from related parties	9 011	12 502
	9 011	**12 502**

Liability for loans at 31 December 2012 as a whole relate to a loan from a subsidiary of Lakia Enterprises (including the principal amount of PLN 7.853, the amount of accrued interest 1,158). Interest on the loan is Wibor 3M + 0.50% margin. The loan is payable at the request of the lender.

The loan is not secured.

Loan exposure to interest rate risk and the contractual repricing dates at the balance sheet date are as follows:

	December 31, 2012	December 31, 2011
6 months or less	9 011	12 502
	9 011	**12 502**

12 Deferred income tax

Deferred tax liabilities

As at January 1, 2011	**1 689**
Accrued interest on loans	5 254
Exchange differences	57
As at December 31, 2011 - before compensation	**7 000**
Compensation of the deferred tax asset	(7 000)
As at December 31, 2011 - after compensation	**0**
Accrued interest on loans	5 323
As at December 31, 2012 - before compensation	**12 323**
Compensation of the deferred tax asset	(12 323)
As at December 31, 2012 - after compensation	**0**

(All amounts are expressed in thousands)

Notes to the financial statements

As at January 1, 2011	**211**
Impairment of loans - part of the activated	6 348
Reserves for costs	308
Accrued interest on borrowings	111
Exchange differences	22
As at December 31, 2011 - before compensation	**7 000**
Compensation of deferred tax provision	(7 000)
As at December 31, 2011 - after compensation	**0**
Impairment of loans - part of the activated	5 054
Accrued interest on borrowings	109
Exchange differences	160
As at December 31, 2012 - before compensation	**12 323**
Compensation of deferred tax provision	(12 323)
As at December 31, 2012 - after compensation	**0**

Unrecognised deferred tax assets

At the balance sheet date are not included the following deferred tax assets	**12 months ended December 31, 2012**	**12 months ended December 31, 2011**
Unrecognised asset impairment of shares in subsidiaries	62 278	49 536
Not activated due to an impairment loss on loans	23 356	1 732
Unrecognised asset in respect of tax losses	536	439
Unrecognised deferred tax asset	**86 170**	**51 707**
Tax losses for the years:	**2 822**	**2 691**
2012	167	0
2011	819	819
2010	1 528	1 528
2009	291	291
2008	18	35
2007	0	18

Expiration of tax losses	**2013**	**2014**	2015	2016	2017
	18	291	1 528	819	167

13 Revenue from sales

	12 months ended December 31, 2012	**12 months ended December 31, 2011**
Proceeds from sales:		
-domestic sales	627	1 378
-foreign sales	2 555	0
	3 182	**1 378**

(All amounts are expressed in thousands)

Notes to the financial statements

14 Administrative costs

	12 months ended December 31, 2012	12 months ended December 31, 2011
Consulting services and remuneration of the auditor	4 613	799
Remuneration, including:	3 857	3 885
- the cost of salaries	1 487	2 729
-the cost of salaries in warrants	2 370	1 156
Non deductible VAT	235	97
Other costs	719	415
	9 424	**5 196**

** Share-based programme*

On 22 December, 2011 the Supervisory Board has taken a resolution on determination of the remuneration of the members of the Board. At the request of the Board of Directors part of the due remuneration was to be paid to the Board Members in shares offered for subscription at the issue price reduced compared to market price. Supervisory Board passed its recommendation to the Shareholders Meeting to take the resolutions to increase share capital by the amount of 16.321,40 PLN by emissions of 163.214 bearer shares series C, having a par value of PLN 0.10 per share. At the same time, the Supervisory Board recommended 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).

The payment of remuneration might have been conducted only to those holders of the warrants who acted as Board Members at the time of the declaration of C series shares cquisition.

The total value of compensation in shares is PLN 2.775 thousand, of which the costs of the financial year 2012 was PLN 1.619 thousand and for 2011 PLN 1.156 thousand. The value was determined on the difference between the maximum and reduced the level of remuneration laid down by the management board the Supervisory Board. For the purpose of calculation of the amount of compensation the following parameteres were adopted: the average exchange rate of Polish National Bank as at 22 December 2011 of PLN 4,4438 and the par share value of PLN 17, with the closing quatations on the WSE in Warsaw from 20 December 2011.

To calculate the amount of remuneration for the period from August 2011 to July 2012, the Company adopted the average NBP exchange rate of December 22, 2011 amounting to PLN 4.4438 and the price of one share equal to 17 PLN, corresponding to the closing share Celtic Property Developments SA on the Stock Exchange in Warsaw on 20 December 2011.

On 4 October 2012 the Supervisory Board of the Company has passed a resolution on determination of remuneration of Board Members for the period from 1 August 2012 to 31 December 2012. At the request of the Board of Directors of part of the due remuneration was to be paid to the members of the Board of Directors in shares, offered for subscription at the issue price reduced compared to market price. Supervisory Board passed its recommendation to the Shareholders Meeting to take the resolutions to increase share capital by the amount of 8.877,60 PLN by emissions of 88.776 bearer shares of series E, having a par value of PLN 0.10 per share. At the same time, the Supervisory Board instructed and authorised the Management Board to include in the agenda of the forthcoming Extraordinary General Meeting of Shareholders resolutions to provide the Board of Directors of subscription warrants and share issues E. The payment of remuneration might have been conducted only to those holders of the warrants who acted as Board Members at the time of the declaration of E series shares acquisition.

The total value of compensation in shares of E serie is PLN 752 thousand. The value was determined on the difference between the maximum and reduced the level of remuneration laid down by the management board the Supervisory Board. For the purpose of calculation of the amount of compensation the following parameters were adopted: the average exchange rate of Polish National Bank as at 3 October 2012 of PLN 4,1202 and the par share value of PLN 8,47, with the closing quotations on the WSE in Warsaw from 3 October 2012.

(All amounts are expressed in thousands)

Notes to the financial statements

15 Other operating income

	12 months ended December 31, 2012	12 months ended December 31, 2011
Reversed provision - Supervisory Comittee	383	**0**
Write off of liabilities- Supervisory Committee	389	**0**
	772	**0**

16 Other operating costs

	12 months ended December 31, 2012	12 months ended December 31, 2011
Write off of receivables	2 564	625
	2 564	**625**

Written charges relate to receivables from the company Horseguard Limited (one of the shareholders of the CDP SA), that originated in 2010 as a result of the transfer of own shares on behalf of CPD to Horseguard Ltd. In 2012, the transaction was finally settled between the parties, as a result, part of the receivables in the amount of 2,564 thousand. zł, as to which the Company does not expect the impact of the cash was recognized in other operating expenses.

17 Dividend received from related parties

	12 months ended December 31, 2012	12 months ended December 31, 2011
Dividend received from related parties	0	3 134
	0	**3 134**

The balance at 31/12/2011 consists of a dividend received from Lakia Enterprises Ltd.

18 Interest income on loans

	12 months ended December 31, 2012	12 months ended December 31, 2011
Interest income from loans		
-Interest from related parties (Note 24)	29 505	27 737
	29 505	**27 737**

(All amounts are expressed in thousands)

Notes to the financial statements

19 Financial income and expenses

	12 months ended December 31, 2012	12 months ended December 31, 2011
Interest income:	243	11
-Interest on deposits	234	0
-Interest from unrelated units	9	11
Other financial income	836	75
Net exchange differences	0	528
Financial income	**1 079**	**614**
Interest costs:		
-Interest from unrelated parties	0	1
-Interest from related parties (Note 24)	590	582
Net exchange differences	2 048	0
Financial costs	**2 638**	**583**

20 Income tax

	12 months ended December 31, 2012	12 months ended December 31, 2011
Income tax for previous years	0	1 829
Deferred tax	0	(1 477)
	0	**352**

21 The effective tax rate

	12 months ended December 31, 2012	12 months ended December 31, 2011
Loss before taxes	**(175 633)**	**(276 445)**
Tax rate	19%	19%
Income tax rate 19%	**33 370**	**52 525**
Non-taxable interest income from loans granted		0
Write off of liabilities- Supervisory Committee	147	0
Conversion obligations shares to Supervisory Committee	23	0
Dividend received from a subsidiary	0	595
Impairment of investment	(12 857)	(49 421)
Impairment value of loans receivable	(19 249)	(1 732)
Not included the assets in respect of tax losses	(97)	(84)
Write off of receivables	(487)	0
Conversion of liability to Supervisory Committe	(269)	0
Permanent differences for which no deferred taxes were calculated	(581)	(405)
Income tax for previous years	0	(1 829)
	0	**(352)**

(All amounts are expressed in thousands)

Notes to the financial statements

22 Cash flow from operating activities

	12 months ended December 31, 2012	12 months ended December 31, 2011
Profit/loss before tax	(175 633)	(276 445)
Adjustments for:		
– exchange differences	(418)	(579)
- acquisition of fixed assets	(15)	(6)
– depreciation	8	0
– interest costs	590	582
– interest income	(29 505)	(27 608)
– impairment of shares	67 061	260 113
– impairment of loans	127 911	42 526
– unpaid remuneration in warrants	2 370	1 156
– write off of liabilities	(389)	0
– write off of receivables	2 561	0
– write off of loans	9	0
Changes in working capital		
- changes in receivables	3 015	(570)
- change in trade liabilities and other	(1 704)	1 072
	(4 139)	**241**

23 Commitments and guarantees secured by the assets of the Group

As at 31.12.2011 Celtic Group companies are party to a credit agreement entered into on 7 July 2009 with HSBC Bank. Parties to the agreement are HSBC Bank (HSBC Bank Plc and HSBC Bank Poland SA) and the subsidiaries of the Company CPD: Blaise Investments Ltd., Lakia Investments Ltd., Mandy Investments Ltd. and Robin Investments Sp z o.o. as borrowers.

The loan is secured by a registered pledge on the fixed and floating assets of subsidiaries located in Poland: Lakia Investments Sp. Ltd., Robin Investments Sp. Ltd., Mandy Investments Sp. of o.o. and Blaise Investments Sp. z oo, and the shares of a shareholder in Cyprus: Lakia Enterprises Ltd. Furthermore, in accordance with the provisions of the loan agreement Celtic Property Developments SA, Blaise Investments Ltd., Lakia Investments Ltd., Mandy Investments Ltd., Robin Investments sp z oo and Lakia Enterprises Ltd (Cyprus) is established as the guarantors of the loan. Each of the guarantors corresponds to the amount of the loan plus interest.

Deadline for full repayment of the loan, including interest and other costs in accordance with the contract fell on 27 March 2012. On 29 March 2012, an annex to the credit agreement with HSBC, under which the Group is obliged to repay the entire loan in the following tranches: the 94,000 EUR to March 27, 2013, June 27, 2013, September 27, 2013 and December 23, 2013, and 10,592,000 EUR to 27 March 2014.

As at 31 December 2012, the balance of the debt obligation received from HSBC is presented as non-current 43,302 thousand. PLN, while the short-term portion amounts to 1,555 thousand. PLN.

(All amounts are expressed in thousands)

Notes to the financial statements

The fair value of the property covered by the mortgage lien in favor of the loan collateral was demonstrated below:

	December 31, 2012
Aquarius	22 894
Ursus	45 830
Jana Kazimierza	15 100
Cybernetyki 7b	32 297
	116 121

On 12 August 2011 a loan agreement was signed between the 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 morgage has been established on perpetual usefruct 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%.odpowiednio) i podwyższone o marżę 3.3%-5.3%.

24 Related party transactions

Celtic Property Developments SA does not have a direct parent or parent senior. Coöperatieve Laxey Worldwide W.A. is a major investor.

The CPD also contains transactions with key management staff, subsidiaries and other affiliated, controlled by key staff of the Steering Group.

These financial statements contain the following balances resulting from transactions with related parties:

a)Transactions with key management personnel	**12 months ended December 31, 2012**	**12 months ended December 31, 2011**
Remuneration of members of the Supervisory Board	212	100
Remuneration of members of the Board of Directors	222	352
Receivables from the Board Members	16	16
Value of the warrants granted to the members of the Supervisory Board	2 370	1 156

(All amounts are expressed in thousands)

Notes to the financial statements

b) Transactions with subsidiaries

Revenues		
1/95 Gaston Investments	51	0
2/124 Gaston Investments	42	0
3/93 Gaston Investments	29	0
4/113 Gaston Investments	131	0
5/92 Gaston Investments	31	0
6/150 Gaston Investments	37	0
7/120 Gaston Investments	30	0
8/126 Gaston Investments	57	0
9/151 Gaston Investments	18	0
10/165 Gaston Investments	18	0
11/162 Gaston Investments	17	0
12/132 Gaston Investments	53	0
13/155 Gaston Investments	41	0
14/119 Gaston Investments	45	0
15/167 Gaston Investments	12	0
16/88 Gaston Investments	10	0
18 Gaston Investments	29	0
19/97 Gaston Investments	11	0
20/140 Gaston Investments	13	0
Antigo Investments	58	0
Blaise Gaston Investments	78	0
Blaise Investments	1 036	0
Belise Investments	2 065	0
Buffy Holdings No1 Ltd	7 930	7 088
Celtic Asset Management	546	0
Celtic Investments Ltd	4	107
Challange 18	7 348	0
Celtic Property Developments KFT	0	3
East Europe Property Financing AB	7 846	3 134
Elara Investments	137	0
Gaetan Investments	551	0
Gaston Investments	179	0
Hub Developments	79	0
Lakia Enterprises Ltd	964	0
Mandy investments	1 208	0
Robin Investments	186	0
Costs		
Celtic Asset Management	53	0
Celtic Investments Ltd	1 530	0
Lakia Enterprises Ltd	964	582
Liabilities		
Lakia Enterprises Ltd	9 011	12 502

(All amounts are expressed in thousands)

Notes to the financial statements

Receivables		
1/95 Gaston Investments	1 402	0
2/124 Gaston Investments	1 382	0
3/93 Gaston Investments	803	0
4/113 Gaston Investments	4 240	0
Provision for loan 4/113 Gaston Investments	(1 266)	0
5/92 Gaston Investments	851	0
6/150 Gaston Investments	1 071	0
7/120 Gaston Investments	816	0
8/126 Gaston Investments	1 762	0
9/151 Gaston Investments	491	0
10/165 Gaston Investments	608	0
11/162 Gaston Investments	507	0
12/132 Gaston Investments	1 632	0
13/155 Gaston Investments	1 381	0
14/119 Gaston Investments	1 319	0
15/167 Gaston Investments	473	0
16/88 Gaston Investments	286	0
18 Gaston Investments	1 093	0
19/97 Gaston Investments	294	0
20/140 Gaston Investments	362	0
Antigo investments	4 942	0
Provision for loan Antigo Investments	(490)	0
Blaise Gaston Investments	2 145	0
Blaise Investments	29 101	0
Belise Investments	33 379	0
Buffy Holdings No1 Ltd	156 520	126 866
Provision for loan Buffy Holdings No1 Ltd	(139 892)	0
Celtic Asset Management	1 907	0
Provision for loan Celtic Asset management	(1 380)	0
Celtic Investments Ltd	740	4 638
Challange 18	197 091	0
East Europe Property Financing AB	7 498	348 312
Provision for loan EEPF	(7 498)	0
Elara Investments	3 690	0
Provision for loan Elara Investments	(2 615)	0
Gaetan Investments	14 860	0
Provision for loan Gaetan Investments	(11 279)	0
Gaston Investments	3 109	0
Hub Developments	2 165	0
Lakia Enterprises Ltd	25 465	0
Mandy investments	32 637	0
Provision for loan Mandy Investments	(18 477)	0
Robin Investments	4 773	0
Provision for loan Robin Investments	(41)	0
c)Transactions with other related party		
Costs		
Kancelaria Radców Prawnych Oleś&Rodzynkiewicz sp. komandytowa	100	102
Kancelaria Radców Prawnych Oleś&Rodzynkiewicz sp. komandytowa	0	8
Receivables		
Braslink Ltd	0	625
Horseguard	0	2 561

Receivables from Horseguard and Braslink have been written down in 2012.

(All amounts are expressed in thousands)

Notes to the financial statements

25 Earnings (loss) per share

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.

In the period covered by this report and the comparable periods, there were no factors resulting in the dilution of earnings per share.

The following are data on the loss and shares used to calculate loss per share:

	12 months ended December 31, 2012	**12 months ended December 31, 2011**
Loss (gain) on financial year	(175 633)	(276 797)
Weighted average number of ordinary shares (in thousands)	34 091	34 068
Loss per share (in PLN)	**(5.15)**	**(8.12)**

Diluted earnings per share do not differ from basic earnings per share.

The weighted average number of ordinary shares for the year 2012 was established taking into account the changes in the number of shares (registration of the capital increase of 12 November 2012. of the 34 068 252 to 34 231 466).

For the purpose of calculating basic earnings per share for the comparative information has been applied, the number of shares issued as part of the connection.

26 Legal merger of enterprises

In 2010, as mentioned in the General information provided in connection with the acquisition of Celtic Property Developments Plc, Poen S.A. has new shares for existing shareholders of the company being acquired, and also took over the shares, which have been discontinued.

For the purposes of the settlement of the above transactions in the books of the assetsacquired as defined in IFRS 3. In accordance with this standard this transaction was treated as the acquisition t of assets and liabilities in exchange for the payment of its own shares. As a consequence of the acquired assets and liabilities have been valued at their fair value at the moment of acquisition and in such values included in the books of the acquiring company.

As a result of the acquisition of Celtic Property Developments Plc on Celtic acquirer books (CPD S.A.) diagnosed the following amounts:

Shares of subsidiaries	337 042
Loans	491 156
Other assets	5 552
Laibilities	(15 657)
Own shares falling as a result of the merger	500
Acquired net assets	**818 593**
Issued shares	(3 483)
The acquisition of own shares as a result of the merger	(500)
Recognized in surplus capital	**814 610**

27 Operating 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.

28 Employment in professional groups in the financial year

As at 31 December 2012 the company employed 5 employees.

(All amounts are expressed in thousands)

Notes to the financial statements

29 Loans and other benefits granted to members of the Management Board and the supervisory

Outside of the remuneration paid in shares, as described in Note 8 and 14, the Company has not granted loans and has not entered into any other transactions with members of the Management Board and Supervisory Board.

30 Remuneration paid or payable to the entity authorized to audit financial statements for the year

	December 31, 2012	December 31, 2011
Remuneration paid or payable to the entity authorized to audit financial statements for the year	170	467

31 Events after the balance sheet date

On January 8, 2013r. was registered share capital increase. The company's share capital was increased with the amount of PN 3.423.146, 60 to PLN 3.430.748.80 it means by the amount of PLN 7,602.20 through the issue within the limits of Company's authorized capital of 76,022 ordinary bearer D series shares with a nominal value of PLN 0.10 each share.

On 10 January 2012 Mr. Andrew Pegge has been appointed as the member of the Management Board.

On January 10, 2013, the Extraordinary General Meeting of Celtic Property Developments SA adopted Resolution No. 3 on the issue of Series B warrants with the right to acquire shares of the Company's Series E and deprivation existing shareholders pre-emptive rights of subscription warrants and Series B Resolution No. 4 on the conditional increase of the share capital of the Company excluding the subscription rights of series E, amendments to the Articles of the Company, depriving existing shareholders pre-emptive rights in relation to the shares of Series E, series E dematerialisation of shares and application for admission and introduction of C-series shares to trading on the regulated market.

Pursuant to Resolution No. 3 Company will issue no more than 88,776 subscription warrants of B-series (the "B Warrants"), with the right to subscribe for a total of not more than 88 776 ordinary bearer E series shares of the Company with a nominal value of 0.10 zł each and the total nominal value of not more than 8,877.60 zł.

The subscription warrants will be issued in a single process of issue and will be offered only to the following members of the Board of the Company:

- Mr. Aled Rhys Jones, the Board Member - 36.483 subscription warrants;
- Mrs. Elżbieta Wiczkowska, the Board Member - 15.810 subscription warrants;
- Mr. Andrew Morrison Shepherd, the Board Member - 36.483 subscription warrants;

provided that at the time of the declaration of acquisition of subscription warrants they served as on the Board of the Company. The subscription warrants will be offered to eligible persons referred to in the preceding sentence within 14 days from the date of delivery to the Company the provisions of the relevant court registry on the change of registration of the Articles of Association of the conditional capital increase.

Issue of subscription warrants and shares of Series E will be conducted outside of the public offering, referred to in art.3 paragraph 3 of the Act of 29 July 2005 on Public Offering, Conditions Governing the Introduction of Financial Instruments to Organised Trading, and Public Companies (Journal of Laws No. 184, item. 1539, as amended.) Due to the fact that the number of persons to whom proposed acquisition will be addressed subscription warrants shall not exceed 99 persons.

The subscription warrants are issued free of charge, and the issue price of one share of Series E male way of exercising the rights of the Warrant subscription was set at the equivalent of the nominal value, which is 0.10 zł (ten cents). Each subscription warrant will entitle to subscribe for one share of Series E, and the right to acquire shares of Series E will be made in the manner prescribed in Article. 451 CCC, ie by way of written statements submitted on the forms provided by the Company. Persons entitled with Warrants will be able to include shares from the acquisition of E series B subscription warrants until January 10, 2023 year - provided that at the time of declaration of the acquisition of shares of series E they will carry out the functions of the Board.

Pre-emptive right of subscription warrants of series B and series E shares by the existing shareholders of the Company have been entirely excluded. This exclusion is, in the opinion of Shareholders commercially reasonable and in the best interests of the Company, as well as shareholders.

On the basis of Resolution No. 4 the Company's share capital has been conditionally increased by no more than 8,877.60 zł. The conditional capital increase shall be effected through the issuance of not more than 88,776 shares of the Company ordinary bearer series E, the nominal value of 0.10 zł each and the total nominal value of not more than 8877.60 zł. The conditional capital increase carried out under this resolution is to allow the holders of Shares of Series B warrants to take the shares over.

At the date of these financial statements, the Company has not yet received the court's decision on the entry of registered conditional share capital increase of the Company.

(All amounts are expressed in thousands)

Notes to the financial statements

Andrew Morrison Shepherd
Chairman of the Board

Aled Rhys Jones
Board Member

Andrew Pegge
Board Member

Elżbieta Donata Wiczkowska
Board Member

CELTIC PROPERTY DEVELOPMENTS S.A.

ANNUAL REPORT

FOR THE YEAR ENDED 31 DECEMBER 2012

TRANSLATORS' EXPLANATORY NOTE

The following document is a free translation of the Annual Report of CELTIC PROPERTY DEVELOPMENTS S.A. published on March 21, 2013.

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 financial statements have 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.

CONTENTS

I. SUPERVISORY BOARD OF CELTIC PROPERTY DEVELOPMENTS S.A.

As at the day of the report publication, the Supervisory Board of Celtic Property Developments S.A. included the following persons:

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

Ms Marzena Bielecka was appointed to the Supervisory Board of the second term on 24 May, 2012. The term of office of Ms Marzena Bielecka expires on 24 May, 2015. Ms 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 second term on 24 May, 2012. The term of office of Mr. Wiesław Oleś expires on 24 May, 2015. 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 second term on 24 May, 2012. The term of office of Mr Colin Kingsnorth expires on 24 May, 2015. 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 MIROSŁAW 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 second term on 24 May, 2012. The term of office of Mr Mirosław Gronicki expires on 24 May, 2015. 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 second term on 24 May, 2012. The term of office of Mr Wiesław Rozłucki expires on 24 May, 2015. 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 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.

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, par. 2 of the Commercial Code), on May 24, 2012 the General Meeting, acting on the basis of article 385 § 1 of the Commercial Code and on the § 6.2.4 of the Company's Statute, appointed the Supervisory Board of the second term, in the composition mentioned above. The second term of the Supervisory Board expires on 24 May, 2015.

II. MANAGEMENT BOARD OF CELTIC PROPERTY DEVELOPMENTS S.A.

As at the day of the report publication, the Management Board of Celtic Property Developments S.A. included the following persons:

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

Mr Andrew Shepherd was appointed to the Management Board of second 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 second 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).

- **MR ANDREW PEGGE – MEMBER OF THE MANAGEMENT BOARD**

Mr Andrew Pegge was appointed to the Management Board of second term on 10 January, 2013. The term of office of Mr Andrew Pegge expires on 21 July 2015. Mr Andrew Pegge has higher education. He graduated from Sussex University (United Kingdom) and has completed postgraduate studies in marketing in the Chartered Institute of Marketing (United Kingdom) as well as the MBA (Finance) in City University Business School (United Kingdom). Mr Andrew Pegge holds also qualifications of Chartered Financial Analyst (CFA) of the Association for Investment Management Research (USA).

- **MS ELŻBIETA WICZKOWSKA – 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 Wiczkowska 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).

Compared to the end of 2011, the composition of the Management Board of the Celtic Property Developments S.A. has changed following the resignation of Mr Christopher Bruce from the position of the member of the Management Board with effect from July 13, 2012 and the appointment of Mr Andrew Pegge on the position of member of the Management Board on 10 January 2013.

III. INFORMATION ON THE PARTICIPATION OF MEN AND WOMEN ON THE MANAGEMENT BOARD AND SUPERVISORY BOARD

Celtic Property Developments S.A., according to the *Good Practices of the Companies Listed on the Warsaw Stock Exchange* (Chapter II.1.2a) presents below the information about the participation of women and men, respectively, in the Management Board and Supervisory Board of the Company during past two years:

Supervisory Board of Celtic Property Developments S.A.

As at:	Women	Men
31 December 2011	1	4
31 December 2012	1	4

Management Board of Celtic Property Developments S.A.

As at:	Women	Men
31 December 2011	1	3
31 December 2012	1	2

IV. CELTIC PROPERTY DEVELOPMENTS S.A. – MANAGEMENT BOARD'S ACTIVITY REPORT

1. CELTIC PROPERTY DEVELOPMENTS S.A. HISTORY AND PROFILE OF ACTIVITIES

The company was founded under the original name the Celtic Development Corporation S.A. based in Kraków and registered in the Register of Entrepreneurs of the National Court Register kept by the District Court in Krakow, Office XI of the National Court Register under the KRS number 0000277147 on the basis of the provisions issued by the District Court in Krakow, Office XI of the National Court Register on 23 March 2007. The Company's head office was changed pursuant to the resolution of the General Meeting of 27 April 2007, which was registered in the Register of Entrepreneurs of the National Court Register kept by the District Court in Krakow, Office XI of the National Court Register on 28 May 2007. The name of the Company was changed to POEN Spółka Akcyjna pursuant to the resolution of General Meeting of February 22, 2008, which was registered in the Register of Entrepreneurs of the National Court Register kept by the District Court in Warsaw.

On June 22, 2010 the Extraordinary General Meeting of Celtic Property Developments Plc (hereinafter referred to as the CPD Plc) has taken a resolution on cross-border merger of Celtic Property Developments Plc and Poen S.A. Following the registration on August 23, 2010, CPD Plc ceased to exist while Poen S.A. has become the parent company. As a result of the merger, previous shareholders of CPD Plc became at 100% shareholders in Poen S.A. Additionally, Poen S.A. acquired by means of the general succession its own shares from CPD Plc for the purpose of redemption. On September 2, 2010 the Extraordinary General Meeting has taken a resolution to amend the Company's statutes, consisting among others on the change of the company's name to Celtic Property Developments S.A., which was registered in the National Court Register on 10 September 2010.

From 23 December 2010 Celtic Property Developments S.A. shares are listed on the Warsaw Stock Exchange.

Today, Celtic Property Developments S.A. is the holding company controlling a group of 38 subsidiaries, focusing on the development projects in the office and residential segments. The main market of Celtic Group's activities is Warsaw. In the year 2012, due to a change in strategy and concentrating activities on the Polish market, the Group ended operations in Britain, Italy, Hungary and in the Republic of 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 provided also advisory services for the management of commercial premises belonging to external entities and institutions.

2. CELTIC PROPERTY DEVELOPMENTS S.A. AS THE PARENT COMPANY IN THE GROUP STRUCTURE

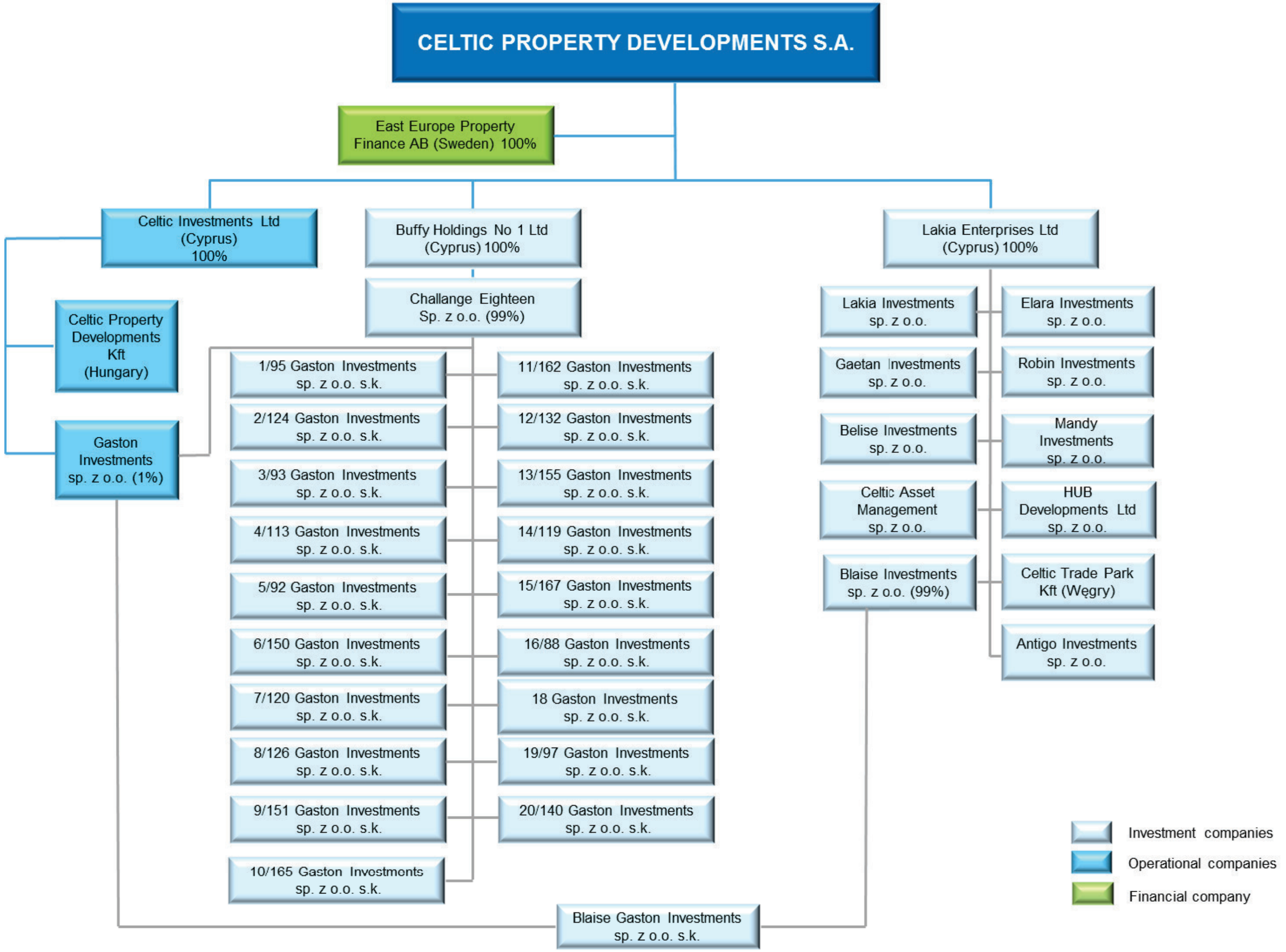
At report publication date, the Celtic Group (hereinafter the Group, Celtic Group) was composed of a dominant entity – Celtic Property Developments S.A. (hereinafter the Company) and 38 subsidiaries.

Celtic Property Developments S.A. directly controls 4 entities responsible for different segments of Celtic Group activities:

- **Celtic Investments Ltd (Cyprus)** – the company holds shares in operational companies;
- **Buffy Holdings No1 Ltd (Cyprus)** – the company holds shares in the investment companies involved in the Ursus project;
- **Lakia Enterprises Ltd (Cyprus)** – the company holds shares in investment companies involved in investment projects in Poland and Hungary;
- **East Europe Property Finance AB (Sweden)** – the company is responsible for financial operations of the Group.

Celtic Property Developments S.A. co-ordinates and supervises activities of subsidiaries, being in the same time strategic decisions taking center. Celtic Property Developments S.A. undertakes initiatives focusing on the Group's operational costs optimization and creates and co-ordinates Group's investment and marketing activities.

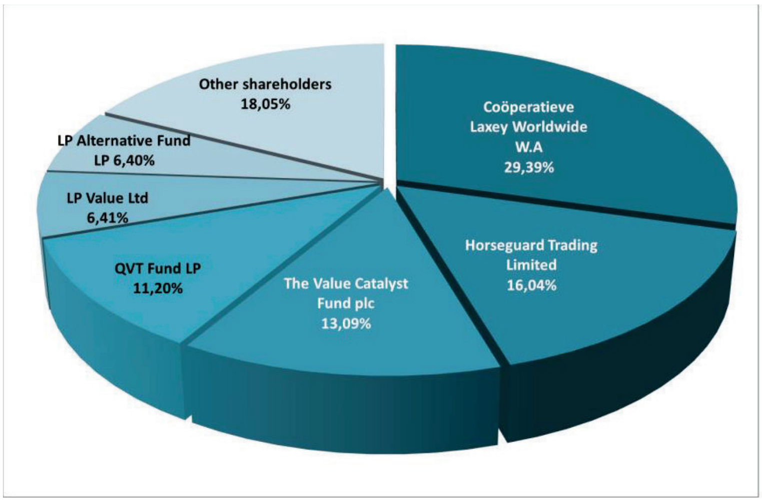
Celtic Group structure on the day of the report publication



3. SHAREHOLDERS

- **CONTROLLING SHARES**

CELTIC PROPERTY DEVELOPMENTS S.A. SHAREHOLDING STRUCTURE



According to 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:

Akcjonariusz	Liczba posiadanych akcji	Liczba posiadanych głosów	Akcjonariat według liczby głosów	Akcjonariat według liczby akcji
Coöperatieve Laxey Worldwide W.A	10 082 930	10 082 930	29,39%	29,39%
Horseguard Trading Limited	5 501 681	5 501 681	16,04%	16,04%
The Value Catalyst Fund plc	4 490 475	4 490 475	13,09%	13,09%
QVT Fund LP	3 843 635	3 843 635	11,20%	11,20%
LP Value Ltd	2 198 450	2 198 450	6,41%	6,41%
LP Alternative Fund LP	2 196 668	2 196 668	6,40%	6,40%

The above shareholding structure is presented in relation to the total number of shares amounting to 34.307.488 shares and including shares of series B, C and D, which represent 100% of votes at the General Meeting of the Company and registered by the District Court for City of Warsaw in Warsaw, XIII Commercial Division of the National Court Register as on 8 January, 2013.

- **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**

All hitherto issued B, C and D series 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 and Management Board by-laws. All these documents are available on the Company website: www.celtic.pl.

In 2012 the Company applied principles of corporate governance included in the document *Good Practices of the Companies Listed on the Warsaw Stock Exchange*, available on *http://www.corp- gov.gpw.pl/assets/library/polish/regulacje/dobre_praktyki_19_10_2011_final.pdf.* This text is an annex to the resolution of the Council of the Warsaw Stock Exchange No 20/1287/2011 of 19 October 2011.

The intention of the Company is the continuous compliance with all principles 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 General Meeting of Shareholders through the Internet and does not disclose the General Meeting on its website.

The Company does not also apply the rule IV.10 concerning the possibility to provide shareholders to participate in the general meeting by electronic means of communication.

Derogation to the above principles occurred due to the lack of technical capacity and lack of interest of Company's shareholders in such transmission. The Company will consider in the future transmission of General Meetings.

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, DISMISSAL, 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 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. 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. STRATEGY AND POLICY REGARDING FURTHER GROUP DEVELOPMENT

The strategy of Celtic Property Developments S.A. is realized within Celtic Group strategy. In the incoming years, the Group strategy will be oriented toward the achievement, in the shortest possible 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 realized 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. In the case of absence of the master plan approval, the Group intends to consider other options, including the implementation of smaller projects in collaboration with other developers, in order to start financial income stream in the shortest possible time.

An important element of the strategy implemented is also the effort to optimize operating costs. In this context, in the year 2012, foreign Group's entities, operating in Montenegro, UK and Italy were sold or dissolved, while the Hungarian company closing procedure is under way. Additionally, during the year 2012, aiming to optimize Company's expenses, the remuneration for the Management Board and the Supervisory Board were reduced and the remuneration in the form of subscription warrants for the Management Board's members was introduced, which gave the savings amounting to PLN 1.2 million. The results of the adopted strategy are reflected both in financial terms and in the Group's capital and organisational structure.

The change of approach to Ursus project and lack of the valid master plan as well as changes of plans regarding other properties owned by Celtic Property Developments S.A. subsidiaries decreased the value of these properties, and by consequence influenced on the value of shares of the Compan'ys in these subsidiairies, which has directly translated to the amount of the loss in 2012 amounting to PLN 175.6 mln PLN.

Regardless of the strategic assumptions adopted for the incoming years the Company does not exclude that in the future 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, executed in very demanding market conditions, determined by the overall economic slowdown, decrease in demand for real estate and more difficult access to the capital, defines the guidelines for each of the areas of Group's activity during next few years and aims to optimize our Shareholders investment return.

6. CELTIC GROUP ACTIVITIES AND IMPORTANT EVENTS IN THE REPORTING PERIOD

- **REVENUES STRUCTURE AND INFORMATION ON PRODUCTS**

The Company operates as a single operating segment. In the year 2012, the highest position in revenues was represented by the interest income from loans to other entities of the Group. These loans are described in the Section *16 LOANS, CREDITS AND GUARANTEES.* The revenue from sales in 2012 has reached an amount of PLN 3.2 million, of which 80% came from foreign sales for services provided to non-Celtic Group companies.

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

CHANGE OF SHARES VALUE IN SUBSIDIARIES

The increase in the value of shares in the subsidiary Belise Investments Ltd. Completion of construction and commitment to use of the office building IRIS located at street Cybernetyki 9 in Warsaw, conducted by the subsidiary Belise Investments Sp. z oo, was reflected in the increase in the property value by PLN 36.7 million compared to the balance at the end of 2011. Therefore, the value of shares of the subsidiary Belise Investments Ltd accordingly has increased in the Celtic Property Developments SA's books.At the date of this report IRIS building was rented at 46%, for the remaining areas we running the negotiating with potential tenants. The construction and the fitout of the building were financed from own funds and the investment-construction loan and the revolving VAT loan, granted by the Bank BZ WBK SA to the subsidiary Belise Investments Sp. of o.o, that is implementing the project IRIS.

Acquisition of shares in Antigo Investments Sp. z o.o.

In October 2012, the Group acquired 100% shares in Antigo Investments Sp. z oo, which owns real estate in Lodz (land and building) and plots in Czosnów, Nowa Piasecznica and Jaktorow. These real estates offer a high potential for the development, which will be possible to release as a result of the revitalization of properties or of change of plots category from the agricultural land to the construction land. The value of the acquired properties is 7.5 million PLN.

Sale of the real estate and the shares in the subsidiaries

In 2012, Celtic Group sold the shares of the certain subsidiaries of the Group Celtic in accordance with the Group's strategy, which is based on the concentration in the Polish market with particular emphasis on the project in Ursus and optimization of the operating costs of the Group.

In 2012, the following transactions were the sale of shares in subsidiaries:

- the sale of all shares of 17/110 Gaston Investments Sp. of o.o. LLP;
- the sale of all the shares in Devin Investments Sp. z oo, which owned the property located at Łopuszańska 22 in Warsaw;
- the sale of all shares in the company KMA Ltd.;
- the sale of all shares in the company Tenth Planet doo, based in Kotor, Montenegro

In addition, the structure has been simplified Celtic Group by:

- removal from the National Court Register of Darvest Investments Sp. of o.o. in liquidation, following the completion of its liquidation;
- solution CAM Estates Ltd, a company based in the UK, in conjunction with the completion of the project conducted by this company
- the start of the winding-up of Celtic Property Developments Kft based in Budapest in August 2012 in the District Court of Budapest (Fővárosi Törvényszék Cégbírósága) (the end of the process is expected by the end of March 2013);
- the transaction, which results in changes of the shareholders and of their shares in Celtic (Italy) Srl based in Milan, Italy. As a result of the transaction, Celtic Property Developments SA and its subsidiaries do not have a stake in Celtic (Italy) Srl

Write-offs for the reduction in the shares value

The impairment loss on investments in subsidiaries for the year 2012 amounted to PLN 194.9 million and included an impairment loss on the shares in the subsidiaries (Buffy Holdings No 1 Ltd, Lakia Enterprises Ltd and Celtic Investments Ltd) in the amount of 67.0 million PLN and the impairment loss on the loans in the amount of PLN 127.9 million. The impairment loss of the shares is mainly due to a reduction in the value of properties included in the portfolios of subsidiaries, mainly in relation to the project in Ursus (Buffy Holdings No 1 Ltd), resulting from the current market situation and the lack of adoption of the master plan for the area in Ursus. As on the day of the report publication, Warsaw City authorities still did not did not succeed to close works on the approval of the Plan for the post-industrial area of former ZPC Ursus factory in the area of Orłów Piastowskich street in Ursus. 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. According to the amended version of the Master Plan, Celtic Group will be able to realise investment plans regarding construction of 740 thousand sqm of floor surface. In the absence of an approved Master, Celtic Group intends to realize smaller projects in cooperation with other recognized developers in order to generate revenue stream in the shortest possible time.

With respect to receivables from loans granted to subsidiaries, the Company recognized a write-down in the amount of PLN 127.9 million, as the Company's opinion, due to the negative value of the net assets of these subsidiaries there is a real risk that these entities will not be able to repay in full contracted loans. Details of charges are set out in notes 3.3, 4 and 5 of the financial statements of the Company.

- **EXTRAORDINARY MEETING OF SHAREHOLDERS – RESOLUTION ON THE ACQUISITION OF THE COMPANY’S SHARES FOR THE PURPOSE OF REDEMPTION**

On 10 August 2012 the Extraordinary General Meeting has taken a resolution on the acquisition of the Company’s shares for redemption. The General Meeting authorised the Management Board of the Company to purchase from Company’s shareholders no later than by until the 31st of December 2013 up to 11,541,891 (in words: eleven million five hundred forty-one thousand eight hundred and ninety-one) of Company’s shares, with the nominal value of 0,10 zł (ten groszy) each and total nominal value up to PLN 1,154,189.10. The shares could be purchased on the regulated market: during a stock exchange session or outside session as well as outside of the regulated market. The Shares shall be purchased by the Company pursuant to Art. 362 § 1 point 5) of the Code of Commercial Companies for the purpose of redemption for the price no lower than its nominal value and no higher than PLN 15.89 zł (in words: fifteen złotych and eighty nine groszy) for one share. The General Meeting authorized the Company’s Management Board to establish detailed terms and conditions of share’s purchase in the scope which is not regulated by this resolution and authorised the Company’s Management Board to carry out all practical and legal actions aiming to the realization of the resolution including the conclusion of the agreement with an investment firm. In the purpose of redemption of shares, immediately after the finalization of their purchase procedure, the Company’s Management Board shall convene the General Meeting with an agenda including at least the adoption of resolutions on the redemption of the Company’s shares, on the decrease of the Company’s share capital and amendments to the Company’s statute.

The rationale of the Management Board's recommendation for the resolution of on the acquisition of the Company's shares for the purpose of redemption was the downturn on the Warsaw Stock Exchange, which is part of the global trends on the capital markets and results in a decrease of the market price of shares of Celtic Property Developments S.A. In the opinion of the Management Board market valuation diverges from the fundamentals of the Company's value growth in the long term. The acquisition of Company's shares is therefore optimal from the point of view of the interests of all Company's shareholders. The Supervisory Board of the Company approved the draft resolution of the Extraordinary General Meeting of the Company through the resolution adopting the draft resolutions of the General Meeting.

7. ASSESSMENT OF INVESTMENT POSSIBILITIES AND PROJECT OPPORTUNITIES

The Company does not conduct its own development projects. These projects are carried out by the subsidiaries from the Group and are financed both by using its own resources and bank loans. In the future, the Group assumes the implementation of activities through subsidiaries or jointly controlled, and financed construction projects investment and (targeted loans) would be collected directly by the companies or through the Celtic Property Developments.

8. FACTORS AND UNUSUAL EVENTS AFFECTING GROUP FINANCIAL RESULTS

In the Management Board opinion, in the year 2012 there were not unusual events which have an impact on the Company's results.

9. FACTORS IMPORTANT FOR FURTHER COMPANY'S DEVELOPMENT

Factors essential for the further development of the Company are synonymous with the factors influencing the development of the whole Group. Decline in properties market prices during last four years 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 investments, at the end of 2011 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. In the year 2012 this strategy was consistently implemented – the Group sold the property on Łopuszańska 22 street and sold or dissolved foreign operating companies.

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

- Macroeconomic situation on the Polish market shaping the demand for real estate and the purchasing power of customers;
- The situation on the financial markets, in particular the availability of sources of funding and the cost of the capital;
- Banks' credit policy and limitations of the availability of mortgage loans;
- Governmental Policy supporting acquisition of first housing
- Implementation of 'Developers Law' (Ustawa z dnia 16 września 2011 r. o ochronie praw nabywcy lokalu mieszkalnego lub domu jednorodzinnego, Dziennik Ustaw Nr 232, poz. 1377), imposing on developers additional legal, financial and informational requirements;
- Administrative decisions on lands.

10. OVERVIEW OF BASIC ECONOMIC AND FINANCIAL INFORMATION

Selected items of the statement of comprehensive income

	12 months ended		
	31.12.2012 (PLN ths.)	31.12.2011 (PLN ths.)	*Change %*
Revenues	3 182	1 378	*130,9%*
Costs of sales	0	0	-
Profit on sales	**3 182**	**1 378**	***130,9%***
Administrative costs	-9 424	-5 196	*81,4%*
Marketing costs	-564	-256	*120,3%*
Result from the sale of subsidiaries	0	-9	*-100,0%*
Dividends received from the related parties	0	3 134	*-100,0%*
Impairment of investments in subsidiaries	-194 981	-302 639	*-35,6%*
Interest income on loans	29 505	27 737	*6,4%*
Other operational income	772	0	-
Other operational cost	-2 564	-625	*310,2%*
Operating result	**-174 074**	**-276 476**	***-37,0%***
Financial income	1 079	614	*75,7%*
Financial costs	-2 638	-583	*352,5%*
Profit (loss) before income tax	**-175 633**	**-276 445**	***-36,5%***
Income tax	0	-352	*-100,0%*
PROFIT (LOSS) FOR THE YEAR	**-175 633**	**-276 797**	***-36,5%***
Diluted earnings per share (PLN)	-5,15	-8,12	*-36,6%*

In 2012 the Company generated income at the level of 3,2 mln PLN, which was higher by 1,8 mln PLN higher compared to 2011. 80% of revenue came from foreign sales for services provided to non-Celtic Group companies.

Interest on loans granted to subsidiaries amounted to PLN 29.5 mln and was the most substantial income item. It rose by 1.8 mln PLN in comparison with 2011. The detailed list of intercompany loans has been presented in Section *16 Loan agreements*.

In 2012 Celtic Property Developments S.A. decreased its net loss by 101.2 mln PLN in comparison with 2011. The net loss in 2012 amounted to 175.6 mln PLN. Write-down of investment in subsidiaries, which amounted to 194,9 mln PLN, had the biggest impact on the final result in 2012. This write-down includes the write-down of the value of shares in subsidiaries (Buffy Holdings No 1 Ltd, Lakia Enterprises Ltd and Celtic Investments Ltd) totalling PLN 67.0 mln and the write-down of loans amounting to PLN 127.9 mln PLN. The former results mainly from lower market value of properties held by subsidiaries, especially properties located in Ursus (Buffy Holdings No 1 Ltd), which was a result of the current market performance and the lack of master plan for plots in Ursus.

With regard to loans granted to subsidiaries (receivables), the Company recognised a write-down totalling 127.9 mln PLN, as in the Company's view there is a threat that subsidiaries will not be able to repay these loans in full (due to their negative net assets). The detailed information about these write-downs was presented in notes 3.3, 4 and 5 in the Company's Financial statement.

What is more, the final net result was influenced by a rise in administrative costs of 4.2 mln PLN in comparison with 2011. It resulted mainly from increased demand of the Company for advisory services in connection with services provided to entities outside the Group, the changes in the structure and organisation of the Group carried out and with the outsourcing of certain services that were previously provided to other entities of the Group.

Selected items of the balance sheet

	As at: 31.12.2012 (PLN ths.)	31.12.2011 (PLN ths.)	Change 2011/2010 (%)
Total assets	**385 673**	**562 078**	***-31,4%***
Non-current assets, including:	**344 660**	**556 709**	*-38,1%*
Property, plant and equipment	*12*	*6*	*100,0%*
Intangible assets, excluding goodwill	*13*	*0*	*-*
Long-term receivables	*334 809*	*479 816*	*-30,2%*
Shares in subsidiaries	*9 826*	*76 887*	*-87,2%*
Current assets, including:	**41 013**	**5 369**	*663,9%*
Trade receivables and other receivables	*23 139*	*4 344*	*432,7%*
Cash and cash equivalents	*17 874*	*1 025*	*1643,8%*
Total equity and liabilities	**385 673**	**562 078**	***-31,4%***
Equity, including:	**372 951**	**544 161**	*-31,5%*
Share capital	*3 431*	*3 407*	*0,7%*
Supplementary capital	*0*	*1 161*	*-100,0%*
Reserve capital	*4 399*	*23 078*	*-80,9%*
Share premium	*796 643*	*796 643*	*0,0%*
Retained earnings	*-431 522*	*-280 128*	*54,0%*
Non-current liabilities	**-**	**0**	*-*
Current liabilities	**12 722**	**17 917**	*-29,0%*

As of the end of 2012 the Company's assets dropped by 176,4 mln PLN compared to the end of 2011. The decrease in assets stemmed mainly from the before-mentioned write-downs of investment in subsidiaries.

With regard to fixed assets, they were made up mainly of long-term receivables resulting from intercompany loans. These loans have been described in point *16 Loan agreements.*

The value of current assets increased by 35,6 mln PLN in comparison with 2011. This increase comprised a rise in receivables resulting from the loans granted of 18,8 mln PLN, as a result of reclassification of long-term loans into short-term loans. It also included an increase in cash & cash equivalents' of 16,8 mln PLN due to sale of shares in subsidiaries.

As of 31 December 2012 the equity of Celtic Property Developments S.A. totalled 372,9 mln PLN and accounted for 96,7% of the balance sum.

As at 31 December 2012 the Company had no long-term liabilities, whereas short-term liabilities amounted to 12,7 mln PLN and accounted for 3,3% of the balance sum.

11. RISK FACTORS AND THREATS

The Company's activities are exposed to financial, operational and economic risks. Risk management policy adopted by the Company 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 business, its financial situation, prospects of development, or Company 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.

- **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.

According to first estimations in 2012 Polish economy grew by approx. 2.4%, which was less than 4.3% registered in 2011. While the recent forecast of the Polish government on 2013 year provide for growth of the Polish GDP at 2.2%, 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 GEOGRAPHICAL CONCENTRATION OF THE COMPANY'S AND GROUP'S PROJECTS**

The concentration of the majority of proprieties portfolio in Warsaw, including the residential project in the Ursus District, 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 market, on which the Company's has its properties is Hungarian market, characterised with political and economic instability. It cannot be excluded that the negative perceptions by investors of the Hungarian economy may have a negative impact on the financial position or results of operations of the Group.

- **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 2012 to PLN 88.5 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.

- **LIQUIDITY RISK**

The liquidity risk arises when assets and liabilities payment periods are not matching. This situation increase potential profitability, but also increases the risk of loss. The Company applies the procedures aimed at minimizing such losses by keeping an adequate level of cash and other assets that are easy to sell, as well as by adequate access to lines of credit. The level of the Company's liquidity is continuously controlled by the Management Board.

12. LEGAL PROCEEDINGS WITH VALUE OF OVER 10% OF THE EQUITY

Celtic Property Developments S.A. and 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.

13. ORGANIZATIONAL OR CAPITAL RELATIONSHIPS

Celtic Property Developments S.A. organizational and capital relationships as well as the structure of the Group are presented in the Section *2 CELTIC PROPERTY DEVELOPMENTS S.A AS THE PARENT COMPANY IN THE GROUP STRUCTURE.*

14. SIGNIFICANT AGREEMENTS

In the year 2012, one significant agreement was concluded and one was amended in which the Company was a part. These agreements are significant under the meaning given by the Decree of Minister of Finance dated 19th of February 2009 on current and periodic information published by issuers of securities and conditions for recognizing as equivalent information required by law of non-member state as their value is higher than 10% of the Company's equity.

- **DEBT ASSUMPTION AND SET-OFF AGREEMENTS**

On 31 May 2012 the Company received signed agreements (hereinafter in this section "Agreements") for assumption of debt and set-off. The Agreements are related to the loan granted by Celtic Property Developments S.A to its subsidiary East Europe Property Financing AB headquartered in Stockholm, Sweden („EEPF"), on the basis of the agreement signed 31 December 2009 („the Loan"). The principal amount of the Loan, including accrued and unpaid interests, amounted to PLN 389,874,573.30 as at the 1st May 2012. With regard to the above, the liabilities of EEPF to Celtic Property Developments S.A. were assumed by other subsidiaries from the Celtic Group on the basis of Agreements for assumption of debt and set-off. The intercompany loans are presented in the Section *17. LOANS AGREEMENTS.*

The above steps are part of actions taken by the Group aimed to simplify its organizational structure and optimize its operating costs. The Agreements constitute a significant agreement in the meaning of Decree of Minister of Finance dated 19th of February 2009 on current and periodic information published by issuers of securities and conditions for recognizing as equivalent information required by law of non-members of state, due to their total value of 389,874,573.30 PLN. This amount exceeded the value of 10% of Celtic Property Developments S.A. equity which at the end of the quarter preceding the signature of agreements i.e. at 31 March 2012 amounted to PLN 550,870 ths.

- **AMENDMENT OF THE CREDIT AGREEMENT WITH HSBC BANK**

In March 2012 the Company has signed an amendment to the loan agreement from 21 December 2006 (hereinafter in this section "The Agreement'). The parties of the Agreement are: Bank HSBC (HSBC Bank Plc and HSBC Bank Polska S.A.), subsidiaries of the Company: 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. ("Subsidiaries", "Borrowers") 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 as guarantors. This Amendment was signed with regard to the maturity of the existing loan occurring on 27 March, 2012, with purpose to refinance an existing loan in the amount of EUR 12.500.000.

Criterion for the recognition of agreement as significant is the value of the loan, amounting to PLN 51,658,750 (calculated on the basis of the average rate of EUR published by NBP on 3RD April 2012 of 4,1327 PLN/EUR), representing 10% of the Celtic Property Developments S.A. equity as at the end of quarter preceding the signature of the annex (i.e. at 31 December 2011).

Except the above mentioned agreements the Company did not conclude in 2012 any agreements the value of which exceeds 10% of the capital of the 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 terms. Transactions with related parties are described in the explanatory note No. 22 to the Company's financial statements.

16. CREDIT AND LOANS AGREEMENTS, PLEDGES AND GUARANTEES

In the year 2012 no new credit or loan agreement, in which the Company would be a party, was not concluded. Obligations arising from existing credit agreements with the Bank, BZ WBK S.A. and HSBC Bank, in which Celtic Property Developments S.A. is the guarantor were regulated in due time. In the year 2012 and security guarantees for these loans have not changed.

In May 2012 the Company received signed agreements (hereinafter in this section "Agreements") for assumption of debt and set-off. The Agreements are related to the loan granted by Celtic Property Developments S.A to its subsidiary East Europe Property Financing AB headquartered in Stockholm, Sweden („EEPF"), on the basis of the agreement signed 31 December 2009 („the Loan"). The principal amount of the Loan, including accrued and unpaid interests, amounted to PLN 389,874,573.30 as at the 1st May 2012. With regard to the above, the liabilities of EEPF to Celtic Property Developments S.A. were assumed by other subsidiaries from the Celtic Group on the basis of Agreements for assumption of debt and set-off.

The above steps are part of actions taken by the Group aimed to simplify its organizational structure and optimize its operating costs. The Agreements constitute a significant agreement in the meaning of Decree of Minister of Finance dated 19th of February 2009 on current and periodic information published by issuers of securities and conditions for recognizing as equivalent information required by law of non-members of state, due to their total value of 389,874,573.30 PLN. This amount exceeded the value of 10% of Celtic Property Developments S.A. equity which at the end of the quarter preceding the signature of agreements i.e. at 31 March 2012 amounted to PLN 550,870 ths.

Loans raised and granted between Celtic Property Developments S.A. and companies within Celtic Group are presented in the table below:

Subsidiary	Currency	Principal ('000 PLN)	Interests ('000 PLN)	Interest rate	
		Loans granted			
Long-term loans					
1/95 Gaston Investments	PLN	1 193	209	3M WIBOR +	1,55%
2/124 Gaston Investments	PLN	1 238	144	3M WIBOR +	1,55%
3/93 Gaston Investments	PLN	688	115	3M WIBOR +	1,55%
4/113 Gaston Investments	PLN	3 851	389	3M WIBOR +	1,55%
Write-off for the loan granted to 4/113 Gaston		*(1 266)*			
5/92 Gaston Investments	PLN	723	128	3M WIBOR +	1,55%
6/150 Gaston Investments	PLN	932	139	3M WIBOR +	1,55%
7/120 Gaston Investments	PLN	731	85	3M WIBOR +	1,55%
8/126 Gaston Investments	PLN	1 566	196	3M WIBOR +	1,55%
9/151 Gaston Investments	PLN	434	57	3M WIBOR +	1,55%
10/165 Gaston Investments	PLN	560	48	3M WIBOR +	1,55%
11/162 Gaston Investments	PLN	458	49	3M WIBOR +	1,55%
12/132 Gaston Investments	PLN	1 473	159	3M WIBOR +	1,55%
13/155 Gaston Investments	PLN	1 253	128	3M WIBOR +	1,55%
14/119 Gaston Investments	PLN	1 162	156	3M WIBOR +	1,55%
15/167 Gaston Investments	PLN	433	40	3M WIBOR +	1,55%
16/88 Gaston Investments	PLN	250	36	3M WIBOR +	1,55%
18 Gaston Investments	PLN	1 009	84	3M WIBOR +	1,55%
19/97 Gaston Investments	PLN	264	31	3M WIBOR +	1,55%
20/140 Gaston Investments	PLN	325	37	3M WIBOR +	1,55%
Antigo Investments	PLN	4 884	58	3M WIBOR +	1,55%
Write-off for the loan granted to Antigo		*(490)*		+	
Blaise Gaston Investments	PLN	1 844	301	3M WIBOR +	1,55%
Blaise Investments	PLN	24 864	4 238	3M WIBOR +	1,55%
Belise Investments	PLN	28 506	4 667	3M WIBOR +	1,55%
Buffy Holdings No 1 Ltd	PLN	137 782	18 755	3M WIBOR +	0,75%
Write-off for the loan granted to Buffy Holdings	*PLN*	*(139 892)*			
Celtic Asset Management	PLN	1 383	238	3M WIBOR +	1,55%
Write-off for the loan granted to CAM		*(1 380)*			
Celtic Investments Ltd	EUR	736	4	3M LIBOR +	0,75%
Challange 18	PLN	165 941	31 150	3M WIBOR +	1,55%
EEPF	PLN	6 367	1 131	3M WIBOR +	0,75%
Write-off for the loan granted to EEPF		*(7 498)*			
Elara Investments	PLN	3 128	562	3M WIBOR +	1,55%
Write-off for the loan granted to Elara Invest's		*(2 615)*			
Gaston Investments	PLN	2 565	461	3M WIBOR +	1,55%
HUB Developments	PLN	1 846	319	3M WIBOR +	
Lakia Enterprises Limited	PLN	22 116	3 349	3M WIBOR +	1,55%
Total long-term loans		**267 347**	**67 462**		
Short-term loans					
Gaetan Investments	PLN	12 601	2 259	3M WIBOR	1,55%
Write-off for the loan granted to Gaetan		*(11 279)*			
Mandy Investments	PLN	27 696	4 941	3M WIBOR	1,55%
Write-off for the loan granted to Mandy		*(18 477)*			
Robin Investments	PLN	4 027	746	3M WIBOR	1,55%
Write-off for the loan granted to Robin		*(41)*			
Total short-term loans		**14 527**	**7 946**		
TOTAL LOANS GRANTED		**281 874**	**75 408**		
		Borrowings			
Lakia Entreprises	PLN	7 853	1 158	3M WIBOR	0,50%
TOTAL BORROWINGS		**7 853**	**1 158**		

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

17. SECURITIES ISSUES

- **C SERIES SHARES**

On 24 May 2012 the Ordinary General Meeting of Shareholders adopted resolution No. 22 on the issue of subscription warrants series A with the right to take up the Company's shares Series C and deprivation of current shareholders of the pre-emption right with respect to subscription A series warrants and resolution no. 23 on the conditional increase of the Company's share capital with the exclusion of the pre-emption right with respect to shares Series C, amendment to the Company Statute, deprivation of current shareholders of the pre-emption right with respect to the shares Series C, dematerialization of the shares Series C and application to admit and introduce the shares Series C to the regulated market.

On the basis of the resolution No. 22 the Company has issued 163.214 registered A series subscription warrants (hereinafter: „Subscription Warrants"), with the right to take-up in total 163.214 Company's ordinary bearer shares Series C, with the nominal value of 0.10 zlotys (in words: ten groszy) each and total nominal value of PLN 16.321,40. Subscription Warrants were offered only to the entitled Management Board's members, who performed their functions at the day of presenting the declaration of taking-up Subscription Warrants:

- Mr Andrew Morrison Shepherd, President of the Management Board, was offered 54.919 Subscription Warrants;
- Mr Aled Rhys Jones, Member of the Management Board, was offered 54.919 Subscription Warrants;
- Mr Christopher Bruce, Member of the Management Board, was offered 26.688 Subscription Warrants;
- Ms Elżbieta Wiczkowska, Member of the Management Board, was offered 26.688 Subscription Warrants.

Subscription Warrants were issued free of charge and the issue price of one C series share taken-up in the execution of rights from Subscription Warrant was established as equivalent of its nominal value i.e. 0.10 PLN (ten groszy). Each Subscription Warrant gave the right to take-up one C series share and the right to take-up C series shares has been realized in the manner specified in Art. 451 of the Code of Commercial Companies i.e. by way of written statements submitted on forms prepared by the Company.

The issue of Subscription Warrants was carried out without a public offer referred to in Art. 3.3 of the Act of 29 July 2005 on Public Offering and Conditions for the Introduction of Financial Instruments to the Organized Trading System, and on Public Companies (Journal of Laws No. 184, section 1539 with further changes) due to the fact that the number of persons to whom the proposal to acquire Subscription Warrants was addressed did not exceed 99 (in words: ninety nine) persons.

On 19 June 2012 the District Court for the Capital City of Warsaw, XIII Commercial Division of the National Court Register has registered the conditional Company's share capital increase by the amount not higher than PLN 16,321.40. The conditional share capital increase was executed through the issue of up to 163,214 Company's ordinary bearer shares Series C, with the nominal value of 0.10 zlotys (in words: ten groszy) each and was carried out to enable entitled persons holding the Subscription Warrants series A to exercise their rights to take up no more than 163,214 C series shares.

Subscription Warrants were offered to entitled persons on 12 July 2012. Entitled persons owning A series Subscription Warrants have executed their rights and presented declarations of taking-up C series shares.

As a result of the increase, the share capital of the Celtic Property Developments S.A. are divided into 34,231,466 (in words: thirty-four million two hundred and thirty-one thousand four hundred and sixty-six) shares with a nominal value of PLN 0.10 (ten groszy) each, representing 100% of the votes at Company's general meeting. On 31 July 2012, C series shares were introduced to the listing on the parallel market of the Warsaw Stock Exchange S.A. on the basis of the resolution No 739/2012 of the WSE Management Board.

The proceeds from C series shares issue were assigned to finance current activities of the Company.

- **D SERIES SHARES**

On 15 October 2012 the Company's Management Board passed the resolution on increase of the Company's share capital within the limits of authorized capital. On the basis of this resolution, the Company's share capital was increased from the amount of PLN 3,423,146.60 to the amount of PLN 3,430,748.80, it means by the amount of PLN 7,602.20 through the issue of 76,022 ordinary bearer D series shares with a nominal value of PLN 0.10 (ten groszy) each share, within the limits of Company's authorized capital. The increase of the Company's share capital by issuing D series Shares took place within the limits of the Company's authorized capital on the basis of the above described resolution of the Management Board. The Management Board is authorized to carry out the increase of the Company's share capital in this way on the basis of § 4(a) of the Company's Statute.

The increase of the Company's share capital through the issue of D series Shares was made with the consent of the Supervisory Board, with entire exclusion of pre-emptive rights of existing shareholders, in the form of the private offer addressed to selected advisors to the Management Board.

The Management Board decided that the issue price of one D series share is equal to its nominal value of the amount of PLN 0.10 (ten groszy) per share, on what the Company's Supervisory Board agreed. D series Shares were entirely covered with monetary contribution. The proceeds from D series shares issue were assigned to finance current activities of the Company.

The increase of the share capital was registered the District Court for the Capital City of Warsaw, XIII Commercial Division of the National Court Register on 8 January 2013. After the registration of D series shares, the Company's share capital amounts to 3,430,748.80 PLN and is divided into 34.307.880 ordinary bearer shares series B, C and D and with a nominal value of PLN 0.10 (ten groszy) each share, entitling to 34.307.880 votes at the general meeting of shareholders.

On 7 March 2013, D series shares were introduced to the listing on the parallel market of the Warsaw Stock Exchange S.A. on the basis of the resolution No 255/2013 of the WSE Management Board of 5 March 2013.

- **RESOLUTIONS OF THE EXTRAORDINARY GENERAL MEETING ON THE ISSUE OF B SERIES SUBSCRIPTION WARRANTS WITH RIGHT TO TAKE-UP E SERIES COMPANY'S SHARES**

On 10 January 2013 the Extraordinary General Meeting of Celtic Property Developments S.A. adopted resolution No. 3 on the issue of subscription warrants series B with the right to take up E series Company's shares and deprivation of current shareholders of the pre-emption right with respect to B series subscription warrants and resolution no. 4 on the conditional increase of the Company's share capital with the exclusion of the pre-emption right with respect to shares Series E, amendment to the Company Statute, deprivation of current shareholders of the pre-emption right with respect to the shares series E, dematerialization of the shares series E and application to admit and introduce the shares series E to the regulated market.

On the basis of the resolution No. 3 the Company shall issue up to 88,776 registered B series subscription warrants with the right to take-up in total up to 88,776 Company's ordinary bearer shares Series E, with the nominal value of 0.10 zlotys (in words: ten groszy) each and total nominal value up to PLN 8.877,60.

Subscription warrants shall be issued as part of one issue procedure.

Subscription warrants shall be offered exclusively to the Members of the Company's Management Board:

- President of the Management Board Andrew Morrison Shepherd shall be entitled to take up 36,483 subscription warrants series B;
- Member of the Management Board Aled Rhys Jones shall be entitled to take up 36,483 subscription warrants series B;
- Member of the Management Board Elżbieta Wiczkowska shall be entitled to take up 15,810 subscription warrants series B.

- providing that at the date of submission of the declaration on taking up of the shares they still hold their positions in the Management Board. Subscription warrants shall be offered to the entitled persons indicated in the preceding sentence within 14 days of the date of service on the Company of the decision of the competent registry court concerning the entry in the register of the amendment to the Company's Statute as regards the conditional increase of the share capital.

The issue of B series subscription warrants shall not take the form of public offering as referred to in art. 3 par. 3 of the act of 29 July 2005 on public offerings and terms of introduction of securities to the organized trading system and on public companies (Journal of Laws no 184, item 1539 as amended) due to the fact that the number of persons to whom the offer to purchase the subscription warrants is directed shall not exceed 99 (in words: ninety nine) persons.

Subscription warrants shall be issued free of charge. The issue price of one share Series E taken up as part of the exercising of rights under the Subscription warrant shall be equal to its nominal value which at the date of the adoption of the resolution amounts to PLN 0.10 (in words: ten groszys).

Each subscription warrant shall entitle [the holder thereof] to take up 1 (in words: one) share of the Company Series E. Right to take up shares Series E may be exercised in the manner as specified in art. 451 CCC i.e. in the form of written declarations submitted on the forms prepared by the Company.

Entitled persons who hold the Subscription warrants shall be eligible to take up shares Series E from the date at which the Subscription warrants series B have been taken up until 10 January, 2023 – provided that at the time of submitting of the declaration on taking up of the shares Series E they still hold their positions in the Management Board.

Exclusion of the pre-emption right to which the current Shareholders have been entitled with respect to the subscription warrants series B and shares series E is economically justified and is in the best interest of both the Company and the Shareholders.

On the basis of the resolution No. 4 the share capital of the Company shall be conditionally increased by the amount of up to PLN 8,877.60. Share capital conditional increase shall be effected by the issue of up to 88,776 Company's ordinary bearer shares Series E, with the nominal value of PLN 0.10 (in words: ten groszys) each and total nominal value of up to PLN 8,877.60. Conditional increase of the share capital shall be effected in order to enable entitled persons who hold the subscription warrants series B to exercise the rights to take up no more than 88,776 E series shares.

On the day of publication of this report, the Company has not yet received the Court decision on the registration of the conditional share capital increase.

Except the above described issues, the Company did not proceed to issuance of other securities.

18. FORECASTED FINANCIAL RESULTS

The Company did not publish financial results forecasts for the year 2012.

19. FINANCIAL RESOURCES MANAGEMENT ASSESSMENT

The Company finances its operations primarily from own funds. In 2012 Company's financial resources were used in accordance with the plans, purpose and current needs. The Company has regularly met all its obligations to counterparties, banks and mandatory contributions to the State. Total liabilities represented 3,3% of total Group assets and do not represent a threat to the financial condition of the Company.

20. CHANGES IN MANAGEMENT POLICIES

In 2012, following the implementation of the Group strategy of the concentration of activities on the Polish market, with focus on Ursus project, the Group sold, dissolved or put under liquidation procedure foreign operational entities of the Group (Montenegro, UK, Italy, Hungary) together with sale or dissolution of two project companies in Poland. These actions contributed to simplify the Group structure and reduced the number of subsidiaries from 44 at the end of the year 2011 to 38 on the day of publication of this report, and by consequence - to simplify the rules for the management of the overall Celtic Group. The Group structure is presented in the Section *2 of this report.* Excepted Group structure changes no other changes were implemented in the management policies in the Company and in the Group. As a result of the adopted strategy, the Company continued to work on optimizing and simplifying existing procedures in both Celtic Property Developments and other entities being part of the Group.

21. REMUNERATION OF THE SUPERVISORY BOARD AND THE MANAGEMENT BOARD

- **SUPERVISORY BOARD REMUNERATION**

Name		CCY	Amount ('000)	For the period	Comments
Marzena Bielecka	President of the Supervisory Board	PLN	69,5	01.2012 - 12.2012	
Wiesław Oleś	Vice President of the Supervisory Board	PLN	50,7	01.2012 - 12.2012	
Colin Kingsnorth	Secretary of the Supervisory Board	PLN	-	01.2012 - 12.2012	Mr C. Kingsnorth renounced from the remuneration for the function in the Supervisory Board
Mirosław Gronicki	Member of the Supervisory Board	PLN	50,7	01.2012 - 12.2012	
Wiesław Rozłucki	Member of the Supervisory Board	PLN	50,7	01.2012 - 12.2012	
Total			**221,8**		

The amounts indicated above take into account reduction of the remuneration of the Supervisory Board provided by the resolution No. 21 of the Ordinary General Meeting of 24 May 2012 on the remuneration of the Supervisory Board of second term. Pursuant to this resolution, the remuneration of the President of the Supervisory Board was fixed at PLN 5,000.00 per month while the remuneration of other members (including Vice President and Secretary) – at PLN 3,720.00 per month. Other principles of Supervisory Board remuneration have remained unchanged. The resolution entered into force on the date of its adoption.

- **MANAGEMENT BOARD REMUNERATION**

In 2012 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. In 2012, Management Board members received a part of their remuneration for the year 2012 in the form of subscription warrants in respect of which they took up in July 2012 a total of 163,214 Company's shares series C.

Remuneration paid in 2012 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 ('000)	Period	Comments
Andrew Morrison Shepherd	President of the MB	PLN	60,0	01.2012 - 12.2012	
Aled Rhys Jones	Member of the MB	PLN	60,0	01.2012 - 12.2012	
Elżbieta Wiczkowska	Member of the MB	PLN	60,0	01.2012 - 12.2012	
Christopher Bruce	Member of the MB	PLN	32,1	01.2012 - 12.2012	Mr C. Bruce has resigned from the function of the member of the Management Board on 13 July 2012.
Total			**212,1**		

Remuneration payable to the members of Celtic Property Developments S.A. Management Board in 2012 for services rendered to the companies from Celtic Group, taking into account the part of the payment in the form of subscription warrants:

Name		Cash remuneration for the year 2012 ('000 PLN)	Remuneration in warrants for the year 2012 ('000 PLN)	Comments
Andrew Morrison Shepherd	President of the MB	570,9	853,6	
Aled Rhys Jones	Member of the MB	570,9	853,6	
Elżbieta Wiczkowska	Member of the MB	508,4	398,6	
Christopher Bruce	Member of the MB	117,4	264,7	Remuneration for the period from 1.01.2012 to 31.03.2012 following the resignation of Mr C. Bruce
TOTAL		**1 767,6**	**2 370,5**	

The remuneration in form of warrants in 2012 includes:

- A series subscription warrants, the rights of which were executed on 12 July 2012 following the take-up of C series shares by members of the Management Board, for the part of the annual remuneration for the period from 01.01.2012 to 31.07.2012 and
- B series subscription warrants according the resolution No. 3 adopted by the Extraordinary Meeting on 10 January 2013, for the period from 1.08.2012 to 31.12.2012. The issue of B series warrants is presented in the Section *17. SECURITIES ISSUES* of this report.

Changing the way of remuneration for the Management Board through the payment of the part of the remuneration in the form of subscription warrants is one of elements of the cost optimization strategy launched in 2011 and constitutes an additional motivating factor for the Management Board members.

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 following an acquisition.

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

The following table presents the number of shares of the Company, owned by the members of the Management Board holding their function at the day of the report publication, according to the information held by the Company:

Shareholder		Number of shares owned	Nominal value of the owned shares	Shares as % of total number of shares	Votes as % of total number of votes
Andrew Morrison Shepherd	President of the Management Board	54 919	5 492	0,16%	0,16%
Aled Rhys Jones	Member of the Management Board	54 919	5 492	0,16%	0,16%
Elżbieta Wiczkowska	Member of the Management Board	26 688	2 669	0,08%	0,08%
TOTAL		**136 526**	**13 653**	**0,40%**	**0,40%**

*Total number of shares = 34,307,488.

Compared to the previous reporting period and following the take-up of C series shares on 12 July 2012 and their registration on securities accounts on 31 July 2012:

- the number of the Company's shares owned by Mr Andrew Morrison Shepherd increased by 54,919 shares;

- the number of the Company's shares owned by Mr Aled Rhys Jones increased by 54,919 shares;

- the number of the Company's shares owned by Ms Elżbieta Wiczkowska increased by 26,688 shares.

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

Additionally, on 10 January 2013 the Extraordinary General Meeting of Celtic Property Developments S.A. adopted resolution No. 3 on the issue of subscription warrants series B with the right to take up E series Company's shares and deprivation of current shareholders of the pre-emption right with respect to B series subscription warrants and resolution no. 4 on the conditional increase of the Company's share capital with the exclusion of the pre-emption right with respect to shares Series E, amendment to the Company Statute, deprivation of current shareholders of the pre-emption right with respect to the shares series E, dematerialization of the shares series E and application to admit and introduce the shares series E to the regulated market. On the basis of this resolution the Company shall issue up to 88,776 registered B series subscription warrants with the right to take-up in total up to 88,776 Company's ordinary bearer shares Series E, with the nominal value of 0.10 zlotys (in words: ten groszy) each and total nominal value up to PLN 8.877,60. Subscription warrants shall be offered exclusively to the Members of the Company's Management Board:

- President of the Management Board Andrew Morrison Shepherd shall be entitled to take up 36,483 subscription warrants series B;
- Member of the Management Board Aled Rhys Jones shall be entitled to take up 36,483 subscription warrants series B;
- Member of the Management Board Elżbieta Wiczkowska shall be entitled to take up 15,810 subscription warrants series B.

- providing that at the date of submission of the declaration on taking up of the shares they still hold their positions in the Management Board.

24. AGREEMENTS CHANGING OWNERSHIP STRUCTURE

Following the resolution adopted by the Extraordinary General Meeting on 10 August 2012 on the purchase of the Company's shares for the purpose of redemption, in the event of the buy-back process execution, changes in proportion of shares owned by existing shareholders may occur. The General Meeting authorised the Management Board of the Company to purchase from Company's shareholders no later than by until the 31 of December 2013 up to 11,541,891 of Company's shares, with the nominal value of 0,10 zł (ten groszy) each and total nominal value up to PLN 1,154,189.10. The shares could be purchased on the regulated market: during a stock exchange session or outside session as well as outside of the regulated market. The Shares shall be purchased by the Company pursuant to Art. 362 § 1 point 5) of the Code of Commercial Companies for the purpose of redemption for the price no lower than its nominal value and no higher than PLN 15.89 zł (in words: fifteen złotych and eighty nine groszy) for one share. The General Meeting authorized the Company's Management Board to establish detailed terms and conditions of share's purchase in the scope which is not regulated by this resolution and authorised the Company's Management Board to carry out all practical and legal actions aiming to the realization of the resolution including the conclusion of the agreement with an investment firm. In the purpose of redemption of shares, immediately after the finalization of their purchase procedure, the Company's Management Board shall convene the General Meeting with an agenda including at least the adoption of resolutions on the redemption of the

Company's shares, on the decrease of the Company's share capital and amendments to the Company's statute.

The rationale of the Management Board's recommendation for the resolution of on the acquisition of the Company's shares for the purpose of redemption was the downturn on the Warsaw Stock Exchange, which is part of the global trends on the capital markets and results in a decrease of the market price of shares of Celtic Property Developments S.A. In the opinion of the Management Board market valuation diverges from the fundamentals of the Company's value growth in the long term. The acquisition of Company's shares is therefore optimal from the point of view of the interests of all Company's shareholders. The Supervisory Board of the Company approved the draft resolution of the Extraordinary General Meeting of the Company through the resolution adopting the draft resolutions of the General Meeting.

25. CONTROL SYSTEM FOR EMPLOYEE SHARES SCHEMES

During the reporting period the Company did not implemented employees shares schemes.

26. AGREEMENTS WITH THE COMPANY'S AUDITOR

In years 2011 and 2012 Celtic Property Developments S.A. financial statements as well as consolidated financial statements of the Capital Group were reviewed and audited by audit firm PricewaterhouseCoopers Sp. z o.o., based in Warsaw (hereinafter the Auditor).

Total Auditor's fees for the year ended 31 December 2012 amounted to PLN 170,000.00 PLN and included:

- The fees of PLN 70,000.00 for the review of Celtic Property Developments S.A. financial statements and consolidated financial statements for the period from 1 January 2012 to 30 June 2012 (agreement of 6 August 2012);
- The fees of PLN 100,000.00 for the audit of Celtic Property Developments S.A. financial statements and consolidated financial statements for the period from 1 January 2012 to 31 December 2012 (agreement of 21 December 2012).

Total Auditor's fees for the year ended 31 December 2012 amounted to PLN 514,800.00 and included:

- PLN 302,000.00 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);
- PLN 212,800.00 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).

27. STRUCTURE OF ASSETS AND LIABILITIES – BY LIQUIDITY

The Company assets structure on 31 December 2012 and changes compared with the status at the end of 2011:

	Na dzień: 31.12.2012 (w tys. PLN)	31.12.2011	Udział w aktywach razem 2012	Udział w aktywach razem 2011	Zmiana 2012/2011
Rzeczowe aktywa trwałe	12	6	0,003%	0,001%	*100,0%*
Wartości niematerialne, z wyłączeniem wartości firmy	13	0	0,003%	0,000%	-
Należności długoterminowe	334 809	479 816	86,8%	85,4%	*-30,2%*
Udziały w jednostkach zależnych	9 826	76 887	2,5%	13,7%	*-87,2%*
Aktywa trwałe	**344 660**	**556 709**	**89,4%**	**99,0%**	***-38,1%***
Należności handlowe oraz pozostałe należności	23 139	4 344	6,0%	0,8%	*432,7%*
Środki pieniężne i ich ekwiwalenty	17 874	1 025	4,6%	0,2%	*1643,8%*
Aktywa obrotowe razem	**41 013**	**5 369**	**10,6%**	**1,0%**	***663,9%***
AKTYWA RAZEM	**385 673**	**562 078**	**100,0%**	**100,0%**	***-31,4%***

	As at: 31.12.2012 (PLN ths.)	31.12.2011 (PLN ths.)	% in total assets 2012	% in total assets 2011	*Change 2012/2011 (%)*
Property, plant and equipment	12	6	0,003%	0,001%	*100,000%*
Intangible assets, excluding goodwill	13	0	0,003%	0,000%	-
Long term receivables	334 809	479 816	86,8%	85,4%	*-30,2%*
Investment in subsidiaries	9 826	76 887	2,5%	13,7%	*-87,2%*
Non-current assets	**344 660**	**556 709**	**89,4%**	**99,0%**	***-38,1%***
Trade and other receivables	23 139	4 344	6,0%	0,8%	*432,7%*
Cash and cash equivalents	17 874	1 025	4,6%	0,2%	*1643,8%*
Current assets	**41 013**	**5 369**	**10,6%**	**1,0%**	***663,9%***
TOTAL ASSETS	**385 673**	**562 078**	**100,0%**	**100,0%**	***-23,0%***

The Company's liabilities structure on 31 December 2012 and changes compared with the status at the end of 2011:

	As at: 31.12.2012 (PLN ths.)	31.12.2011 (PLN ths.)	% in total assets 2012	% in total assets 2011	*Change 2012/2011 (%)*
Share capital	3 431	3 407	0,9%	0,6%	*0,7%*
Supplementary capital	0	1 161	0,0%	0,2%	*-100,0%*
Other reserves	4 399	23 078	1,1%	4,1%	*-80,9%*
Translation reserve	796 643	796 643	206,6%	141,7%	*0,0%*
Retained earnings/(accumulated losses)	-431 522	-280 128	-111,9%	-49,8%	*54,0%*
Equity	**372 951**	**544 161**	**96,7%**	**96,8%**	***-31,5%***
Non-current liabilities	**0**	**0**	**0**	**0**	**-**
Trade and other payables	3 711	5 415	1,0%	1,0%	*-31,5%*
Borrowings, including finance leases	9 011	12 502	2,3%	2,2%	*-27,9%*
Current liabilities	**12 722**	**17 917**	**3,3%**	**3,2%**	***-29,0%***
Total liabilities	**12 722**	**17 917**	**3,3%**	**3,2%**	***-29,0%***
TOTAL EQUITY AND LIABILITIES	**385 673**	**562 078**	**100,0%**	**100,0%**	***-31,4%***

MANAGEMENT BOARD STATEMENT

V. MANAGEMENT BOARD STATEMENT

The Management Board of Celtic Property Developments S.A. ("the Company") confirms that according to its best knowledge, the financial statements of Celtic Property Developments S.A. for the year ending 31 December 2012 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 Company and its financial results, and that the Company annual activity report includes the true picture of the Company's development, achievements and situation, including threats and risks.

The Management Board confirms that the entity authorized to audit the annual 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 financial statements, in accordance with the applicable regulations and professional standards. In years 2012 and 2011 financial statements were reviewed and audited by audit firm PricewaterhouseCoopers Sp. z o.o., based in Warsaw.

ANDREW MORRISON SHEPHERD PRESIDENT OF THE MANAGEMENT BOARD	ALED RHYS JONES MEMBER OF THE MANAGEMENT BOARD
ANDREW PEGGE MEMBER OF THE MANAGEMENT BOARD	ELŻBIETA DONATA WICZKOWSKA MEMBER OF THE MANAGEMENT BOARD

VI. INDEPENDENT REGISTERED AUDITOR'S OPINION AND REPORT ON THE FINANCIAL STATEMENTS FOR THE YEAR FROM 1 JANUARY TO 31 DECEMBER 2012

VII. CELTIC PROPERTY DEVELOPMENTS S.A. FINANCIAL STATEMENTS FOR THE YEAR FROM 1 JANUARY TO 31 DECEMBER 2012