ANNUAL REPORT 2012

Celtic

CELTIC PROPERTY DEVELOPMENTS S.A.

CONSOLIDATED 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.

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SUPERVISORY BOARD

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.

LETTER OF THE PRESIDENT OF THE MANAGEMENT BOARD

II. LETTER OF THE PRESIDENT OF THE MANAGEMENT BOARD

Warsaw, 21 March, 2013

DEAR SIRS, DEAR SHAREHOLDERS,

We present you the Annual Report summarizing the results of Celtic Group for the year 2012.

In year 2012, which was another difficult year for developers, Celtic Group managed to achieve the most of goals and activities planned for this year within Group's strategic frame. We focused our efforts on the finalization of the IRIS building as well as on the Ursus project and in the same time we have been reducing the number of projects realized by the Group and taking the necessary actions to optimize our costs and to allow our Shareholders to achieve a return on investments in the shortest period of time.

We have to point out, that despite difficult macroeconomic environment and significant turbulences on the financial market, Celtic Group managed to maintain the stability of its cash liquidity. It was achieved thanks to the consequent financial policy, based on land acquisitions projects financed by Group's own resources and development projects financed by bank loans. Stable financial situation allowed finalization and delivery of IRIS project in the 3rd quarter of 2012. The IRIS office building is situated at 9 Cybernetyki street in Warsaw and offers over 14 thousand sqm of total lease area together with over 200 parking spaces. IRIS is the last phase of the office and residential project of over 100 thousand sqm, situated at the crossing of Cybernetyki and Postępu streets in the Mokotów district of Warsaw and perfectly fill in the comprehensive architectural project created by other office buildings realized by Celtic Group in previous years – Helion, Luminar, Solar and Mokotów Plaza I.

Year 2012 was also an another year of waiting for final decisions of Warsaw City's authorities regarding the Master Plan for Ursus area, where Celtic Group acquired in 2006 over 58 hectares of land of former ZPC Ursus. These decisions have not been taken, which once again delayed the launch of Ursus project under initially planned, integral urban and architectural concept. Undefined time horizon to start investment in Ursus, resulting from the lack of validity of the Master plan for former ZPC Ursus area, forced us last year to change our strategic approach regarding Ursus project. This change shall be reflected mainly through the split of the whole project into smaller entities which we intent to develop in cooperation with other developers. This does not mean that during the year 2012 the Group has abandoned activities related to Ursus project: in 2012 we focused on Ursus technical infrastructure and we have been continuing design and conceptual works, we have realized demolition and ordinal tasks and we have been engaged in cultural initiatives dedicated to the local community.

Despite delays in the Master plan validation process we remain optimistic and continue to believe that works on the Master plan adoption will be completed in 2013 which would enable Celtic to start the investment process, generate revenues from sales and reduce the negative impact of Ursus project on Celtic Group financial results.

During the year 2012, in order to optimize the return on investment for our Shareholders, we have taken several significant initiatives to reduce operational costs of Celtic Group. These activities include, first and foremost, the sale of the investment project on Łopuszańska 22 street in Warsaw, the sale of projects in Montenegro and the termination of activities of Group's companies operating in the UK, Italy and Hungary. These actions have helped to simplify Celtic Group's structure and reduce overall operating costs compared to the year 2011.

In addition, an important factor that has allowed to lowering operating costs, was a significant reduction in the overall employment costs, including reduction of the cash remuneration of the

Company's Management Board and the introduction of the remuneration in form of subscription warrants.

The sale of the projects belonging to the Group and the lack of a valid Master plan for Ursus decreased the value of the property portfolio held by the Group, which was partially offset by the. Reduction of the investment properties' value and a high proportion of costs generated by Ursus project were not compensated by revenue stream and influenced the final amount of Celtic Group loss of PLN 162.8 million.

As I have already mentioned, year 2012 was not favourable for the development sector. The slower pace of economic growth in Poland and, consequently, high unemployment, as well as restricted availability of mortgage and investment loans both for individuals and for businesses, contributed to the decrease in demand on the commercial and residential real estate markets.

The above mentioned external factors as well as factors related to delays in the start of Ursus investment project, significantly influenced the evolution of the Company's share price during the year 2012. Considering these factors, we would like to express acknowledgments to our Shareholders for another year of their confidence and maintenance of theirs shareholdings in Celtic Property Developments S.A. at a stable level.

The year 2013 shall be the year of the continued Group strategy, focused on Ursus project, further costs optimization and achievement of the return on investment for our Shareholders in the shortest possible period.

Summarizing the year 2012, I would like once again to express my gratitude to our Employees and Co-workers for their commitment to the Celtic Group development. I would like also to thank all our clients, who demonstrate their confidence to the Group in such hard times by acquiring or renting our properties or employing our services to manage them. To all members of Celtic Property Developments S.A. Supervisory Board I would like to present my acknowledgements for their support for all projects being important for the stability of the Group position.

I would like to emphasize that our collective effort, commitment and cooperation between Employees, Co-workers, Supervisory Board and Shareholders allowed Celtic Group to maintain stable cash liquidity situation and thus creating a stable basis to increase the value of the Celtic Group in the incoming years to the benefit of all its stakeholders.

YOURS SINCERELY,
ANDREW MORRISON SHEPHERD
PRESIDENT OF THE MANAGEMENT BOARD
OF CELTIC PROPERTY DEVELOPMENTS S.A.

MANAGEMENT BOARD

III. 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.

IV. 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

V. CELTIC CAPITAL GROUP – MANAGEMENT BOARD'S ACTIVITY REPORT

1. INFORMATION ON CELTIC CAPITAL GROUP

Celtic Group started its activities in Poland in 1999 from the foundation of Celtic Asset Management Sp. z o.o by current members of the Management Board – Mr Andrew Shepherd and Mr Aled Rhys Jones. In subsequent years, 1999-2005, the activities of the company focused on building and managing a real estate portfolio to external institutions in Poland, Czech Republic, Lithuania, Romania, Hungary and Germany. In 2005, Celtic Asset Management Sp. z o.o started development operations in cooperation with several funds managed by Laxey Partners. In 2007, the consolidation of the group under the name Celtic Property Developments SA (BVI) was performed and in 2008 the listing of the company Celtic Property Developments SA (BVI) began on a deregulated market (Freiverkehr) in Frankfurt. In the period from 2005 to 2010, the Company operated and managed projects mainly in Poland. In the same time, the Group has conducted and managed projects also in Montenegro, Hungary, Italy, Belgium, the United Kingdom, the Netherlands, Germany and Spain. International experience and practical knowledge of experts and project managers of Celtic Group have contributed to the creation of a strong and stable capital group, which debuted on the Warsaw Stock Exchange on December 23, 2010.

Today, Celtic Property Developments S.A. is the holding company controlling a group of 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. 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.

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

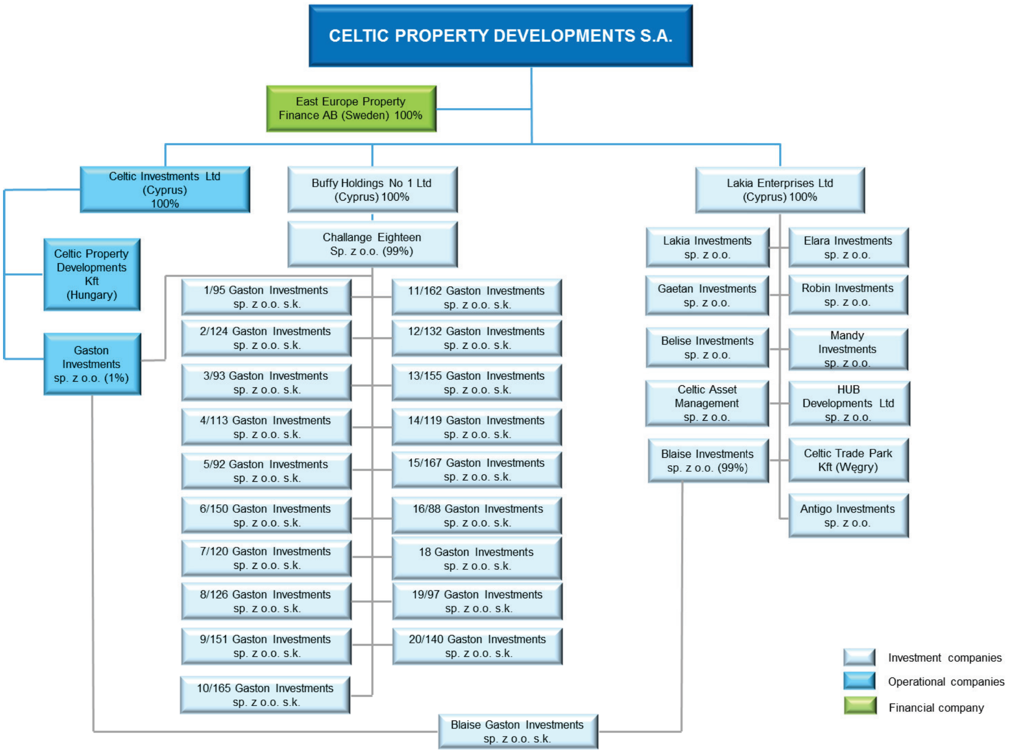
During the reporting period, the following changes have occurred in the Celtic Group structure:

- In May 2012:
  - Sale of all shares in the subsidiary company 17/110 Gaston Investments Sp. z o.o. sp.k.;
  - Sale of all shares in the subsidiary company Devin Investments Sp. z o.o., owner of the real estate situated at Łopuszańska 22 street in Warsaw;
  - Sale of all shares in the subsidiary company KMA sp. z o.o;
  - Sale of all shares in the subsidiary company Tenth Planet d.o.o based in Kotor, Republic of Montenegro;
- In June 2012 *Darvest Investments Sp. z o.o. in liquidation* was removed from the national Court Register, following the completion of the liquidation process;
- In June 2012, the Board of Directors of CAM Estates Limited, based in the United Kingdom, has taken a resolution on the company's dissolution as the project realized by the company was completed. Appropriate notice was published in London Gazette, Issue 823670 on July 10, 2012. The company was dissolved on 23 October 2012, which was confirmed by an appropriate entry to Companies House register in the United Kingdom;
- In August 2012, an application for the liquidation of Celtic Property Developments Kft, based in Budapest, Hungary was filled in Budapest Court of Registry (*Fővárosi Törvényszék Cégbírósága*). The process of the company liquidation is expected to be completed by the end of March 2013;
- In October 2012, Lakia Enterprises Ltd., a subsidiary of Celtic Property Developments S.A. acquired from POLAG BV based in Netherlands 100% of shares in the company Antigo Investments Sp. z o.o. which owns the real estate in Łódź (plot and building) as well as of plots in Czosnów, Nowa Piasecznica and Jaktorów. POLAG BV and Antigo Investments Sp. z o.o. are companies related to Celtic Property Developments S.A.
- In December 2012 was concluded the transaction resulting in changes of partners/ shareholders and number of shares owned by them in the company Celtic (Italy) S.r.l. based in Milan, Italy. 100% of shares in Celtic (Italy) S.r.l., with total nominal value of 10.000 EUR was owned by Celtic Investments Limited, based in Nicosia, Cyprus, which is a subsidiary of Celtic Property Developments S.A. As a result of the transaction, Celtic Property Developments S.A. and its subsidiaries do not have shares in Celtic (Italy) S.r.l.

The above mentioned agreements are the continuation of the Group strategy, adopted in 4Q 2011, focusing on the Ursus project and sale of other projects from the Group's portfolio.

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

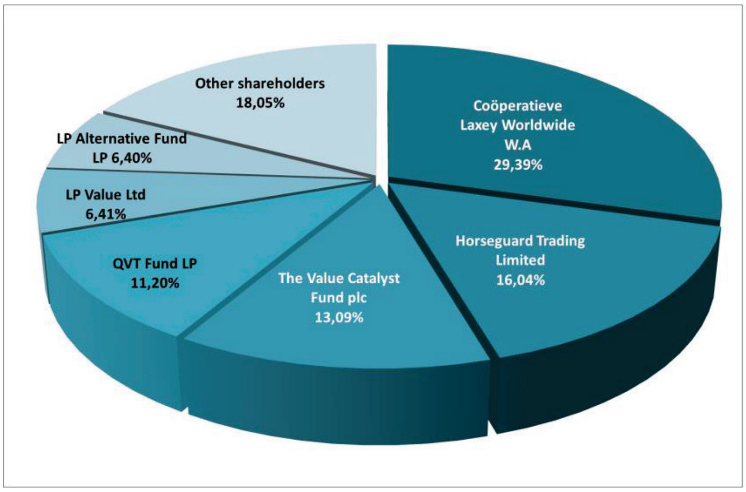
Celtic Group structure on the day of the report publication



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:

Shareholders	Number of shares	Number of votes	As % of total number of shares	As % of total number of votes
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. CORPORATE SOCIAL RESPONSIBILITY

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

The majority of social initiatives realized in the year 2012 were associated with the Ursus project. Celtic Group, being aware of its role in such complex project as the regeneration of the post-industrial land after the former ZPC Ursus from the beginning of the project takes initiatives going beyond the scope of typical investment and construction activities.

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

It should be pointed out, that the Cultural Centre Arsus, operating since 1992, is located on the site belonging to Celtic. The Centre includes a full equipped cinema with 500 seats, a room with stage and 120 seats, an „Arsus" basement for alternative activities (concerts, theatre performance), a modern art gallery „Ad-Hoc", as well as clubrooms to conduct artistic amateur activities. "Arsus" is also fully equipped in modern administrative and technical systems as well as sound and lighting systems. On the basis of the *Pact for Culture in Ursus,* signed in 2011 by Celtic with Ursus district authorities and "Arsus" management, Celtic Group has significantly decreased the lease rate for the building, to symbolic amount of PLN 100 per month, which allows the Centre to allocate more funds for its statutory activities and this during next four years.

In the framework of cooperation with the Office of the District as well as with other institutions located in Ursus Celtic Group supported in 2012 the following activities:

- financial support for events organized by Ursus district authorities, such as Ursus Days and Indian Summer event;
- financial support for September celebration of the 50th anniversary of the Władysław Broniewski Primary School;
- financial support for the Volunteer Fire Brigade for the acquisition of the new fire engine;
- works on the virtual museum of Ursus;
- management and construction consultancy support for Camilian Mission, which one of the establishments is located on the former ZPC Ursus area.

In 2013 we intent to continue the realisation of pro-social projects and we are convinced that they will bring tangible results both for direct beneficiaries and for communities in which they will be carried out.

6. STRATEGY AND POLICY REGARDING FURTHER GROUP DEVELOPMENT

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 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 throughout the whole Celtic Group. 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, the Group has significantly reduced total cost related to people, which in comparison to the year 2011 decreased by 39.3%. One of the essential elements of the personal cost decrease was the reduction of the cash remuneration for the Management Board and the Supervisory Board and the introduction of remuneration in the form of subscription warrants for the Management Board's members. The results of the adopted strategy are reflected both in financial terms and in the Group's capital and organisational structure.

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.

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

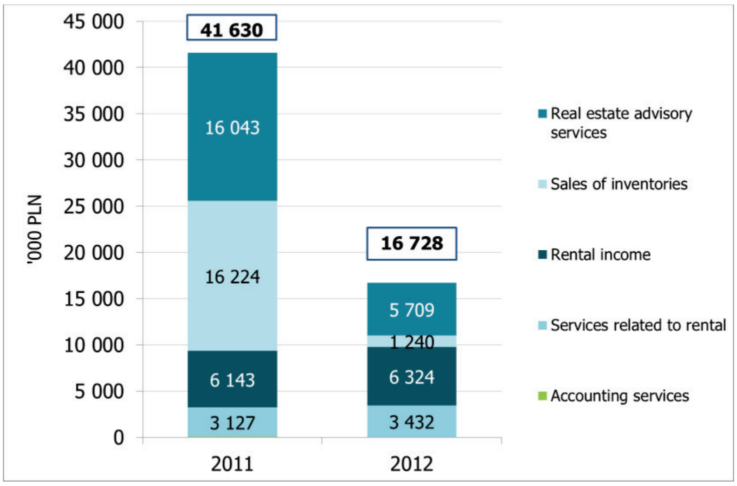
- ### REVENUES STRUCTURE AND INFORMATION ON PRODUCTS

In 2012, Celtic Group operated in the following sectors:

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

The following chart presents Group's revenues structure for the years 2012 and 2011:

Celtic Capital Group structure of revenues



In 2012, the total Group revenues amounted to PLN 16.7 million. The largest share in revenues (near 60%) was generated by the income from rent and from services related to rent, which in total increased by 5.2% compared to 2011. Revenues from rent were generated by two office buildings in Warsaw – Aquarius on the Połczyńska 31A street and Solar at Cybernetyki 7B, which on 31 December 2012 were leased at 98% and 95% respectively.

Following the finalisation of sales of finished projects of the Group in 2011, revenues from sales of inventories in the year 2012, generated primarily from the sale of plots of land in Magdalenka, amounted to PLN 1.2 million and were lower than the last year by PLN 15.0 million. The completion of advisory projects conducted by Group's subsidiaries in Italy and United Kingdom resulted in the decrease of revenues from advisory services by PLN 10.3 million comparing to 2011.

The above changes resulted in total decrease of revenues by PLN 24.9 million.

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

The main market of the Celtic Group is Poland, and in particular the Warsaw metropolitan area where is located ca 99% (in terms of value) of investments held by the Group. The remaining part of Group's portfolio was composed from commercial and residential developments in Montenegro and Hungary. Montenegro's real estate was sold in May 2012.

Following the finalization of advisory projects conducted in Italy and United Kingdom, the geographical structure of Group's revenue in the year 2012 has changed. In 2012 near 80% of Group's revenues was generated by the domestic market, while in 2011 this proportion amounted to 50%. The remaining part of the revenue was provided by foreign customers, mainly from Italy and the United Kingdom, where the Group's companies have been providing advisory services regarding real estate asset management. In the year 2012, following the completion of projects carried out in Italy and in the UK, the Group companies operating in these markets have been dissolved.

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

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

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

One of the most important customers of Celtic Group in 2012 was Italian company Spazio Industriale, to which Celtic Italy S.r.l, an Italian subsidiary of Celtic Property Developments S.A. has been providing advisory services. The income generated by the collaboration with Spazio Industriale amounted to over PLN 2.0 million and represented ca 14% of the total Group revenues in 2012.

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

• EVENTS AFFECTING GROUP ACTIVITIES AND FINANCIAL RESULTS

➢ COMPLETION OF THE CONSTRUCTION AND OCCUPANCY PERMIT FOR IRIS BUILDING AT CYBERNETYKI 9 STREET, WARSAW

The IRIS project includes the development of a six-storey office building of the total lease area of about 14.3 thousand sqm altogether with 233 parking lots and is the last phase of *Cybernetyki Office Park* situated at the crossing of Cybernetyki and Postępu streets in the Mokotów district of Warsaw. In the 3rd quarter of 2012 the construction works executed by Eiffage Budownictwo Mitex S.A. were completed. On 17 October, 2012 the company has obtained occupation permit. First tenants – companies from Saint-Gobain group has moved in December 2012. As on the day of the report publication, the IRIS building was leased in 46% while for the remaining surface the Group is conducting negotiations with potential tenants. The construction and the fit-out phases will be financed by an investment loan up to EUR 20.1 million and a revolving VAT loan up to PLN 2.0 million. These loans were given to a subsidiary Belise Investments Sp. z o.o (company responsible for the realization of the IRIS project) based on the loan agreement concluded on 12 August 2011 between Belise Investments sp. z o.o and Bank Zachodni BZ WBK S.A.

➢ DECREASE OF THE VALUE OF CELTIC GROUP PROPERTIES PORTFOLIO AT THE END OF THE YEAR 2012

According to valuations made by Savills Sp. z o.o. at the end of 2012, the total fair value of the investment properties and stocks amounted to PLN 476.5 million and was by about PLN 124.2 million lower than the value at the end of 2011. Decrease of properties values was included in the result from the valuation of investment properties, which at the end of 2012 was negative and amounted to PLN 55.7 million being the main component of the total Group's loss in 2012 of PLN 162.8 million.

Factor which positively influenced the value of Group portfolio was the increase of value of IRIS building as result of its completion and occupancy permit delivery. The value of the portfolio was negatively influenced by such events as the sale of several properties from Group's portfolio, lack of the valid Master plan for Ursus as well as difficult market situation persisting during last several years and characterized by lower demand for both commercial and residential properties.

- **ACCEPTATION PROCEDURE OF THE MASTER PLAN FOR THE POST INDUSTRIAL LAND 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.

- **SALE OF REAL ESTATE PROJECTS**

In 2012 Celtic group sold land with buildings situated at 22 Łopuszańska street in Warsaw, (through the sale of the subsidiary company Devin Investments sp. z.o.o.), properties located in the Republic of Montenegro (through the sale of the subsidiary company Tenth Planet d.o.o.) as well as two plots in Ursus. They were acquired by Dalkia Polska sp. z o.o and dedicated for heating and energy investment projects. The proceeds from sale of the above mentioned subsidiaries and investment properties generated additional cash flow in total amount of PLN 45.6 million.

- **ASSET MANAGEMENT AND ADVISORY SERVICES**

In 2012, following the finalization of projects realized by the Group on the British and Italian markets, Celtic terminated its activities on these markets by respectively dissolving and selling British and Italian operational units. Reduction of asset and advisory services decreased revenue from advisory services by PLN 10.3 million comparing to previous year.

- **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.

8. ASSESSMENT OF INVESTMENT POSSIBILITIES AND PROJECT OPPORTUNITIES

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

- ### CAPITAL INVESTMENTS

The value of investment properties held by Celtic Group amounted at the end of 2012 at PLN 476.5 million and has changed comparing to the previous year by PLN 124.2 million. Completion and delivery of the occupancy permit for IRIS building resulted in the increase of this property value by PLN 36.7 million comparing to the end of 2011 and had a positive impact on the overall value of the Group portfolio. The sale of Łopuszanska 22 project, Montenegro properties and Ursus plots together with lower valuation for the whole Ursus project because of the lack of the valid Master plan resulted in the decrease of the portfolio value.

Properties valuation at the end of the year 2012 like in the previous year were carried out by an independent valuer, Savills Polska Sp. z o.o. The following table presents Celtic Group's properties portfolio.

		Use	Land area		Rentable/ Sales Area (sqm)	Valuation at 31.12.2011 (m PLN)	Valuation at 31.12.2012 (m PLN)
Investment properties					**884 703**	**580,3**	**460,9**
1	**URSUS**	Residential / offices /commercial	585 053	sqm	740 000	381,7	281,5
2	**SOLAR / CYBERNETYKI 7B**	Office	3 908	sqm	5 792	35,3	32,3
3	**IRIS**	Office	7 449	sqm	14 300	45,9	82,6
4	**AQUARIUS** (*)	Office	15 480	sqm	5 211	30,5	22,9
5	**ŁOPUSZAŃSKA**	Office	44 909	sqm	66 000	40,9	sold
6	**JANA KAZIMIERZA**	Office	8 704	sqm	20 700	16,9	15,1
7	**WOLBÓRZ**	Logistics park	10	ha	32 700	2,4	2,4
	Capitalised rights of perpetual usufruct of land		-		-	26,7	24,1
Inventories (at fair value)					**19 214**	**20,3**	**15,6**
8	**MAGDALENKA**	Land (residential)	27 306	sqm	nd	4,9	3,6
9	**ŁÓDŹ, Legionów 18**	Residential / offices /commercial	1 457	sqm	3 814	-	5,3
10	**KOSZYKOWA (oficyna)**	Residential	744	sqm	454	2,8	1,1
11	**CZOSNÓW**	Land (agricultural and residential)	15,2	ha	nd	-	1,3
12	**JAKTORÓW**	Land (agricultural)	3,2	ha	nd	-	0,3
13	**NOWA PIASECZNICA**	Land (residential)	15 029	sqm	nd	-	0,6
14	**CZARNOGÓRA**	Residential, land	86 119	sqm	339	4,6	sold
15	**ALSONEMEDI (Węgry)**	Logistics, office	42 495	sqm	14 607	8,0	3,4
TOTAL PORTFOLIO					**903 917**	**600,7**	**476,5**

➢ URSUS

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

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

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

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

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

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

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

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

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

Despite delays in Master Plan validation Celtic Group did not abandon activities related to Ursus project and continued to execute conceptual and project works as well as demolition and order arrangement works. As confirmation of the above facts, in January 2012 the Group has concluded the strategic agreement with Dalkia Polska Sp. z o.o in the scope of revitalization of the ZPC Ursus brownfield site with particular attention to the cooperation of both parties in the construction of the cogeneration gas heating plant on this terrain.

Within the framework of this agreement, Dalkia Warszawa Sp. z o.o. has started the development of its own heating network in Ursus district with a special intensification of the network on the area of the former ZPC Ursus. In connection to the above, an agreement was signed with the SPEC in April 2012 with regard to the payable transfer to SPEC (currently Dalkia Warszawa Sp. z o.o.) of conceptual and project works as well as of obtained consents and administrative decisions related to the construction of the heating network with the telecom network from the Zapustna Street to the projected site for heating facilities and equipment and for the residential and commercial developments on the former ZPC Ursus area. The signature of the agreement will enable Celtic to launch investment projects immediately after approval of the Master Plan.

In June 2012, Dalkia Polska Sp. z o.o. started the realization of the project of the construction of the cogeneration gas heating plant on former ZPC Ursus terrains, through the acquisition of the land dedicated in the Master Plan for heating and energy investments and initiating project works. Together with the cogeneration gas heating plant, as an accompanying investment in cooperation with RWE Stoen, a modern Regional Power Point with voltage of 15 KV will be created.

The start of these three energy and heating investments projects is important for both present and future inhabitants of Ursus district as well as for investments planned on the revitalized area of former ZPC Ursus. These investments correspond to the needs of residents, businesses and developers associated with ensuring the security of heating and electrical energy supplies not only for Ursus district itself but also for the western area of Warsaw agglomeration.

In May 2012, the Group sold the plots no. 113 and 119 from the precinct 2-09-09 to a strategic investor, who, through related parties, intends to carry on activities regarding water and sewage management in the revitalized area.

In addition, the Group also basing on the resolution of the Warsaw City Municipal Council no XXXV/1024/2008 of 29 May 2008, on the letter of the Municipal Roads Investment Board of 30 July 2010 as well as on the Notification of the Minister of Infrastructure of 05 October 2011 transferred respectively to the State Treasury plots no. 168/1, 168/7, 168/8 and plot no. 86/2 from the precinct 2-09-09. These plots, under the Master Plan project are dedicated for the construction of four-lanes collision-free roads connecting the revitalized area to Aleje Jerozolimskie through the construction of Nowolazurowa Street and to Połczyńska Street through the construction of Nowomory Street. The Municipal Roads Investment Board plans to complete both streets in 2013. Construction of these two roads (i.e. Nowowolazurowa and Nowomory) is another important element in revitalizing the area of the former ZPC Ursus through their inclusion in the integral and comprehensive network of urban roads thanks to rapid and collision free road connections..

The sale of the above projects or plots to strategic investors had as objective the launch of investment projects to such entities as the Municipal Roads Investment Board, Dalkia Polska, Dalkia Warszawa or RWE in Ursus district area. These actions are part of the conceptual and design works of the Group realized during several years and aimed at achieving the full and structural revitalization of the brownfield site of the former ZPC Ursus, through the construction of modern roads, energy, heating and sewage infrastructures allowing to the revitalized sector covering ca. 20% of Ursus district to became modern and multifunctional urban tissue. The localization of the above mentioned investment projects in the immediate vicinity of the planned Celtic Group’s investment project is essential for their realization, because it will not only allow to start their realization immediately after the adoption of the Master Plan, but also will significantly optimize the infrastructural costs of projects.

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

- **IRIS BUILDING, 9 CYBERNETYKI STREET, WARSAW**

According to schedule, in the 4th quarter of 2012 the construction works executed by Eiffage Budownictwo Mitex S.A. were completed. On 17 October, 2012 the company has obtained occupation permit. First tenants – companies from Saint-Gobain group has moved in December

2012. As on the day of the report publication, the IRIS building was leased in 46% while for the remaining surface the Group is conducting negotiations with potential tenants.

The IRIS project includes the development of a six-storey office building of the total lease area of about 14.3 thousand sqm altogether with 233 parking lots. IRIS is the last phase of the office and residential project offering an overall surface of 100 thousand sqm, situated at the crossing of Cybernetyki and Postępu streets in the Mokotów district of Warsaw. The project is composed of office buildings Helion, Luminar, Solar, Iris and Mokotów Plaza I and of the residential project Mozaika. Celtic Group has developed and sold 3 of offices buildings while Solar is currently leased and generates lease revenues for the Group. The construction and the fit-out phases is financed by an investment loan up to EUR 20.1 million and a revolving VAT loan up to PLN 2.0 million. These loans were given to a subsidiary Belise Investments Sp. z o.o (company responsible for the realization of the IRIS project) based on the loan agreement concluded on 12 August 2011 between Belise Investments sp. z o.o and Bank Zachodni BZ WBK S.A. The loan agreement is described in Section *17 Loans and credit agreements* of the present report.

➢ SOLAR BUILDING, 7B CYBERNETYKI STREET, WARSAW

The eight storey B+ class office building of 5,792 sqm of was built in 1998 and refurbished by the Group in 2008. The building is currently leased to such companies as Beko S.A., Berlin Chemie, Akzo Nobel, Liqui Moly Polska, ZPUE S.A. and Bard Poland. On 31 December 2012, the building was rent at 95%. Celtic Group headquarter was moved on this address starting from September 2011.

➢ AQUARIUS BUILDING, 31A POŁCZYŃSKA STREET, WARSAW

The Aquarius Office Park consists of a five storey B class office building of 5,211 sqm, investment land with a valid building permit for the construction of A class office building of ca 2,500 sqm as well as investment land of approx. 10,000 sqm dedicated for the construction of an office-warehouse complex. The office building is currently leased to such companies as VB Leasing, Betacom S.A., Fly Away Travel and Veolia Eurolines. On 31 December 2012, the building was rent at 98%.

➢ 22 ŁOPUSZAŃSKA STREET, WARSAW

In May 2012 the Group has sold all shares in the subsidiary company Devin Investments Sp. z o.o., which was the owner of the building and land situated at 22 Łopuszańska street in Warsaw of the total surface of 4.5 ha with the valid WZiZT for the project. Sale of this project resulted from the strategy adopted in 2011.

➢ 12/14JANA KAZIMIERZA STREET, WARSAW

This property is located near the speedway to Poznań, in proximity of Servier and Cefarm headquarters and Citibank Handlowy operations centre. The property measuring 8.707 sqm includes a facility which is currently under demolition process. The current building conditions enable a construction of an office building measuring about 20,700 sqm. The lowest floor of the building is designated to be a commercial area. Good communication network and the proximity of the city centre and major transport routes (Warsaw bypass, East-West highway) as well as the low supply of modern office space in this location account for the project's attractiveness.

➢ WOLBÓRZ, MAZOWIECKIE VOIVEDOSHIP

The land area of 99 594 square meters is located in Wolbórz, close to Auchan Distribution Centre and E67 road from Warsaw to Cracow and Katowice. In accordance with the applicable zoning decision there is a possibility to construct a logistics and distribution centre measuring 32.700 sqm. The Group intends to sell the undeveloped land with construction project to final investor.

- **PROJECTS BEING REALIZED AND PROJECTS DESIGNATED TO BE SOLD (INVENTORIES):**

- **MAGDALENKA**

The Group owns land area of 51,859 sqm in Magdalenka, which is divided into 46 plots designated for single-family housing. As at the day of the report publication, a total of 16 plots with the area of 17,045 sqm were available to be sold.

- **18 LEGIONÓW STREET, ŁÓDŹ**

The property in Łódź is the building with total area of 3,814 sqm on a plot of 0.1457 ha, located on 18 Legionów street, in Piotrkowska street proximity. The Group intends to realize a thorough revitalization of the building and in the next stage to sell residential, office and commercial premises.

- **KOSZYKOWA 69**

The real estate at Koszykowa 69 includes a four-storey tenement house (Ludwik Szanser's tenement house) and the outbuilding. The building was renovated and extended by Celtic Group, offering 14 apartments and commercial areas which were sold in 2011. At 31 December 2012 Group investment properties portfolio included the outbuilding. Currently, the Group does not plan to revitalize this part of the property.

- **CZOSNÓW**

The land in Czosnów has been purchased by the Group within the acquisition of 100% shares in Antigo Investments Sp. z o.o. The land in Czosnów has a total area of 15.2 hectares, the most part of which is agricultural land. These plots offer a high potential for the development, which will be possible to release as a result of change of plots category from agricultural land to construction land.

- **JAKTORÓW**

The land in Jaktorów has been purchased by the Group within the acquisition of 100% shares in Antigo Investments Sp. z o.o. These are agricultural land, which Group offers for sale for country houses habitation.

- **NOWA PIASECZNICA**

The land in Nowa Piasecznica has been purchased by the Group within the acquisition of 100% shares in Antigo Investments Sp. z o.o. The land in Czosnów has a total area of 1.5 ha. The half of the land has construction category, designated for single-family housing projects while the second half is the agricultural land which shall increase in value when the category changes in construction land.

- **MONTENEGRO**

In May 2012 the Group has sold all shares in the company Tenth Planet d.o.o., which was the owner of properties in Montenegro of the total surface of 85,000 sqm and situated in Dobrota, Risan i Zagora. Sale of this project resulted from the strategy adopted in 2011.

- **ALSONEMEDI, HUNGARY**

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

9. 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 Group results.

10. FACTORS IMPORTANT FOR FURTHER GROUP DEVELOPMENT

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, and focused Group's activities on the Polish market.

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

- **MACROECONOMIC SITUATION IN POLAND**

  Due to the concentration of Group activities on the Polish market, the overall condition of the Polish economy, with a particular focus on the pace of its growth and the level of unemployment, will play a key role in shaping the demand for the real estate offered by Celtic Group. Decline in the growth of the Polish economy registered in the year 2012 (expected growth of GDP in 2012 is about 2.0% vs. 4.3% in 2011) contributed to maintain a high level of unemployment rate, which in December 2012 was at 13.4%. Continued downturn directly affects consumer sentiments among individuals and among entrepreneurs. These factors translate directly to the decline in demand for both office/ commercial and residential properties thereby forcing developers to considerably reduce their prices.

- **CONDITIONS ON FINANCIAL MARKETS**

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

- **BANKS' CREDIT POLICY AND LIMITATIONS OF THE AVAILABILITY OF MORTGAGE LOANS**

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

The year 2012 has brought a significant limitation of the availability of mortgage loans as result of the necessity to adapt by the banks to the requirements imposed by the Financial Supervisory Authority in the form of so-called Recommendation S, which entered into force in January 2012. It introduced stricter rules for calculating credit capacity (among others including limitation of the maximum loan period to 25 years and setting a maximum share of loan monthly payment at a level of no more than 42% of the revenue of the borrower who wants to take a loan in foreign currency) which significantly affects the amount of the available credit.

- **GOVERNMENTAL POLICY SUPPORTING ACQUISITION OF FIRST HOUSING**

The year 2012 was the last year of the functioning of the Government's program to support the purchase of first housing *Rodzina na Swoim*. This Program had to be replaced from July 2013, by program *Mieszkanie dla Młodych*, in which the formula was changed: aid for loan instalments were to be replaced by a single premium to the purchaser own contribution in the amount of from 10 to 15% of the value of the apartment. Just like in *Rodzina na Swoim*, the aid is addressed to people under 35 years of age, buyers of the first housing. However, having in mind the legislative process, the new law is likely to enter into force only at the beginning of 2014, although it is not excluded, that in the face of emerging new budget expenditure, the Government abandon its implementation.

In view of the new program implementation date in 2014 and our target customer segment for Ursus project, the new program may positively impact in the future the demand for housing offered by Celtic Group.

- **IMPLEMENTATION OF 'DEVELOPERS LAW'**

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

- **ADMINISTRATIVE DECISIONS ON LANDS**

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

11. OVERVIEW OF BASIC ECONOMIC AND FINANCIAL INFORMATION

Selected items of the consolidated statement of comprehensive income

	12 months period		Change (%)
	From 01.01.2012 to 31.12.2012 (PLN ths.)	From 01.01.2011 to 31.12.2011 (PLN ths.)	
Revenue	16 728	41 630	*-59,8%*
Costs of sales	-9 916	-29 721	*-66,6%*
Profit on sales	**6 812**	**11 909**	***-42,8%***
Operational costs, including:	**-175 700**	**-294 766**	***-40,4%***
Administrative expenses - property related	*-20 728*	*-30 716*	*-32,5%*
Administrative expenses - other	*-21 465*	*-15 727*	*36,5%*
Selling and marketing expenses	*-1 387*	*-1 999*	*-30,6%*
Net loss on sale of investment property	*-46 319*	-	-
Other income	*2 303*	*643*	*258,2%*
Net gain (loss) from fair value adjustments on investment property	*-55 709*	*-214 710*	*-74,1%*
Gain/ (loss) on sale of subsidiares	*-10 224*	-	-
Impairment of goodwill	*-22 171*	-	-
Operating result	**-168 888**	**-282 857**	***-40,3%***
Finance income	9 040	5 205	*73,7%*
Finance costs	-5 691	-8 964	*-36,5%*
Profit (loss) before income tax	**-165 539**	**-286 616**	***-42,2%***
Income tax	2 695	418	*544,7%*
Net profit (loss)	**-162 844**	**-286 198**	***-43,1%***
Diluted earnings per share (PLN)	-4,8	-8,4	*-43,1%*

Celtic Group closed the year 2012 with net loss of PLN 162.8 million PLN, which was by 43.1% lower than in 2011. The factor which contributed the most to decrease the loss in 2012 comparing to 2011 was related to cost reduction (cost of sales, property related administrative expenses, financial costs). Cost reduction was the consequence of sale of several properties and subsidiaries from the Group portfolio as well as of the active Group's policy in the matter of cost optimization. Factors that had the greatest negative effect on the net loss figure was a negative result from the valuation of investment properties amounting to PLN 55.7 million and a loss from the sale of investment properties in the amount of PLN 46.3 million.

In 2012, the total Group revenue amounted to PLN 16.7 million and was lower by PLN 24.9 million than in previous year. Revenue of the 4Q 2012 amounted to PLN 3.2 mln and were by PLN 6.0 mln lower than in 4Q 2011 and by PLN 0.2 million higher than in 3Q 2012. The largest share in 2012 revenue was generated by the income from rent and from rent related services (in total 58.3% of total Group revenue) and by the income from advisory services (34.1%). Revenues from rent were generated by two office buildings in Warsaw – Aquarius on the Połczyńska 31A street and Solar at Cybernetyki 7B, which on 31 December 2012 were leased at 98% and 95% respectively.

The income from rent, due to the nature of the concluded agreements, represent a very stable part of the Group revenue and is not subject to large fluctuations on both quarterly and annual basis. In 2012 the income from rent was higher by 5.2% comparing to 2011 which is principally due to the fluctuation of PLN/EUR exchange rate and higher coefficient of surface leased in Aquarius building.

Second in terms of value source of revenue were income from advisory services. In 2012 these revenues amounted to PLN 5.7 mln and were lower by 10.3 million PLN comparing to the previous year. The significant decrease in revenue from advisory services is due to the finalisation of projects managed by Group's subsidiaries in Italy and in the United Kingdom. Following the completion of these projects, Italian and British operational companies were sold and dissolved respectively.

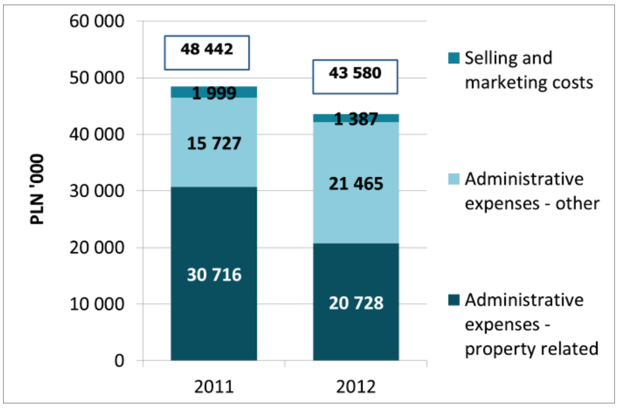
The revenue from sale of inventories has also signifcantly decreased in 2012, reaching the amount of PLN 1.2 mln comparing to PLN 16.2 mln in 2011. The decrease in revenue from sale of inventories was due to the finalisation of sales of the Group's completed projects (Koszykowa 69, Donja Lastva in Montenegro). In 2012 the revenue from sale of inventories was generated mainly by sales of plots of land in Magdalenka project.

The decrease in revenue discussed above translated into the decrease of the Group's result from sales by 42.8% comparing to 2011.

At the net result level, Celtic Group closed the year 2012 with a net loss of 162.8 mln PLN, which was lower than in 2011 by 43.1%. As mentioned above, the factor which contributed the most to the decrease of the loss in 2012 comparing to 2011 was the reduction of administrative expenses (property related and other administrative costs) by PLN 4.3 million as well as the positive balance of finance activity in the amount of PLN 3.3 million. The decrease in the property related expenses was achieved mainly through the reduction of employment costs by PLN 7.8 mln (employee costs including cost of warrants for the Management Board) being the consequence of the reduction of number of employees within the Group's structure, the reduction of the Management Board and the Supervisory Board remuneration as well as of the reduction of the amount of property tax. The decrease of property tax and of financial costs resulted from sale of several properties and subsidiaries from the Group portfolio which reduced Group's tax and credits' liabilities related to these properties. The decrease in financial costs was also positively affected by fluctuation of EUR/PLN exchange rate. It should be also noted that the Group has registered financial income higher by PLN 3.8 million comparing to 2011 which was due to the dividend received from the subsidiary company in Q1 2012.

Group's operational cost structure is presented in the chart below.

Celtic Group operational costs structure



The factors that had the greatest negative impact on the final Group result were: the net loss from the valuation of investment properties amounting to PLN 55.7 million and the net loss from sale of investment properties in the amount of PLN 46.3 million. Lower investment properties valuation resulted mainly from the sale of several properties from the Group portfolio (Łopuszanska 22 in Warsaw, properties in Montenegro, plots of land in Ursus) as well as lower valuation of Ursus property as a consequence of the lack of the valid Master plan.

Another factor which has affected the final result of the Group was the goodwill impairment in the amount of PLN 22.2 million. The value of goodwill results from the merger transaction, which took place in 2007. The assessment of the recoverable amount of the goodwill made by the Management Board of Celtic Property Developments S.A. at the end of 2012 demonstrated impairment amounting to PLN 22.2 million Test used to assess the value of the goodwill was described in note 4 c to the consolidated financial statements *Important assessment and accounting estimations, point c) Loss of goodwill.*

The above changes in the administrative and operational costs occurred in 2012, were a consequence of the activities initiated in 2011 and aligned with the Group strategy focusing on Ursus project realization, sale of remaining properties being in the Group's portfolio and simplification of the overall Group's structure.

Selected items of the consolidated balance sheet

	As at:		Change
	31.12.2012 (PLN ths.)	31.12.2011 (PLN ths.)	2012/2011 (%)
TOTAL ASSETS	**521 851**	**677 608**	***-23,0%***
Non-current assets, including:	**439 175**	**560 844**	***-21,7%***
Investment properties	*438 016*	*534 404*	*-18,0%*
Goodwill	-	*22 967*	*-100,0%*
Current assets, including:	**82 677**	**116 764**	***-29,2%***
Inventory	*15 496*	*66 283*	*-76,6%*
Trade and other receivables	*17 186*	*23 233*	*-26,0%*
Current income tax receivables	-	*128*	*-100,0%*
Cash and cash equivalents	*27 101*	*16 249*	*66,8%*
Assets held for sale	*22 894*	*10 871*	*110,6%*
TOTAL EQUITY AND LIABILITIES	**521 851**	**677 608**	***-23,0%***
Equity, including:	**383 621**	**543 281**	***-29,4%***
Share capital	*3 431*	*3 407*	*0,7%*
Supplementary capital	-	*1 161*	*-100,0%*
Reserve capital	*4 399*	*23 078*	*-80,9%*
Translation reserve	*-3 933*	*-2 694*	*46,0%*
Retained earnings/(accumulated losses)	*379 724*	*518 329*	*-26,7%*
Total liabilities, including:	**138 230**	**134 327**	***2,9%***
Non-current liabilities	*121 908*	*52 467*	*132,4%*
Current liabilities	*16 322*	*79 901*	*-79,6%*
Liabilities directly associated with assets held for sale	-	*1 959*	*-100,0%*

At the end of 2012, the Group assets were by PLN 155.8 million lower than at the end of 2011. The factor which positively influenced on the amount of assets was the increase of cash and cash equivalents by PLN 11.1 million resulting from sale of properties or subsidiaries realized in 2012. As a consequence of the above mentioned sale transactions and changes in the Group's portfolio valuation total value of investment properties decreased by PLN 96.4 million comparing to 2011. The write-off goodwill in the amount of PLN 22.9 mln commented in the previous section as well as the decrease in inventories by PLN 50.8 million mainly due to the finalization of the IRIS building and its reclassification from inventories to investment properties category of assets have also contributed to the decrease of the total amount of Group's assets.

As at 30 December 2012, the Group equity amounted to PLN 383.6 million and accounted for 73.5% of the total balance sheet while liabilties represented 26.5% comparing to 80.2% and 19.8% respectively in 2011.

The following table shows the share of each category of liabilities in total assets:

	31.12.2012	31.12.2011
Liabilities to total assets	**26,5%**	**19,8%**
Non-current liabilities to total assets	**23,4%**	**7,7%**
Borrowings including finance leases to total assets	21,3%	5,1%
Income tax liabilities to total assets	2,0%	2,5%
Trade and other payables to total assets	0,1%	0,1%
Current liabilities to total assets	**3,1%**	**11,8%**
Borrowings including finance leases to total assets	0,4%	8,4%
Income tax liabilities to total assets	2,6%	3,3%
Trade and other payables to total assets	0,1%	0,1%
Other liabilities to total assets	**-**	**0,3%**

In respect to liabilities, Celtic Group has consistently maintained low debt ratio through financing its activities by own funds. The ratio of liabilities to total assets at the end of 2012 was 26.4% and was higher than the previous year. The increase of the share of borrowings in the overall structure of liabilities was due to the increase of the amount of loans by PLN 21.9 million comparing to 2011 (change by 24%) with the simultaneous decrease of total Group's assets by 23%. The increase of borrowings resulted mainly from the activation of successive tranches of the credit granted by the Bank BZ WBK to the subsidiary company Belise Investments Sp. z o.o. for the realization of the IRIS project.

At December 31, 2012, over 20% of the total amount of loans was financial leasing liabilities, including the perpetual usufruct liabilities in the amount of PLN 24.1 million. The remaining part was related to bank loans.

The structure of liabilities changed in relation to the year of 2011 due to the increase of the share of long-term liabilities in total assets from 7.7% in 2011 to 23.2% at 31 December, 2012. This change is due to the activation of successive tranches of credit granted by BZ WBK for IRIS project as well as to the reclassification of credit granted by HSBC Bank from short-term to long-term liability in connection with the amendement to credit agreement signed in March 2012. On the basis of the amendment the Group has commit to repay the loan in equal installments of EUR 94.000 each, payable at 23 December 2012 (paid in due time), 27 March 2013, 27 June 2013, 27 September 2013 and 23 December 2013 as well as of the total repayment of EUR 10,592,000.00 up to 27 March 2014. The above mentioned amounts of the loan installments and of the total repayment take into account the decrease of the loan burden by the part allowable to Devin Investments sp. z o.o which was sold in May 2012. All payments scheduled for 2012 were executed in due time.

During the reporting period the cash position of the Group increased from PLN 16.2 million at the end of 2011 to PLN 27.1 million at the end of 2012 and was due to proceeds from sales of properties/ subsidiaries and to proceeds from loans.

12. RISK FACTORS AND THREATS

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

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

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

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

  According to first estimations in 2012 Polish economy grew by approx. 2.0%, 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 THE REALISATION OF DEVELOPMENT PROJECTS**

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

- **RISK RELATING TO LOCATION OF REAL ESTATES**

  The assessment of the location of land for development projects is one of the most material criteria determining the expected income from the project. Inaccurate assessment of the location for its proposed use, may hinder or disable the sale of flats contained in such property at the price assumed by the Company, or the rent of office spaces at expected rates. In such a situation the risk exists that the Celtic Capital Group fails to generate the expected income from sales; or, if construction works are contracted earlier, the Company will generate margins at a level lower than predicted. Moreover, if the office space is not rented and the sale of flats delayed – the Company will be reliant on external financing to a greater extent.

- **RISK RELATING TO INABILITY TO BUY AN ATTRACTIVE LAND**

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

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

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

- **Risk relating to geographical concentration of the Company's and Group's projects**

  The concentration of the majority of 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 increase of costs of the development projects**

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

- **Risk relating to unfavourable soil conditions**

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

- **Risk relating to unfavourable weather conditions**

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

- **Risk relating to changes in selling price of flats and lease rent rates**

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

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

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

- **RISK RELATING TO ENVIRONMENTAL RESPONSIBILITY**

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

- **RISK RELATING TO CONSTRUCTION CONTRACTS**

The Group uses services of specialized construction contractors, who often employ subcontractors, in order to implement its development projects. The Company cannot rule out the possibility of non-performance or improper performance of the obligations of such contractors and subcontractors, which may adversely affect the performance of construction projects and, consequently, the business operations, financial standing and results of the Group.

Moreover, taking into account the joint liability of the investor and the contractor for payment of fees to subcontractors, the Company may not rule out the possibility of the contractor's incapacity to pay those fees and, therefore, the occurrence of liability on the part of the Company or its subsidiary, acting as the investor. The above risk is limited by allocating individual projects to individual companies. Additionally, the payment for services provided by the general contractor is dependent on its timely payments to subcontractors. The Company monitors payments made by the general contractors to their subcontractors on a daily basis.

- **RISK RELATING TO LEASE AGREEMENTS**

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

- **RISK RELATING TO FAILURE TO ATTAIN ASSUMED STRATEGIC GOALS**

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

- **RISK RELATING TO THE MANAGERIAL STAFF**

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

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

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

- **FOREIGN EXCHANGE RISK**

  The debt of the Group denominated in foreign currencies amounted at the end of 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.

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

  The regulations on mortgage loans issued by the Financial Supervision Commission in 2010 and 2011 months (so-called T-recommendation issued in August 2010 and the amendment of S-recommendation in force from the January 2012) may substantially limit the accessibility of loans designated to finance the purchase of the real estate. As a result they may cause a drop in demand for apartments and houses and consequently reduce the demand for the Group's development projects.

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

13. LEGAL PROCEEDINGS WITH VALUE OF OVER 10% OF 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.

14. 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 *VI.2 GROUP STRUCTURE.*

15. SIGNIFICANT AGREEMENTS

In the year 2012, the Company or its subsidiaries have signed one significant agreement as well as one amendment to the significant agreement in force. 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.

- **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. More detailed information on this Annex is presented in the Section *17. LOAN AGREEMENTS.*

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 and their subsidiaries did not conclude in 2012 any agreements the value of which exceeds 10% of the capital of the Celtic Property Developments S.A.

16. 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. 24 to the consolidated financial statements.

17. CREDIT AND LOANS AGREEMENTS, PLEDGES AND GUARANTEES

In the financial year 2012 all obligations arising from the two most important credit agreements were realised on due time.

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

The agreement was signed August 12, 2011 between Bank Zachodni WBK S.A. and the subsidiary company Belise Investments Sp. z o.o. as borrower, Celtic Property Developments S.A., Lakia Enterprises Ltd. headquartered in Nicosia (Cyprus) and East Europe Property Financing A.B. headquartered in Stockholm (Sweden) as guarantors. The agreement concerns the finance of the construction and fit-out of IRIS building located at Cybernetyki 9 street in Warsaw for which the occupation permit was delivered in October 2012.

Subject to the terms of the agreement, the Bank made available: 1) an Investment Loan up to EUR 20,141,000 for financing or refinancing part of the project's costs or fit-out costs; 2) a revolving VAT Loan up to PLN 2,100,000 for financing or partial refinancing the VAT tax, due during the realization of the project.

Pledges and guarantees provided in connection with this agreement have not changed during the reporting period whereas on 8 May 2012 the entry in the Register of Pledges has been made on the shares of the subsidiary Belise Investments Sp. z o.o. The agreement on the establishment of registered and financial pledges on Belise Investment Sp. z o.o. shares was concluded on 4 April 2012 by and between Bank Zachodni WBK S.A., based in Wrocław, Poland ("Pledgee") and Lakia Enterprises Limited, based in Nicosia, Cyprus ("Pledgor") The pledge is to secure the payment of the Company's obligation, i.e. the Investment Loan and VAT Loan , arising from the loan agreement.

The registered pledge was established on 1000 (one thousand) of shares in Belise Investments sp. z o.o share capital of, having a nominal value of PLN 50.00 each. 1000 of shares in the share capital represent approximately 91% of the total number of shares (amounting to 1100) in the share capital of this company. Total nominal value of the 1000 shares amounts to PLN 50,000.00.

In the event of conversion of the construction to the investment loan the final repayment of the loan shall occur no later than August 12, 2019, otherwise the term of the final payment provided for in the loan agreement is August 2014. With regard to the VAT Loan, the final payment will occur no later than August 12, 2014.

➢ LOAN AGREEMENT WITH HSBC

In the reporting year 2012 Celtic Group companies were parties to the loan agreement related to the financing of the real estate development activities. This agreement, dated July 7, 2009, was concluded with HSBC Bank and was a consolidated text of the loan agreement initially signed 21 December 2006, which has been changing in the course of its execution.

Parties to this agreement are the Bank HSBC (HSBC Bank Plc and HSBC Bank Polska S.A.) and Celtic Property Developments S.A. subsidiaries: Blaise Investments SP. z o.o., Devin Investments Sp. o.o., Lakia Investments Sp. z o.o., Mandy Investments SP. z o.o., Robin Investments Sp. z o.o. as borrowers and Celtic Property Developments S.A, Blaise Investments Sp. z o.o., Devin Investments Sp. o.o., Lakia Investments Sp. z o.o., Mandy Investments Sp. z o.o., Robin Investments Sp. z o. o and Lakia Enterprises Ltd (Cyprus) as guarantors.

Subject to the terms of the agreement, the Bank made available to borrowers the loan of EUR 14.000.000. The loan is intended to finance capital expenditures related to Celtic Group investments projects. The amendment to this agreement was signed in March 2012 with regard to the maturity of the existing loan occurring on March 27, 2012, to refinance an existing loan in the amount of EUR 12,500,000.

Principal changes introduced on the basis of the amendment are:

- ❖ The parties agreed the term of repayment, including interest and other costs, on the March 27, 2014.
- ❖ Subsidiaries are jointly and severally liable for payments of mandatory instalments of 94.000 EUR, occurring on 27 June 2012, 27 September 2012, 23 December 2012, 27

March 2013, 27 June 2013, 27 September 2013 and 23 December 2013. The one-time final payment amounting to EUR 10.592.000 will be paid on 27 March 2014. The above indicated amounts of instalments and final payment take into account the reduction of the credit by the portion attributable to the subsidiary Devin Investments Sp. z o.o., which was sold in May 2012.

- Interests will be calculated on quarterly basis.
- The interest rate was set at a variable rate of three-month interbank EURIBOR for deposits in EUR, increased by the margin of the Bank.
- Mandatory prepayment - sale of a Property. If a Borrower decides to sell the whole or any part of the property to any person other then another Borrower, then such Borrower shall designate the proceeds from such sale for prepayment of the loans (together with accrued interests and applicable costs) in part or in full on the date when a Property is disposed of. Full repayment of the loans will be required if after such sale conditions set at the Financial Conditions Clause are not fulfilled.
- Other clauses, including these on loan security, arising from the agreement and from amendments signed earlier, remain unchanged.

All instalments payable in 2012 were paid on due time.

This agreement is 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 due 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 3 April 2012 of 4,1327 PLN/EUR), representing 10% of the Celtic Property Developments S.A. equity as at the end of the quarter preceding its signature (i.e. 31 December 2011).

- **LOANS RAISED AND GRANTED BETWEEN CELTIC PROPERTY DEVELOPMENTS S.A. AND COMPANIES WITHIN THE CAPITAL GROUP**

W poniższej tabeli zaprezentowano zestawienie umów pożyczek i kredytów zaciągniętych i udzielonych przez Celtic Property Developments S.A. w ramach Grupy Kapitałowej.

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 above steps were taken by the Group in order to simplify its organizational structure and optimize its operating costs. The Agreements constitute significant agreements 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.

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

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.

- **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.

19. FORECASTED FINANCIAL RESULTS

Celtic Group and its dominant entity did not publish financial results forecasts for the year 2012.

20. FINANCIAL RESOURCES MANAGEMENT ASSESSMENT

Celtic Group finances its operations primarily from own funds. In 2011 Group financial resources were used in accordance with the plans, purpose and current needs. The Group has regularly met all its obligations to counterparties, banks and mandatory contributions to the State. Total liabilities representing 26.5% of total Group assets does not represent a threat to the financial condition of the Group.

Credits and loans are supplementary source of financing of the Group activities. At the end of 2012 the total value of loans and bank loans amounted to PLN 113.2 million compared to PLN 91.2 million at the end of 2011. Loan liabilities include also liabilities from financial leasing related to the perpetual usufruct of the land. At the end of 2012 this kind of liabilities represented 21.3% of total loan liabilities of the Group.

21. 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. Changes in the Group structure are presented in the Section *VI. 2 GROUP STRUCTURE* of this report. Excepted Group structure changes no other changes were implemented in

As a result of the adopted strategy, the Group has worked on optimizing and simplifying existing procedures in both Celtic Property Developments and other entities being part of the Group.

22. 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 *18. 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.

23. 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.

24. 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.

25. 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.

26. CONTROL SYSTEM FOR EMPLOYEE SHARES SCHEMES

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

27. 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 audit and the review of Financial Statements for the year 2012 amounted to PLN 250,000.00 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);
- The fees of PLN 16,000.00 for the audit of financial statements of the subsidiary Belise Investments Sp. z o.o. for the period 1 January 2012 to 31 December 2012 (agreement of 21 December 2012).
- The fees of PLN 64,000.00 for the audit of the subsidiaries: Celtic Investments Ltd, Buffy Holdings No 1 Ltd, Lakia Enterprises Ltd and East Europe Property Finance AB for the period 1 January 2012 to 31 December 2012 (on the basis of agreements signed between PriceWaterhouseCoopers and these subsidiaries in their respective countries).

An additional cost of PLN 70.000,00 included in the Group's accounts in 2012 represented Belise Investments Sp. z o.o. audit costs for the year 2011, a non-deductible VAT for services provided in Sweden as well as foreign exchange differences.

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).

28. STRUCTURE OF ASSETS AND LIABILITIES – BY LIQUIDITY

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

	As at:				Change
	31.12.2012 (PLN ths.)	31.12.2011 (PLN ths.)	% in total assets 2012	% in total assets 2011	*2012/2011 (%)*
Investment properties	438 016	534 404	83,9%	78,9%	*-18,0%*
Property, plant and equipment	978	1 032	0,19%	0,2%	*-5,2%*
Intangible assets, excluding goodwill	137	95	0,03%	0,01%	*44,2%*
Investment in subsidiaries	35	37	0,01%	0,01%	*-5,4%*
Goodwill	-	22 967	0,00%	3,4%	*-100,0%*
Deferred income tax assets	8	2 264	0,00%	0,3%	*-99,6%*
Long term receivables	-	45	0,00%	0,01%	*-100,0%*
Non-current assets	**439 174**	**560 844**	**84,2%**	**82,8%**	***-21,7%***
Inventories	15 496	66 283	3,0%	9,8%	*-76,6%*
Trade and other receivables	17 186	23 233	3,3%	3,4%	*-26,0%*
Current income tax receivables	-	128	0,0%	0,02%	*-100,0%*
Cash and cash equivalents	27 101	16 249	5,2%	**13,2%**	*66,8%*
Current assets	**59 783**	**105 893**	**11,5%**	**15,6%**	***-43,5%***
Assets held for sale	**22 894**	**10 871**	**4,4%**	**1,6%**	***110,6%***
TOTAL ASSETS	**521 851**	**677 608**	**100,0%**	**100,0%**	***-23,0%***

Celtic Group liabilities structure on 31 December 2012 and changes compared with the status at the end of 2011:

	As at:				Change
	31.12.2012 (PLN ths.)	31.12.2011 (PLN ths.)	% in total assets 2012	% in total assets 2011	*2012/2011 (%)*
Share capital	3 431	3 407	0,7%	0,5%	*0,7%*
Supplementary capital	-	1 161	0,0%	0,2%	*-100,0%*
Other reserves	4 399	23 078	0,8%	3,4%	*-80,9%*
Translation reserve	-3 933	-2 694	-0,8%	-0,4%	*46,0%*
Retained earnings/(accumulated losses)	379 724	518 329	72,8%	76,5%	*-26,7%*
Equity	**383 621**	**543 281**	**73,5%**	**80,2%**	***-29,4%***
Trade and other payables	466	638	0,1%	0,1%	*-27,0%*
Borrowings, including finance leases	111 015	34 608	21,3%	5,1%	*220,8%*
Defferred income tax liabilities	10 427	17 221	2,0%	2,5%	*-39,5%*
Non-current liabilities	**121 908**	**52 467**	**23,4%**	**7,7%**	***132,4%***
Trade and other payables	13 804	22 627	*2,6%*	3,3%	*-39,0%*
Current income tax liabilities	376	672	*0,1%*	0,1%	*-44,0%*
Borrowings, including finance leases	2 142	56 602	*0,4%*	8,4%	*-96,2%*
Current liabilities	**16 322**	**79 901**	**3,1%**	**11,8%**	***-79,6%***
Liabilities directly associated with assets held for sale	**-**	**1 959**	**0,0%**	**0,3%**	*-100,0%*
TOTAL EQUITY AND LIABILITIES	**521 851**	**677 608**	**100,0%**	**100,0%**	***-23,0%***

29. CONTINGENT LIABILITIES

In 2011, the Group pledged Celtic will provide free of charge to the City of Warsaw about 20 hectares of land that are held within the Celtic land located in Warsaw Ursus, which according to the spatial development plan lined areas are designed for urban investments - roads and school. The value of these areas, according to the forecast financial impact of the adoption of the local development plan in the area of brownfields Orłów Śląskich Street prepared on behalf of the City of Warsaw, is estimated at about 70 million PLN. According to the statement made to free transfer provided by the group Celtic these urban land for development is the adoption of the local plan. In addition, the Group reserved the declaration submitted that the statement is valid only in respect of land which the said pool will continue to be held by the Group at the time of the adoption of the local plan.

On the day of publication of these financial statements City has not responded to the letter submitted in that case, at the same time is not passed by then zoning plan and the term is unknown when it will happen.

On the day of the publication of the report, the city does not taken position to the complex writings on the subject, at the same time there was the adopted.

According to the intention of the Board, the above statement was intended to encourage the City to take action as soon as possible the adoption of the land use plan, while supporting the City budget.

As at 31 December 2012, the Group owns the Celtic lands described above, subject to the declaration made to free transfer. At the same time as at 31 December 2012, the Group is not legally obligated to comply with the complex declaration. As a result, made the declaration is not treated as a liability or provision, in its report on December 31, 2012 and the whole land, located in Ursus, owned by the Group is measured at fair value (in accordance with the accounting policy adopted in this regard) and presented in the statement of financial position, investment properties.

Management Board statement

VI. MANAGEMENT BOARD STATEMENT

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

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

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

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

Celtic Property Developments S.A.

Consolidated financial statements

for the year ended 31 December 2012

Consolidated financial statement

(All amounts in PLN thousand unless otherwise stated)

Consolidated property portfolio

INVESTMENT PROPERTY (Note 6)

Property	Company	As at 31 December 2012 Fair value
Viterra	Lakia Investments	32 297
Jana Kazimierza	Mandy Investments	15 100
Ursus	Blaise Gaston Investments	45 830
Ursus	Challange Eighteen	15 700
Ursus	1/95 Gaston Investments	28 850
Ursus	2/124 Gaston Investments	18 840
Ursus	3/93 Gaston investments	19 250
Ursus	5/92 Gaston Investments	25 160
Ursus	6/150 Gaston Investments	9 800
Ursus	7/120 Gaston Investments	8 230
Ursus	8/126 Gaston Investments	15 830
Ursus	9/151 Gaston Investments	4 490
Ursus	10/165 Gaston Investments	10 700
Ursus	11/162 Gaston Investments	9 540
Ursus	12/132 Gaston Investments	22 370
Ursus	13/155 Gaston Investments	16 450
Ursus	15/167 Gaston Investments	11 130
Ursus	16/88 Gaston Investments	2 880
Ursus	18 Gaston Investments	8 600
Ursus	19/97 Gaston Investments	3 800
Ursus	20/140 Gaston Investments	4 070
Wolbórz	HUB Developments	2 400
IRIS	Belise Investments	82 582
Capitalised rights of perpetual usufruct of land		24 118
		438 016

INVESTMENT PROPERTIES CLASSIFIED AS ASSETS HELD FOR SALE

		Fair value as at 31 December 2012
Aquarius	Robin Investments	22 894
Capitalised rights of perpetual usufruct of land		0

INVENTORIES (Note 9)

		As at 31 December 2012	
Property	Company	Carrying amount	Fair value
Magdalenka (Lesznowola)	Gaetan Investments	3 550	3 550
Tenement house in Łódź	Antigo Investments	5 246	5 300
Koszykowa	Elara Investments	1 100	1 100
		9 896	**9 950**
Jaktorów	Antigo Investments	340	340
Czosnów	Antigo Investments	1 300	1 300
Nowa Piasecznica	Antigo Investments	560	560
Alsonemedi	Celtic Trade Park	3 400	3 400
		5 600	**5 600**
		15 496	**15 550**
Total fair value of property portfolio			**453 566**

(All amounts in PLN thousand unless otherwise stated)

Consolidated statement of comprehensive income

	Note	12 months ended 31 December 2012	12 months ended 31 December 2011
Revenue	15	16 728	41 630
Cost of sales	16	(9 916)	(29 721)
Including: Costs of inventories sold		*(555)*	*(24 071)*
Inventory impairment		*(3 716)*	*860*
Cost of services sold		*(5 645)*	*(6 510)*
GROSS PROFIT		**6 812**	**11 909**
Administrative expenses - property related	17	(20 728)	(30 716)
Administrative expenses - other	19	(21 465)	(15 727)
Selling and marketing expenses		(1 387)	(1 999)
Net loss on sale of investment property		(46 319)	0
Other income	18	2 303	643
Net gain from fair value adjustments on investment property	5	(55 709)	(214 710)
Net gain / (loss) on sale of subsidiaries	27	(10 224)	0
Impairment of goodwill		(22 171)	(32 257)
OPERATING PROFIT (LOSS)		**(168 888)**	**(282 857)**
Finance income	20	9 040	5 205
Finance costs	20	(5 691)	(8 964)
PROFIT (LOSS) BEFORE INCOME TAX		**(165 539)**	**(286 616)**
Income tax expense	21	2 695	418
PROFIT (LOSS) FOR THE YEAR		**(162 844)**	**(286 198)**
OTHER COMPREHENSIVE INCOME			
Currency translation adjustment		(1 239)	6 252
TOTAL COMPREHENSIVE INCOME		**(164 083)**	**(279 946)**
Profit attributable to:			
Equity holders of the Group		**(162 844)**	**(286 198)**
Total comprehensive income attributable to:			
Equity holders of the Group		**(164 083)**	**(279 946)**
BASIC AND DILUTED EARNINGS PER SHARE (PLN)	31	-4.78	-8.40

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 thousand unless otherwise stated)

Consolidated statement of financial position

	Note	As at	
		31 December 2012	31 December 2011
ASSETS			
Non-current assets			
Investment properties	5	438 016	534 404
Property, plant and equipment		978	1 032
Intangible assets, excluding goodwill		137	95
Investment in subsidiaries		35	37
Goodwill	7	0	22 967
Deferred income tax assets	14	8	2 264
Long term receivables	8	0	45
Non-current assets		**439 174**	**560 844**
Current assets			
Inventory	9	15 496	66 283
Trade and other receivables	8	17 186	23 233
Current income tax receivables		0	128
Cash and cash equivalents	10	27 101	16 249
		59 783	**105 893**
Assets held for sale	26	22 894	10 871
Current assets		**82 677**	**116 764**
Total assets		**521 851**	**677 608**

(All amounts in PLN thousand unless otherwise stated)

Consolidated statement of financial position - cont.

	Note	As at 31 December 2012	As at 31 December 2011
EQUITY			
Capital and reserves attributable to the parent Company's equity holders			
Share capital	11	3 431	3 407
Supplementary capital	13	0	1 161
Other reserves		4 399	23 078
Translation reserve		(3 933)	(2 694)
Retained earnings/(accumulated losses)		379 724	518 329
Total equity		**383 621**	**543 281**
LIABILITIES			
Non-current liabilities			
Trade and other payables	12	466	638
Borrowings, including finance leases	13	111 015	34 608
Deferred income tax liabilities	14	10 427	17 221
		121 908	**52 467**
Current liabilities			
Trade and other payables	12	13 804	22 627
Current income tax liabilities		376	672
Borrowings, including finance leases	13	2 142	56 602
		16 322	**79 901**
Liabilities directly associated with assets held for sale		0	1 959
Current liabilities including liabilities directly associated with assets held for sale		**16 322**	**81 860**
Total liabilities		**138 230**	**134 327**
Total equity and liabilities		**521 851**	**677 608**

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 thousand unless otherwise stated)

Consolidated statement of changes in equity

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

Explanatory notes set out on pages from 11 to 52 comprise the part of these consolidated financial statements.

(All amounts in PLN thousand unless otherwise stated)

Consolidated statement of changes in equity - continued

	Note	Share capital CPD SA	Translation reserve	Accumulated profit (loss) Supplementary capital	Reserve capital	Retained earnings	Total
Balance at 1 January 2011		**3 407**	**(2 694)**	**1 161**	**23 078**	**518 329**	**543 281**
2010 loss cover		-	-	(1 161)	(23 078)	24 239	-
Share capital increase		24	-	-	-	-	24
Costs of issuance of new shares		-	-	-	(9)	-	(9)
Reserve for issue of share warrants	11	-	-	-	-	-	-
Issuance of D series shares	11	-	-	-	2 038	-	2 038
Shares subscription	11	-	-	-	2 370	-	2 370
		24	-	(1 161)	(18 679)	24 239	4 423
Currency translation differences		-	(1 239)	-	-	-	(1 239)
Profit for the year		-	-	-	-	(162 844)	(162 844)
Total comprehensive income		0	(1 239)	0	0	(162 844)	(164 083)
Balance at 31 December 2011		3 431	(3 933)	-	4 399	379 724	383 621

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

Andrew Morrison Shepherd
Chairman of the Board

Aled Rhys Jones
Board Member

Andrew Pegge
Board Member

Elżbieta Donata Wiczkowska
Board Member

Explanatory notes set out on pages from 11 to 52 comprise the part of these consolidated financial statements.

(All amounts in PLN thousand unless otherwise stated)

Consolidated cash flow statement

	Note	12 months ended 31 December 2012	12 months ended 31 December 2011
Cash flows from operating activities			
Cash generated from operations	22	(63 278)	(16 074)
Interest paid		(2 130)	(2 437)
Income tax paid		(256)	858
Net cash generated from operating activities		**(65 664)**	**(17 653)**
Cash flows from investing activities			
Capital expenditure on investment property		(2 688)	(5 684)
Purchases of property, plant and equipment		132	(192)
Proceeds from sale of subsidiaries		39 190	0
Purchases of shares in subsidiaries		(3 944)	0
Proceeds from sale of investments properties		6 560	0
Proceeds from settlement of finance lease receivables		8 468	0
Net cash used in investing activities		**47 718**	**(5 876)**
Cash flows from financing activities			
Purchase of own shares		24	0
Proceeds from borrowings		43 767	9 192
Repayments of borrowings		(14 993)	(3 313)
Interim dividend		0	(3 407)
Net cash used in financing activities		**28 798**	**2 472**
Net (decrease)/increase in cash and cash equivalents		**10 852**	**(21 057)**
Cash and cash equivalents at beginning of the year		**16 249**	**37 306**
Exchange losses on cash and cash equivalents			
Cash and cash equivalents at end of the year		**27 101**	**16 249**

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 thousand unless otherwise stated)

Additional notes and explanations to the consolidated financial statement

1 General information

1.1. Information about a parent entity

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

Celtic Property Developments S.A. ("Company", "CPD") with its registered office in Warsaw 02-677, Cybernetyki 7B Str, was established on the basis of statute on 23 February 2007 (initially as Celtic Development Corporation S.A., then later on 22 February 2008 the Company changed its name to Poen S.A.). On 23 March 2007 District Court in Cracow, XI Business Department of the National Court Register entered the Company into the Register of Businesses with the KRS number 0000277147. The Company's shares are quoted on the Warsaw Stock Exchange.

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

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

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

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

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

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

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

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

Loss for the year presented in the consolidated statement of comprehensive income for the period ended at 31 December 2012 amounted to PLN 163 m (as at 31 December 2011 - net loss amounted to PLN 286 m). The loss for the year results mainly from decrease of fair value of investment properties in amount of PLN 67 m and loss on disposal of investment property of PLN 46 m.

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

(All amounts in PLN thousand unless otherwise stated)

Additional notes and explanations to the consolidated financial statement

Management Board:	
Andrew Morrison Shepherd	Chairman of the Board
Aled Rhys Jones	Board Member
Andrew Pegge	Board Member appointed on 10 January 2013, replacing Mr Christopher Bruce, who submitted his resignation on 13 July 2012
Elżbieta Donata Wiczkowska	Board Member
Supervisory Board:	
Marzena Bielecka	Chairman
Wiesław Oleś	Vice-Chairman
Mirosław Gronicki	Member of the Supervisory Board
Colin Kingsnorth	Secretary
Wiesław Rozłucki	Member of the Supervisory Board

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

Company	Country	No. of shares	% owned capital	% of voting rights
Cooperatieve Laxey Worldwide W.A.	Netherlands	10,082,930	29.4%	29.4%
Horseguard Trading Ltd	Cyprus	5,501,681	16.0%	16.0%
The Value Catalyst Fund plc	Cayman Islands	4,490,475	13.1%	13.1%
QVT Fund LP	Cayman Islands, USA	3,843,635	11.2%	11.2%
LP Value Ltd	British Virgin Islands	2,198,450	6.4%	6.4%
LP Alternative Fund LP	USA	2,196,668	6.4%	6.4%
Shareholders with stakes below 5%		5,993,649	17.5%	17.5%
		34,307,488	100%	100%

* The above shareholder's structure is based on own data as at 14 November 2012.

1.2. Information about Capital Group

As at balance sheet date CPD Group comprised CPD S.A. as a parent entity and 38 subsidiaries.

Additional information concerning consolidated subsidiaries was included in Note 2.2.

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

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

The core business of CPD Group comprise:

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

2 Summary of significant accounting policies

The principal accounting policies adopted in the preparation of these consolidated financial statement is set out below. These

(All amounts in PLN thousand unless otherwise stated)

Additional notes and explanations to the consolidated financial statement

2.1 Basis of preparation

The consolidated financial statements of CPD S.A. were prepared as at 31 December 2012 and for the period from 1 January 2012 to 31 December 2012, while comparative data is for the period from 1 January 2011 to 31 December 2011.

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

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

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 consolidated financial statements of the Group.

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

IFRS 9 "financial instruments"

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

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

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

The group will apply IFRS 9 from 1 January 2015 at the date of preparation of the present financial statements, IFRS 9 is not yet approved by the European Union.

IFRS 10 "Consolidated financial statements"

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

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

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

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

(All amounts in PLN thousand unless otherwise stated)

Additional notes and explanations to the consolidated financial statement

2.1 Basis of preparation - cont.

IFRS 11 "Joint ventures"

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

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

The group will apply IFRS 11 from 1 January 2013. The group is in process of analysing of influance of this IFRS to the consolidated financial statements.
At the date of preparation of this consolidated financial statements, IFRS 11 has not yet been approved by the European Union.

IFRS 12 "Disclosure of involvement in other units "

IFRS 12 was published by the Board of the international accounting standards in May 2011 and applies to annual periods beginning on or after January 1, 2013 or after that date (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 group 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 group 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 consolidated financial statements, an amendment to IAS 1 have not yet been approved by the European Union.

Additional notes and explanations to the consolidated financial statement

2.1 Basis of preparation - cont.

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

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 group applies the changes to IAS 19 as from 1 January 2013. At the date of the report of the present consolidated financial statements, an amendment to IAS 19 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.

The amendment added application guidance to IAS 32 to address inconsistencies identified in applying some of the offsetting criteria. This includes clarifying the meaning of ‘currently has a legally enforceable right of set-off’ and that some gross settlement systems may be considered equivalent to net settlement.

The group applies the changes to IAS 32, after January 1, 2014.

Amendments to IFRS 7 "Disclosures—Offsetting Financial Assets and Financial Liabilities"

Amendments to IFRS 7 "Disclosures - Offsetting Financial Assets and Financial Liabilities" were issued in December 2011 and are effective for annual periods beginning on or after 1 January 2013).

The amendment requires disclosures that will enable users of an entity’s financial statements to evaluate the effect or potential effect of netting arrangements, including rights of set-off.

The Group applies the changes to IFRS 7, after January 1, 2013.

Amendments to IFRS 1 "First-time adoption of International Financial Reporting Standards - Government loans"

Amendments to IFRS 1 "First-time adoption of International Financial Reporting Standards - Government loans" were published in March 2012 and are valid for annual periods beginning on or after 1 January 2013.

The amendments, dealing with loans received from governments at a below market rate of interest, give first-time adopters of IFRSs relief from full retrospective application of IFRSs when accounting for these loans on transition. This will give first-time adopters the same relief as existing preparers.

The Group applies the changes to IFRS 7, after January 1, 2013. The Group is currently assessing the impact of the amended standard on its financial statements.

IFRIC 20 "Stripping Costs in the Production Phase of a Surface Mine"

IFRIC 20 is not applicable to the Group.

(All amounts in PLN thousand unless otherwise stated)

Additional notes and explanations to the consolidated financial statement

2.1 Basis of preparation - cont.

Improvements to International Financial Reporting Standards

The improvements, issued in May 2012, consist of changes to five standards. The amendments include changes in presentation, recognition and measurement purposes as well as terminology or editorial. Changes will be effective for annual periods beginning on or after 1 January 2013.

Group will apply the amendments to IFRS 2009-2011 from 1 January 2013. As at the date of preparation of these consolidated financial statements, amendments to IFRS from 2009 to 2011 have not yet been approved by the European Union.

Transition Guidance Amendments to IFRS 10, IFRS 11 and IFRS 12

Transition Guidance Amendments to IFRS 10, IFRS 11 and IFRS 12 were published by IASB in June 2012. The amendments are effective for annual periods beginning on or after 1 January 2013 or earlier - if that is the standard basis (IFRS 10, 11 and 12) have been used earlier date.

The amendments clarify the transition guidance in IFRS 10 Consolidated Financial Statements. Entities adopting IFRS 10 should assess control at the first day of the annual period in which IFRS 10 is adopted, and if the consolidation conclusion under IFRS 10 differs from IAS 27 and SIC 12, the immediately preceding comparative period (that is, year 2012 for a calendar year-end entity that adopts IFRS 10 in 2013) is restated, unless impracticable. The amendments also provide additional transition relief in IFRS 10, IFRS 11, Joint Arrangements, and IFRS 12, Disclosure of Interests in Other Entities, by limiting the requirement to provide adjusted comparative information only for the immediately preceding comparative period. Further, the amendments will remove the requirement to present comparative information for disclosures related to unconsolidated structured entities for periods before IFRS 12 is first applied.

The Group will apply the above amendment from 1 January 2014. As at the date of preparation of these consolidated financial statements, the transiction guidance amendments to IFRS 10, IFRS 11 and IFRS 12 have not yet been approved by the European Union.

Amendments to IFRS 10, IFRS 12 and IAS 27 - "Investment entities"

Amendments to IFRS 10, IFRS 12 and IAS 27 "Investment Entities" was issued by the International Accounting Standards Board in October 2012 and effective for annual periods beginning on or after 1 January 2014 or after that date.

The amendment introduced a definition of an investment entity as an entity that (i) obtains funds from investors for the purpose of providing them with investment management services, (ii) commits to its investors that its business purpose is to invest funds solely for capital appreciation or investment income and (iii) measures and evaluates its investments on a fair value basis. An investment entity will be required to account for its subsidiaries at fair value through profit or loss, and to consolidate only those subsidiaries that provide services that are related to the entity's investment activities. IFRS 12 was amended to introduce new disclosures, including any significant judgements made in determining whether an entity is an investment entity and information about financial or other support to an unconsolidated subsidiary, whether intended or already provided to the subsidiary.

The Group will apply the above amendment from 1 January 2014. As at the date of preparation of these consolidated financial statements, the amendments to IFRS 10, IFRS 12 and IAS 27 have not yet been approved by the European Union.

The Group is currently assessing the impact of the above mentioned amendments on its consolidated financial statements.

2.2 Consolidation

(a) Subsidiaries

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

Subsidiaries are fully consolidated from the date on which they were incorporated or control was transferred to the group. They are deconsolidated from the date on which control ceases. If necessary, adjustments are made to the financial statements of subsidiaries to adapt the accounting policies of the Group policy.

(All amounts in PLN thousand unless otherwise stated)

Additional notes and explanations to the consolidated financial statement

2.2 Consolidation - cont.

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

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

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

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

	Name	Country	Shareholder	31 December 2012	31 December 2011
1	Mandy Investments Sp. z o.o.	Poland	Lakia Enterprises Limited	100%	100%
2	Lakia Enterprises Limited	Cyprus	CPD S.A.	100%	100%
3	Lakia Investments Sp. z o.o.	Poland	Lakia Enterprises Limited	100%	100%
4	Darvest Investments Sp. z o.o. in liquidation	Poland	Lakia Enterprises Limited	0%	100%
5	Gaetan Investments Sp. z o.o.	Poland	Lakia Enterprises Limited	100%	100%
6	Celtic Asset Management Sp. z o.o. (formerly Liliane Investments Sp. z o.o)	Poland	Lakia Enterprises Limited	100%	100%
7	Blaise Investments Sp. z o.o.	Poland	Lakia Enterprises Limited	100%	100%
8	Robin Investments Sp. z o.o.	Poland	Lakia Enterprises Limited	100%	100%
9	Devin Investments Sp. z o.o	Poland	Lakia Enterprises Limited	0%	100%
10	East Europe Property Financing AB	Sweden	CPD S.A.	100%	100%
11	Hub Developments Ltd Sp. z o.o.	Poland	Lakia Enterprises Limited	100%	100%
12	Elara Investments Sp. z o.o.	Poland	Lakia Enterprises Limited	100%	100%
13	Celtic Investments Limited	Cyprus	CPD S.A.	100%	100%
14	Maddy Sp. z o.o. (formerly KMA Sp. z o.o.)	Poland	Celtic Investments Limited	0%	100%
15	Gaston Investments Sp. z o.o.	Poland	Celtic Investments Limited	100%	0%
			Lakia Enterprises Limited	0%	100%
16	Buffy Holdings No 1 Ltd	Cyprus	CPD S.A.	100%	100%
17	Challange Eighteen Sp. z o.o.	Poland	Buffy Holdings No 1 Ltd	100%	100%
18	Celtic Trade Park Kft	Hungary	Lakia Enterprises Limited	100%	100%
19	Tenth Planet doo	Montenegro	CPD S.A.	0%	100%
20	Celtic Property Development Ktf.	Hungary	Celtic Investments Limited	100%	100%
21	Celtic (Italy) Srl	Italy	Celtic Investments Limited	0%	100%
22	CAM Estates Ltd	Great Britain	Celtic Investments Limited	0%	100%
23	Blaise Gaston Investments Spółka z ograniczoną odpowiedzialnością Sp.k.	Poland	Blaise Investments Sp. z o.o.	99%	0%
			Gaston Investments Sp. z o.o.	1%	0%

(All amounts in PLN thousand unless otherwise stated)

Additional notes and explanations to the consolidated financial statement

	Name	Country	Shareholder	31 December 2012	31 December 2011
24	1/95 Gaston Investments Spółka z ograniczoną odpowiedzialnością Sp.k.	Poland	Challange Eighteen Sp. z o.o.	99%	0%
			Gaston Investments Sp. z o.o.	1%	0%
25	2/124 Gaston Investments Spółka z ograniczoną odpowiedzialnością Sp.k.	Poland	Challange Eighteen Sp. z o.o.	99%	0%
			Gaston Investments Sp. z o.o.	1%	0%
26	3/93 Gaston Investments Spółka z ograniczoną odpowiedzialnością Sp.k.	Poland	Challange Eighteen Sp. z o.o.	99%	0%
			Gaston Investments Sp. z o.o.	1%	0%
27	4/113 Gaston Investments Spółka z ograniczoną odpowiedzialnością Sp.k.	Poland	Challange Eighteen Sp. z o.o.	99%	0%
			Gaston Investments Sp. z o.o.	1%	0%
28	5/92 Gaston Investments Spółka z ograniczoną odpowiedzialnością Sp.k.	Poland	Challange Eighteen Sp. z o.o.	99%	0%
			Gaston Investments Sp. z o.o.	1%	0%
29	6/150 Gaston Investments Spółka z ograniczoną odpowiedzialnością Sp.k.	Poland	Challange Eighteen Sp. z o.o.	99%	0%
			Gaston Investments Sp. z o.o.	1%	0%
30	7/120 Gaston Investments Spółka z ograniczoną odpowiedzialnością Sp.k.	Poland	Challange Eighteen Sp. z o.o.	99%	0%
			Gaston Investments Sp. z o.o.	1%	0%
31	8/126 Gaston Investments Spółka z ograniczoną odpowiedzialnością Sp.k.	Poland	Challange Eighteen Sp. z o.o.	99%	0%
			Gaston Investments Sp. z o.o.	1%	0%
32	9/151 Gaston Investments Spółka z ograniczoną odpowiedzialnością Sp.k.	Poland	Challange Eighteen Sp. z o.o.	99%	0%
			Gaston Investments Sp. z o.o.	1%	0%
33	10/165 Gaston Investments Spółka z ograniczoną odpowiedzialnością Sp.k.	Poland	Challange Eighteen Sp. z o.o.	99%	0%
			Gaston Investments Sp. z o.o.	1%	0%
34	11/162 Gaston Investments Spółka z ograniczoną odpowiedzialnością Sp.k.	Poland	Challange Eighteen Sp. z o.o.	99%	0%
			Gaston Investments Sp. z o.o.	1%	0%
35	12/132 Gaston Investments Spółka z ograniczoną odpowiedzialnością Sp.k.	Poland	Challange Eighteen Sp. z o.o.	99%	0%
			Gaston Investments Sp. z o.o.	1%	0%
36	13/155 Gaston Investments Spółka z ograniczoną odpowiedzialnością Sp.k.	Poland	Challange Eighteen Sp. z o.o.	99%	0%
			Gaston Investments Sp. z o.o.	1%	0%
37	14/119 Gaston Investments Spółka z ograniczoną odpowiedzialnością Sp.k.	Poland	Challange Eighteen Sp. z o.o.	99%	0%
			Gaston Investments Sp. z o.o.	1%	0%
38	16/88 Gaston Investments Spółka z ograniczoną odpowiedzialnością Sp.k.	Poland	Challange Eighteen Sp. z o.o.	99%	0%
			Gaston Investments Sp. z o.o.	1%	0%
39	17/110 Gaston Investments Spółka z ograniczoną odpowiedzialnością Sp.k.	Poland	Challange Eighteen Sp. z o.o.	0%	0%
			Gaston Investments Sp. z o.o.	0%	0%
40	15/167 Gaston Investments Spółka z ograniczoną odpowiedzialnością Sp.k.	Poland	Challange Eighteen Sp. z o.o.	99%	0%
			Gaston Investments Sp. z o.o.	1%	0%
41	18 Gaston Investments Spółka z ograniczoną odpowiedzialnością Sp.k.	Poland	Challange Eighteen Sp. z o.o.	99%	0%
			Gaston Investments Sp. z o.o.	1%	0%

(All amounts in PLN thousand unless otherwise stated)

Additional notes and explanations to the consolidated financial statement

	Name	Country	Shareholder	31 December 2012	31 December 2011
42	19/97 Gaston Investments Spółka z ograniczoną odpowiedzialnością Sp.k.	Poland	Challange Eighteen Sp. z o.o.	99%	0%
			Gaston Investments Sp. z o.o.	1%	0%
43	20/140 Gaston Investments Spółka z ograniczoną odpowiedzialnością Sp.k.	Poland	Challange Eighteen Sp. z o.o.	99%	0%
			Gaston Investments Sp. z o.o.	1%	0%
44	Belise Investments Sp. z o.o.	Poland	Lakia Enterprises Limited	100%	100%
45	Antigo Investments Sp. z o.o.	Poland	Lakia Enterprises Limited	100%	0%

2.3 Change in Group structure

There were the following changes in the Group structure within the financial year ended 31 December 2012:

- the liquidation of the following entities has been accomplished: Darvest Investments Sp. z o. o., CAM Estates Ltd.

- the shares of the following entities has been disposed: Devin Investments Sp. z o.o., 17/110 Gaston Investments Sp. z o.o. Sk, Tenth Planet d.o.o., KMA Sp. z o.o., Celtic Italy Srl.,

- 100 % of shares in Antigo Investments Sp. z o.o. have been acquired.

2.4 Foreign currency translation

(a) Functional and presentation currency

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

(b) CPD Group Companies

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

(i) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

(ii) income and expenses are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); the profit and loss transaction are valued using the average exchange rate for the financial period, except for profit from sales of investment properties which are translated into PLN using the exchange rate from the date of transaction;

(iii) all resulting exchange differences are recognised in other comprehensive income.

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

Additional notes and explanations to the consolidated financial statement

2.5 Investment property

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

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

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

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

After initial recognition, investment properly is carried at fair value. Fair value is calculated using cash flow projections based on active market prices, adjusted, if necessary, for any difference in the nature, location or condition of the specific asset. These valuations are prepared annually by independent professional appraisers Savills Sp. z o.o. The investment property portfolio is appraised in accordance with RICS Valuation – Professional Standards incorporating the International Valuation Standards published by the Royal Institution of Chartered Surveyors (RICS) and effective from 30 March 2012. Valuation fees are not related to the property value and valuation results.

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

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

2.6 Property, plant and equipment

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

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

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

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

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

(All amounts in PLN thousand unless otherwise stated)

Additional notes and explanations to the consolidated financial statement

2.7 Leases

(a) A group company is the lessor

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

(b) A group company is the lessee

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

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

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

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

2.8 Intangible assets, excluding goodwill

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

2.9 Goodwill

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

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

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

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

2.10 Impairment of non-financial assets

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

(All amounts in PLN thousand unless otherwise stated)

Additional notes and explanations to the consolidated financial statement

2.11 Financial assets

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

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

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

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

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

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

The category comprise also cash and cash equivalents. Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less.

2.12 Inventories

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

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

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

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

Project construction costs include:

a) land or leasehold rights for land,

b) construction costs paid to subcontractors for the construction of the residential units,

c) planning and design costs,

d) borrowing costs to the extent they are directly attributable to the development of the project,

e) professional fees attributable to the development of the project,

f) construction overheads and other directly related costs.

Additional notes and explanations to the consolidated financial statement

2.13 Assets held for sale

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

The sale is determined to be highly probable if:

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

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

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

2.14 Share capital

Ordinary shares are classified as share capital.

2.15 Trade payables

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

2.16 Borrowings

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

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

2.17 Borrowings costs

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

2.18 Income tax

Current tax is calculated based on the tax result (the tax base - in accordance with local tax laws) of the reporting period. Profit (loss) for tax purposes differs from the net profit (loss) due to exclusion of non-taxable income and temporary costs constituting temporary deductible costs and expenses and income items that will not be subject to taxation. Tax is calculated based on the tax rates applicable in a given year.

Tax is recognized in the income statement, except for the extent to which it relates to items recognized directly in other comprehensive income or equity. In this case, the tax is also recognized adequately in other comprehensive income or equity.

Additional notes and explanations to the consolidated financial statement

2.19 Deferred income tax

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

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

2.20 Employee benefits

(a) Pension obligation

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

(a) Share-base payments

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

2.21 Provisions

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

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

2.22 Revenue recognition

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

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

(a) Rental income

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

(b) Service and management charges

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

(All amounts in PLN thousand unless otherwise stated)

Additional notes and explanations to the consolidated financial statement

2.22 Revenue recognition - cont.

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

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

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

(d) Cost of inventory sold

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

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

(e) Interest Income

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

2.23 Expenses

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

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

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

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

2.24 Dividend distribution

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

2.25 Interest expense

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

The effective interest method is a method of calculating the amortized cost of a financial asset or financial liability and of allocating interest income or interest expense during the period. The effective interest rate is the rate that exactly determines the present value of the discounted estimated future cash flows through the expected life of the financial instrument or a shorter period, if necessary, to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the financial instrument (eg prepayment options) but does not include future losses. The calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

2.25 Share-base payments

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

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

(All amounts in PLN thousand unless otherwise stated)

Additional notes and explanations to the consolidated financial statement

3 Financial risk management

3.1 Financial risk factors

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

(a) Market risk

(i) Currency risk

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

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

	Year ended at 31 December 2012	**Year ended at 31 December 2011**
Debt in foreign currencies - EUR	88,492	63,214
Assumed change in PLN/EUR exchange rate	+/-1%	+/-1%
Tax shield	168	120
Effect on net profit/(loss)	717	512

(ii) Price risk

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

(iii) Interest rate risk

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

	Year ended at 31 December 2012	**Year ended at 31 December 2011**
Variable interest rate loans	89,039	64,507
Cost of interest in the period	3,629	3,752
Assumed change in interest rates	+/-1pp	+/-1pp
Effect of the change on the cost of interest	890	645
Tax shield	169	123
Effect on net profit/(loss)	721	523

Trade receivables and other receivables and liabilities as at 31.12.2012 are interest-free and due within 1 year.

(All amounts in PLN thousand unless otherwise stated)

Additional notes and explanations to the consolidated financial statement

3 Financial risk management - cont.
3.1 Financial risk factors - cont.

(b) Credit risk

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

(c) Liquidity risk

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

Undiscounted contractual cash flows:

As at 31.12.2012	Within 1 year	1 – 5 years	More than 5 years
Loans and leases	5,366	59,792	153,676
Trade payables and other payables	13,102	466	0
	18,468	60,258	153,676

As at 31.12.2011	Within 1 year	1 – 5 years	More than 5 years
Loans and leases	60,697	16,458	146,715
Trade payables and other payables	19,643	638	0
	80,340	17,096	146,715

3.2 Capital risk management

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

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

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

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

	31 December 2012	31 December 2011
Total loans (Note 13)	113,157	91,210
Trade payables and other payables (Note 12)	14,270	23,265
Less: cash and cash equivalents (Note 10)	-27,101	-16,249
Net debt	**100,326**	**98,226**
Equity	383,621	543,281
Total capital	**483,947**	**641,507**
Financing structure ratio	**20.7%**	**15.3%**

The financing structure ratio increased significantly in relation to the previous year. The main reason for the change in this ratio was the write down of the investment property portfolio of the Group as well as the new drawdown under the current facility.

(All amounts in PLN thousand unless otherwise stated)

Additional notes and explanations to the consolidated financial statement

4 Critical accounting estimates and judgments

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

(a) Estimated fair value of investment properties

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

(i) current prices of properties of a different type, condition and location (or subject to another agreement or contract) on an active market, adjusted to reflect the differences;

(ii) the latest prices of similar properties on less active markets, adjusted to reflect the changes in economic conditions which occurred after the date of concluding a transaction at a given price;

(iii) discounted cash flow projections based on reliable assumptions of future cash flows, based on the terms and conditions of existing lease contracts and other contracts (if available) from external sources such as current market rents for similar properties in the same location and condition, with the use of discount rates reflecting the current assessment of market uncertainty as to the amount and timing of the said cash flows.

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

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

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

The properties which generate significant revenues from rent (Cybernetyki 7b, IRIS) were valued by the discounted cash flow method. Land not intended for development (Wolbórz, Jana Kazimierza, Ursus) was valued by the comparative method.

In comparison to the previous year the valuation approach have been changed regarding the majority of the properties located in Ursus. In previous years, the valuation has been based on zoning plan, the changing nature of the local plan the location and introducing significant changes in land use and existing infrastructure. Due to the prolonged work on the local plan and the recent decisions of the Administrative Courts, as a result of which the change in the study conditions and spatial orientations of Warsaw will be necessary, the likelihood of adoption of the plan in the current shape decreased significantly.

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

For valuation purposes capitalization rates of 7.25% to 8% (in 2011: 7.25% - 8%) and discount rates of 7.5% to 9% were used (in 2011: 7.5% - 9%).

In 2012, the Group's loss from re-measurement of investment properties to the fair value amounted to PLN 67.4 million (in 2011 loss - PLN 214.7 milion).

(All amounts in PLN thousand unless otherwise stated)

Additional notes and explanations to the consolidated financial statement

4 Critical accounting estimates and judgments - cont.

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

As at 31.12.2012

Investment properties by the valuation method	Fair value	Effect of estimated variables: Discount and capitalization rates (+0.25 pp)	Expected rent rates (+2.5%)	Sale prices (+2.5%)
discounted cash flow	114,878	-4539 / 4539	2739 / - 2739	n/d
comparative	299,020	n/d	n/d	7475,5 / - 7475,5
perpetual usufruct of land	24,118	-763 / 763	n/d	n/d
	438,016	**0**	**0**	**0**

As at 31.12.2011

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

b) Income tax

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

c) Impairment of goodwill

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

(All amounts in PLN thousand unless otherwise stated)

Additional notes and explanations to the consolidated financial statement

4 Critical accounting estimates and judgments - cont.

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

Calculation of the cash flows is based on the considerable assumption as to the amount of the preferential dividends and other flows resulting from the contract portfolio management. In 2011. The Group received a dividend amounting to 4.4 million PLN from this title and has developed the right to payment of a further EUR 2 million of dividends, which the Group has obtained in 2012. At present, the agreement on the basis of which the former estimated cash flows from dividends, expired in December 2011 and in its place was signed another agreement to the amended terms, which, however, still provides for remuneration for the management of the investment portfolio in the period 2012-2013. In 2012 the agreement expired, as a result of test on impairment of goodwill, the Group recognised the loss of goodwill of PLN 22.3 m as at December 31, 2012.

Discount rate used in the calculation of after tax was adopted at the level of 8% (2011: 8%). If the discount rate after tax cash flow for other operations of the group, the CPD will be higher than estimated by the Board of Directors (9% instead of 8%) is the impairment of company not that substantial modification.

(All amounts in PLN thousands unless otherwise stated)

Additional notes and explanations to the consolidated financial statements

5 Investment properties

	Year ended 31 December 2012	Year ended 31 December 2011
At the beginning of the period	**534 404**	**754 216**
Capital expenditure	2 688	5 684
Disposal	(51 607)	0
Fair value of properies disposed in course of sale of subsidiary	(40 860)	0
Change in the balance of capitalized financial liability resulting from disposal of investment properties	(5 660)	0
Change in the balance of capitalized financial liability concerning the property transferred from inventory	3 081	0
Change in the balance of capitalized financial liability	(6)	(1 966)
Transfer from inventories	75 976	0
Expropriation of land	(1 396)	0
Net gain from fair value adjustment on investment property	(55 709)	(214 710)
Transfer to assets held for sale	(22 894)	(8 820)
	438 016	**534 404**

Investment properties which belong to the CPD Group were valued by an independent international professional appraiser, Savills Sp. z o.o. as at 31 December 2012 in accordance with RICS Valuation – Professional Standards incorporating the International Valuation Standards published by the Royal Institution of Chartered Surveyors (RICS) and effective from 30 March 2012 and as at 31 December 2011 in accordance with the following standards and regulations: Practice Statements of the Royal Institution of Chartered Surveyors' (RICS) Appraisal and Valuation Standards (the "Red Book") published in February 2003, effective from 1 May 2003.

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

As at 31 December 2012, all investment properties of the CPD Group were registered in the land and mortgage register.

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

	31 December 2012	31 December 2011
Investment property acc. to external valuation	413 898	507 701
Liabilities in respect of perpetual usufruct	24 118	26 703
Investment property presented in the statement of financial position	**438 016**	**534 404**

In December 2011, in connection with the signed preliminary sale agreement of the subsidiary 17/110 Gaston Investments Sp. z o.o. S.k., property belonging to the company was transferred to assets held for disposal and in the report on 31 December 2011, presented under the heading "fixed assets held for sale (Note 26). The shares in the subsidiary have been disposed in May 2012.

(All amounts in PLN thousands unless otherwise stated)

Additional notes and explanations to the consolidated financial statements

5 Investment properties - cont.

In May 2012 the Group disposed of the property in Łopuszańska Street, Warsaw in course of sale of the subsidiary Devin Investments Sp. z o.o. In May 2012 the subsidiary 4/113 Gaston Investments Sp. z o.o. Sk sold its property in the Ursus district of Warsaw. In July 2012 the subsidiary 14/119 Gaston Investments Sp. z o.o. Sk. disposed of its property in the Ursus district of Warsaw.

In October 2012 the Group completed development of IRIS office building in Warsaw, Mokotów district. The building was approved for use and reclassified to investment property.

In December 2012, the property belonging to Robin Investments Sp. z o.o. has been transferred to assets held for disposal and in these consolidated financial statements as at 31 December 2012, presented under the heading "fixed assets held for sale (Note 26). As at the date of signing therse financial statements the property had not been sold.

Direct operating expenses relating to investment properties:

	12 months ended 31 December 2012	12 months ended 31 December 2011
- generating income from rent	3 660	3 418
- other	2 533	3 916
	6 193	**7 334**

6 Fair value of security

	31 December 2012	31 December 2011
Aquarius	22 894	30 477
Łopuszańska	0	40 860
Ursus	45 830	54 720
Jana Kazimierza	15 100	16 910
Cybernetyki 7b	32 297	35 334
Mokotow Plaza	82 582	45 935
	198 702	**224 236**

The above-mentioned properties constitute security under the loan agreement with HSBC in amount of PLN 116.120 thousand and BZ WBK in amount of PLN 82.582 thousand.

7 Goodwill

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

An assessment of the recoverable amount of goodwill performed by the CPD Management Board as at the end of 2012 showed an impairment in amount of PLN 22.3 m. The test is described in Note 4(c).

	31 December 2012	31 December 2011
Opening balance	**22,967**	**49 504**
Foreign exchange gains (losses)	(795)	5 720
Impairment write down	(22 171)	(32 257)
Closing balance	**0**	**22 967**

(All amounts in PLN thousands unless otherwise stated)

Additional notes and explanations to the consolidated financial statements

8 Trade receivables and other receivables

	31 December 2012	31 December 2011
Trade receivables	6 990	3 380
Other receivables	921	5 665
Prepayments and accruals	4 255	5 471
Deferred income	665	198
Receivables from the state budget	4 190	6 416
Receivables from related entities	73	2 103
Short-term trade receivables and other receivables	**17 186**	**23 233**
Long-term receivables	0	45
Total trade receivables and other receivables	**17 186**	**23 278**

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

The CPD Group recognized a loss of PLN 2.955 thousand in respect of impairment and write-off of receivables in the year ended 31 December 2012 (year ended 31 December 2011: PLN 1.733 thousand). The loss was recognized under "other administrative expenses" in the consolidated profit/(loss).

Trade receivables	31 December 2012	31 December 2011
Current	6 990	3 110
Overdue, no impairment	0	270
Overdue, with recognized impairment (provided for in full)	858	2 115

Receivables from related entities	31 December 2012	31 December 2011
Current	73	484
Overdue, no impairment	0	369
Overdue, with recognized impairment (provided for in full)	0	1 250

Impairment of receivables	31 December 2012	31 December 2011
- trade receivables:		
Opening balance	2 115	742
- increases	394	1 733
- decreases	(1 651)	(360)
Closing balance	**858**	**2 115**
- other receivables:		
Opening balance	31	31
- increases	2 561	0
- decreases	(2 561)	0
Closing balance	**31**	**31**

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

(All amounts in PLN thousands unless otherwise stated)

Additional notes and explanations to the consolidated financial statements

9 Inventories

	31 December 2012	31 December 2011
Work in progress	5 246	45 935
Finished goods	1 100	2 840
Goods for resale	9 150	17 508
	15 496	**66 283**

In 2012 development stage of the development of the Iris office building has been finished. The building has been approved for use and partally leased in October 2012. In connection with the change of plans to the Board for Iris, the property has been transferred to investment property and valued at the balance sheet at fair value. Finished goods and goods for resale comprise properties intended for sale in the normal course of business activity. Such properties are located in Czosnów, Jaktorów, Magdalenka (Poland), but also completed construction projects, i.e. Koszykowa (Poland) and Alsonemedi (Hungary). Work in progress relates to properties under construction.

In 2011, work in progress comprised the following properties under construction: IRIS (Mokotów Plaza II). Finished goods and goods for resale comprised properties intended for sale in the normal course of business activity. Such properties were located in Montenegro, Magdalenka, Koszykowa and Alsonemedi.

	31 December 2012	31 December 2011
At the beginning of the period	**66 283**	**76 298**
Capital expenditure	30 984	10 080
Purchases	4 811	0
Purchase in course of acqusition of a subsidiary	2 199	0
Disposals	(555)	(24 071)
Reclassification to other receivables	0	1 222
Reclassification to investment properties	(75 976)	0
Write-downs	(3 716)	(7 249)
Reversed write-downs	0	8 109
Sale of course of disposal of subsidiary	(7 490)	0
Foreign exchange losses	(1 044)	1 894
As at the balance sheet date	**15 496**	**66 283**

In May 2012, in course of sale of shares in Tenth Planet d.o.o., the properties located in Montenegro has been disposed of.

In the course of the acquisition of shares in a subsidiary Antigo Investments Sp. z o.o. Group acquired properties located in Czosnów, Jaktorów and Nowa Piasecznica.

10 Cash and cash equivalents

	31 December 2012	31 December 2011
Cash in hand and at bank	21 479	16 098
Short-term bank deposits	5 622	151
	27 101	**16 249**

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

(All amounts in PLN thousands unless otherwise stated)

Additional notes and explanations to the consolidated financial statements

11 Share capital

	Number of shares		Value of shares	
	31 December 2012	31 December 2011	31 December 2012	31 December 2011
Ordinary shares (in thousands)	34 307	34 068	3 431	3 407
Total	**34 307**	**34 068**	**3 431**	**3 407**

The share capital presented in the statement of comprehensive income as at 31 December 2012 comprised 34,231 thousand shares with PLN 0.10 par value each (as at 31 December 2011 - 34 068 thousand shares).

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.

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 cost of capital increase, incurred in 2012, amounted to 9 thousand PLN.

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

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

(All amounts in PLN thousands unless otherwise stated)

Additional notes and explanations to the consolidated financial statements

12 Trade payables and other payables

Long-term trade payables and other payables

	31 December 2012	31 December 2011
Deposits of tenants	466	638

Short-term trade payables and other payables

	31 December 2012	31 December 2011
Trade payables	990	7 382
Liabilities to related entities	0	8
Other liabilities	365	2 153
Output VAT and other tax liabilities	702	2 984
Deposits of tenants	90	90
Accruals and deferred income	11 657	10 010
Total	**13 804**	**22 627**

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

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

13 Loans and borrowings (including finance lease)

	31 December 2012	31 December 2011
Long-term		
Bank loans	86 897	7 905
Finance lease liabilities	24 118	26 703
	111 015	**34 608**
Short-term		
Bank loans	1 813	56 512
Loans from unrelated entities	329	90
	2 142	**56 602**
Total loans and borrowings	**113 157**	**91 210**

In May 2007, The CPD Group received from HSBC Bank Polska under the facility agreement a financing facility up to the amount of EUR 24 million. The credit facility is secured with a fixed and floating registered pledge on the assets of the subsidiaries with their registered offices in Poland: Lakia Investments Sp. z o.o., Robin Investments Sp. z o.o., Mandy Investments Sp. z o.o. and Blaise Investments Sp. z o.o., and on the assets of the shareholder in Cyprus: Lakia Enterprises Ltd. In the years 2008-2011, the companies repaid the loan in the amount of EUR 13 million. Based on an annex to the agreement signed in mid 2009, the loan repayment deadline was extended until March 2012. On 29 March 2012 the new annex has been signed on the basis of which the Group is obliged to repay the facility in the following tranches: EUR 94.000 by: 27 March 2013, 27 June 2013, 27 Spetember 2013 and 23 December 2013 and remaining amount of EUR 10.592.000 by 27 March 2014.

(All amounts in PLN thousands unless otherwise stated)

Additional notes and explanations to the consolidated financial statements

13 Borrowings (including finance lease) (cont.)

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

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

	31 December 2012	31 December 2011
Repayment of the principal amount of lease liabilities based on the effective interest rate due within:		
1 year	7	7
from 1 to 5 years	31	32
after more than 5 years	24 080	26 664
	24 118	**26 703**

	31 December 2012	31 December 2011
Par value of minimum lease payments due:		
within 1 year	1 660	2 010
from 1 to 5 years	6 640	8 039
after more than 5 years	119 527	146 715
	127 828	**156 764**
Future financial costs	(103 709)	(130 061)
	24 119	**26 703**

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

	31 December 2012	31 December 2011
up to 6 months	1 373	56 512
from 6 months to 1 year	769	90
from 1 to 5 years	52 748	7 905
more than 5 years	34 149	0
	89 039	**64 507**

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

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

	31 December 2012	31 December 2011
Currency		
PLN	524	1 246
HUF	23	47
EUR	88 492	63 214
	89 039	**64 507**

In connection with the loan received from HSBC, one company made a pledge on the shares up to the amount of EUR 14 million.
In connection with the loan received from BZ WBK, one company made a pledge on the shares up to the amount of EUR 20.1 million and PLN 2 milion.

(All amounts in PLN thousands unless otherwise stated)

Additional notes and explanations to the consolidated financial statements

14 Deferred income tax

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

	31 December 2012	31 December 2011
Deferred tax assets before offset	**18 698**	**16 693**
Set off	(18 690)	(14 429)
Deferred tax assets	**8**	**2 264**
- to be utilized after more than 12 months	0	0
- to be utilized within 12 months	8	2 264
	8	**2 264**
Deferred income tax liabilities before offset	**29 117**	**31 650**
set off	(18 690)	(14 429)
Deferred income tax liabilities after offset	**10 427**	**17 221**
- to be paid after more than 12 months	10 427	17 221
- to be paid within 12 months	0	0

	12 months ended 31 December 2012
Change in deferred tax assets	2 005
Change in deferred tax liabilities	(2 533)
Amount charged/(credited) to profit or loss	**4 538**

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

Deferred income tax liabilities (before offset)

	2010	Charged to profit/(loss)	Charged to capital on translation	2011
Property valuation at fair value	33 394	(9 516)	0	23 878
Accrued interest on loans	1 686	5 273	0	6 959
Provision for income	1 539	(1 100)	0	439
Foreign exchange	60	63	0	123
Currency translation adjustment	(898)	0	139	(759)
Other	2 374	(1 365)	0	1 009
Total	38,155	(6 645)	139	31,650

	2011	Charged to profit/(loss)	Charged to capital on	Sale /purchase of subsidiaries	2012
Property valuation at fair value	23 878	(4 324)	0	(3 459)	16 095
Accrued interest on loans	6 959	5 435	0	24	12 418
Provision for income	439	(320)	0	0	119
Foreign exchange gains/(losses)	123	(86)	0	0	37
Currency translation	(759)	948	19	(208)	0
Other	1 009	(502)	0	(59)	448
Total	31,649	1 151	19	-3,702	29,117

(All amounts in PLN thousands unless otherwise stated)

Additional notes and explanations to the consolidated financial statements

14 Deferred income tax - cont.

As at 1 January 2011	**130 264**
Foreign exchange gains/(losses)	(700)
Amount charged/(credited) to profit or loss	(93 129)
Change due to disposal of a subsidiary	(10 986)
As at 31 December 2011	**25 449**
Foreign exchange gains/(losses)	19
Amount charged/(credited) to profit or loss	(15 041)
Change due to disposal of a subsidiary	0
As at 31 December 2012	**10 427**

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

Deferred income tax assets (before offset)

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

	2011	Charged to profit/(loss)	Sale /purchase of subsidiaries	2012
Accrued, interest unpaid	3,472	-3,194	0	278
Foreign exchange gains/(losses)	1,730	-573	-208	949
Provisions	1,237	-397	0	840
Property measurement at fair value	542	11,979	354	12,875
Other	6,763	-6,752	-11	0
Tax losses	2,950	2,871	-2,064	3,756
	16,693	3,934	-1,929	18,698

	31 December 2012	31 December 2011
Tax losses	19 771	15 524
Deductible temporary differences on loans and borrowings (foreign exchange differences and accrued interest)	1 463	18 271
Other deductible temporary differences	77 179	54 063
Total	98 413	87 858
Deferred tax assets before offset	**18 698**	**16 693**
Offset of deferred tax assets against liabilities within individual companies	(18 690)	(14 429)
Net deferred tax assets	**8**	**2 264**

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

(All amounts in PLN thousands unless otherwise stated)

Additional notes and explanations to the consolidated financial statements

14 Deferred income tax - cont.

Expiry of tax losses as at 31.12.2012

	2013	2014-2015	2016-2017	Total
- Losses on which deferred tax was recognized	1 526	6 486	11 759	19 771
- Losses on which deferred tax was not recognized	22 517	31 115	136 588	190 220

Expiry of tax losses as at 31.12.2011

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

15 Revenues

Revenues by category:	12 months ended 31 December 2012	12 months ended 31 December 2011
Rental income	6 324	6 143
Sales of inventories	1 240	16 224
Real estate advisory services	5 709	16 043
Services relating to rental	3 432	3 127
Accounting services	23	93
	16 728	**41 630**

In 2012 rental income and property management consultancy services were predominant in sales. In 2011 the revenues were mainly achieved on sale of inventories in Montenegro (PLN 5 million), Magdalenka (PLN 3.2 million), in Warsaw, Koszykowa Street housing (PLN 6.7 million), and Wilanów (PLN 1.3 million), as well as advisory services in the field of real estate management.

In 2012 the income property management advisory services were mainly generated by Celtic Property Developments (PLN 2.6 million), Celtic Italy (PLN 2.5 million), and Celtic Investments (PLN 0.6 million). In 2011 such revenues were achieved by Celtic Investments (PLN 6.9 million), Celtic Italy (PLN 5 million) and CAM Estates (PLN 4 million).

The Group leases properties under operating lease.

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

(a) Rental of warehouses

• rent payments expressed in PLN

• tenants are not obliged to participate in the costs of servicing the building, including the costs of repairs, insurance, land lease

• unspecified rental period with 1 to 3 months notice period

(b) Rental of office space

• rent is expressed in EUR and indexed for the annual inflation rate for EUR (invoiced in PLN),

• specified rental period up to 5 years without a possibility of early termination.

(All amounts in PLN thousands unless otherwise stated)

Additional notes and explanations to the consolidated financial statements

15 Revenues - cont.

	12 months ended 31 December 2012	12 months ended 31 December 2011
up to 1 year	6 537	5 569
from 1 to 5 years	17 089	21 222
more than 5 years	4 582	8 937
	28 208	**35 728**

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

16 Cost of sales

	12 months ended 31 December 2010	12 months ended 31 December 2009
Cost of inventories sold	555	24 071
Changes in impairment write-downs of inventories	3 716	(860)
Cost of services provided	5 645	6 510
	9 916	**29 721**

Cost of inventories sold comprises the inventories' carrying amount as at the date of sale.
In the current year the change in the amount of inventory write-downs was due to a decrease in the value of the Koszykowa property of PLN 1.7 m (in 2011: PLN 1 m), Magdalenka of PLN 0.8 m (in 2011: PLN 1.1), property in Hungary of PLN 1.1 m (in 2011 inventory write downs were effected by a decrease in value of properties in Montenegro of PLN 4.7 mln, Wilanów of PLN 0.4 m, and increase iin the value of IRIS (by PLN 8.1), which was previously a subject to impairment.

Advisory services of PLN 2.7 m constitute the main item of the cost of the services provided (in 2011: PLN 4.2 m).

17 Administrative expenses – relating to properties

	12 months ended 31 December 2012	12 months ended 31 December 2011
Employee expenses	9 153	17 818
Cost of services acquired as consideration for the share-based payment*	2 371	1 156
Property maintenance	3 099	3 258
Real estate tax	3 007	4 574
Perpetual usufruct	2 725	3 374
Depreciation and amortization	373	536
	20 728	**30 716**

** 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).

(All amounts in PLN thousands unless otherwise stated)

Additional notes and explanations to the consolidated financial statements

17 Administrative expenses – relating to properties

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.

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 cquisition.

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 parameteres 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 quatations on the WSE in Warsaw from 3 October 2012.

18 Other income

	12 months ended 31 December 2012	12 months ended 31 December 2011
Reversal of unutilized accruals	498	302
Reversal of unutilized provision for fit-out costs	389	0
Received compensation for plots taken	334	0
Forgiven or expired liabilities	55	108
Contractual penalties received	220	0
Other	807	233
	2 303	**643**

(All amounts in PLN thousands unless otherwise stated)

Additional notes and explanations to the consolidated financial statements

19 Administrative expenses - other

	12 months ended 31 December 2012	12 months ended 31 December 2011
Advisory services	7 124	4 808
Audit fee	320	855
Transport	538	1 035
Taxes	167	51
Office maintenance	4 595	3 664
Other services	799	1 536
Costs of not deductible VAT	1 230	520
Impairment write-down in respect of receivables	2 955	1 733
Other costs	3 737	1 525
	21 465	**15 727**

20 Financial income and costs

	12 months ended 31 December 2012	12 months ended 31 December 2011
Interest expenses:		
- bank loans	(2 934)	(2 504)
- interest on finance lease	(1 902)	(2 150)
- other interest expenses	(695)	(1 248)
Net foreign exchange loss	(46)	(2 955)
Other	(114)	(107)
Financial costs	**(5 691)**	**(8 964)**
Interest income:		
- bank interest	446	332
- interest from unrelated entities	126	726
- dividends received	8 468	4 147
Net foreign exchange gains	0	0
Financial income	**9 040**	**5 205**
Financing activities, net	**3 349**	**(3 759)**

In connection with the management of Spazio Industriale project in the first half of 2012, the Group received a remuneration in the amount of PLN 8.4 mln.

(All amounts in PLN thousands unless otherwise stated)

Additional notes and explanations to the consolidated financial statements

21 Income tax expense

	12 months ended 31 December 2012	12 months ended 31 December 2011
Current tax	88	500
Prior years tax	0	1 829
Deferred tax (Note 14)	(2 783)	(2 747)
	(2 695)	**(418)**

Polish subsidiaries are subject to Polish corporate income tax, which is accrued at the rate of 19% on the profit or loss adjusted for tax purposes. Cyprian subsidiaries are subject to Cyprian income tax calculated on taxable profit at the tax rate of 10%. Realized gains on the sale of shares and other titles are exempt from taxation in Cyprus. In some circumstances, interest can be additionally taxed at the rate of 5%. In such cases, 50% of interest can be exempt from corporate income tax, therefore, the effective tax rate amounts to approximately 15%. In some cases, dividends received from abroad can be subject to additional taxation at the rate of 15%. Swedish entities are subject to income tax on taxable profit at the rate of 26.3%. Taxable profit of the Montenegrin entity is subject to corporate income tax at 9%, of the Italian entity – 31.4%, and of the British entity – 28%.

	Applicable tax rate	Profit/(Loss) before tax	Tax at the rate applicable in a given country	Difference in the amount of tax at the local rate and at 19%
Country:				
Sweden	26.3%	(3 079)	810	225
Cyprus	10%	(6 744)	674	(607)
Italy	31.4%	(1 027)	282	87
United Kingdom	28%	(260)	73	23
Hungary	19%	(56)	6	(5)
Montenegro	9%	(3 776)	340	(378)
				(654)

The income tax recognized in the CPD Group's financial result differs from the theoretical amount which would result from the uniform application of the 19% tax rate applicable to profits of companies with their registered offices in Poland to accounting profit before tax. The differences are as follows:

(All amounts in PLN thousands unless otherwise stated)

Additional notes and explanations to the consolidated financial statements

21 Income tax expense - cont

	12 months ended 31 December 2012	12 months ended 31 December 2011
Profit before tax	**(165 539)**	**(286 616)**
Estimated tax liability at the 19% tax rate	31 452	54 457
Impact on tax:		
- of different tax rates applicable to the Group companies and the tax on consolidation adjustments	(654)	161
- non-taxable income (Cyprus)	0	(5 142)
- revaluation of limited partnerships	(25 126)	(37 964)
- goodwill impairment	(4 212)	(6 129)
-the adjustment related to the loss of value of investments in subsidiaries-a loan impairment	0	6 763
-the adjustment related to the difference in the intercompany interest capitalised and interest which give rise to the provision for deferred taxes in individual Companies	0	(4 098)
'- irrecoverable tax losses	0	(6 988)
- previous years tax	(101)	(1 829)
- other	1 336	1 187
Income tax expense	**2 695**	**419**

22 Cash generated from operations

	12 months ended 31 December 2012	12 months ended 31 December 2011
Profit before income tax	(165 539)	(286 616)
Adjustments for:		
- depreciation	565	532
- foreign exchange differences on translating foreign operations	(3 809)	4 746
- revaluation of investment properties to fair value	55 709	214 710
- gains/(losses) on disposal of subsidiaries	10 224	0
- interest expenses	2 128	2 426
- foreign exchange differences	0	0
- impairment of inventories	3 716	(860)
- deferred income tax on a sold entity	0	0
- goodwill impairment	22 171	32 257
- costs of warrants granted	2 370	1 156
- cash reclassified to asset held for sale	0	(19)
- costs of services to be paid in shares	2 029	0
- other adjustments	(88)	0
Movements in working capital:		
- change in receivables	5 696	335
- change in inventories	(37 439)	12 769
- change in trade payables and other payables	(7 330)	2 490
	(63 278)	**(16 074)**

(All amounts in PLN thousands unless otherwise stated)

Additional notes and explanations to the consolidated financial statements

23 Contingencies

According to the general Polish regulations, the tax authorities may perform an inspection of books and records at any time within 5 years after the end of the reporting period and assess additional tax and penalties if any irregularities are found. According to the knowledge of the Management Boards of the CPD Group companies, there are no circumstances which could result in any significant liabilities arising in this respect.

The CPD Group companies – Liliane Investments, Gaetan Investments and Elara Investments – in connection with the sale of houses, apartments and plots granted guarantees and warranties to clients in respect of the legal status and technical conditions of the goods sold. The liability periods are one year from the date of sale for plots and three years for houses and apartments.

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

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

In 2011, the Group pledged Celtic will provide free of charge to the City of Warsaw about 20 hectares of land that are held within the Celtic land located in Warsaw Ursus, which according to the spatial development plan lined areas are designed for urban investments - roads and school. The value of these areas, according to the forecast financial impact of the adoption of the local development plan in the area of brownfields Orłów Śląskich Street prepared on behalf of the City of Warsaw, is estimated at about 70 million PLN. According to the statement made free transfer provided by the group Celtic these urban land for development is the adoption of the local plan. In addition, the Group reserved the declaration submitted that the statement is valid only in respect of land which the said pool will continue to be held by the Group at the time of the adoption of the local plan.

On the day of publication of these financial statements City has not responded to the letter submitted in that case, at the same time is not passed by then zoning plan and the term is unknown when it will happen.

On the day of the publication of the report, the city does not ustosunkowało to the complex writings on the subject, at the same time there was the adopted plan of land-use planning and the unknown is the date when this occurs.

According to the intention of the Board, the above statement was intended to encourage the City to take action as soon as possible the adoption of the land use plan, while supporting the City budget.

As at 31 December 2012, the Group owns the Celtic lands described above, subject to the declaration made to free transfer. At the same time as at 31 December 2012, the Group is not legally obligated to comply with the complex declaration. As a result, made the declaration is not treated as a liability or provision, in its report on December 31, 2012 and the whole land, located in Ursus, owned by the Group is measured at fair value (in accordance with the accounting policy adopted in this regard) and presented in the statement of financial position, investment properties.

(All amounts in PLN thousands unless otherwise stated)

Additional notes and explanations to the consolidated financial statements

24 Transactions with related entities and transactions with employees

Celtic Property Developments S.A. does not have a direct parent company or the ultimate parent company. Cooperative Laxey Worldwide W.A. is a significant investor at the highest level, which has a significant influence on the Company.

The CPD Group also concludes transactions with key managers and other related entities controlled by the Group's key managers.

The CPD group concluded the following transactions with related parties:

		12 months ended 31 December 2012	12 months ended 31 December 2011
a) Transactions with key managers			
Remuneration of the Management Board members		212	100
Salaries and Cost of services provided by the Management Board members		1 768	2 994
Redemption of shares for a consideration		222	352
Total receivables		16	0
Value of warrants for the board members		2 370	1 156
b) Transactions with the significant investor			
Redemption of shares for a consideration		312	0
Interim dividend		0	1 008
c) Transactions with other related parties			
Revenues			
Spazio Investments	*- real estate advisory services*	0	8 247
Laxey Cooperative	*- sale of shares*	994	0
Vigo Investments Sp. z o.o..	*- rental and accounting services*	7	10
Antigo Investments Sp. z o.o.	*- rental services*	4	25
Prada Investments Sp. z o.o.	*- rental services*	14	24
Quant Investments Sp. z o.o.	*- rental services*	0	17
Wolf Investments Sp. z o.o.	*- rental services*	5	0
Costs			
Kancelaria Radców Prawnych Oleś i Rodzynkiewicz	*- costs of legal services*	100	102
Sterling Corporates Services Sp. z o. o.	*- accounting services*	729	0
Liabilities			
Kancelaria Radców Prawnych Oleś i Rodzynkiewicz	*- trade payables*	0	8
Receivables			
Palladian Finance	*- other receivables*	0	342
Vigo Investments Sp. z o.o..	*- trade receivables*	2	3
Prada Investments Sp. z o.o.	*- trade receivables*	2	9
Prada Investments Sp. z o.o.	*- loan*	69	74
Quant Investments Sp. z o.o.	*- trade receivables*	0	6
Antigo Investments Sp. z o.o.	*- trade receivables*	0	9
Spazio Investments	*- receivables invoiced next year*	0	1 660
Doubtful debts cover by the bad debt provision			
Braslink Ltd		0	1 250
Horseguard		0	2 561

(All amounts in PLN thousands unless otherwise stated)

Additional notes and explanations to the consolidated financial statements

25 Seasons of activity and unusual events

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

26 Assets and liabilities held for sale

As at 31 December 2012 investment property beloging to Robin Investments Sp. z o.o. was classified as held for sale. On the day of preparation of the financial statements the sales transaction is not yet complete. The price for the shares has been fixed at a rate of 13.6 million. In this case, the Group will not make with respect to any claims Buyers.

(a) Assets held for sale

	31 December 2012
Investment property	22 894
	22 894

(b) Liabilities classified as held for sale

	31 December 2012
Borrowings, including finance leases	**0**
Net assets	**22 894**

27 Sale of subsidiaries

In 2012, the Group sold shares in five subsidiaries carrying out the following result on the transaction:

- 17/110 Gaston Investments Sp. z o.o. Sk.	264
- KMA Sp. z o.o.	(283)
- Devin Investments Sp. z o.o.	(6 905)
- Tenth Planet d.o.o.	(2 998)
- Celtic Italy Srl	(302)
	(10 224)

None of the disposed subsidiaries this year would count as discontinued operations.

28 Net loss on sale of investment property

On 23 May 2012, Celtic Group sold one of the parcels (plot No. 113) located in Ursus district of Warsaw for the price of PLN 4.4 million, realizing a loss on this transaction in the amount of PLN 34.6 million (book value of land was 39 million PLN). Ultimately, the intention of the Group is to sell a dedicated portion of land on which there are and will be built infrastructural elements related to water and sewage systems. After completion of the infrastructure portion of the unused land will be transferred back to the ownership of the Celtic Group. As at the date of the transaction was not possible to divide the land in the absence of obowiązującgo spatial development plan - act providing a legal basis for the division of the land. The transaction is part of the Group's strategy and its efforts to protect the water and sewer system for the area Ursus.

On 2 July 2012, the deed was signed, under which the Group has sold another plot Celtic located in Ursus district of Warsaw (No. 119) at the price of PLN 2.2 million, realizing a loss on this transaction in the amount of PLN 11.7 million (book value land was 13.9 million PLN).

Additional notes and explanations to the consolidated financial statements

29 Events after the balance sheet date

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 in PLN thousands unless otherwise stated)

Additional notes and explanations to the consolidated financial statements

30 Dividend distribution

In 2012, the Group did not pay any dividends or interim dividend (in 2011, the Group paid an advance dividend of PLN 3.4 million, or 0,10 zł per share).

31 Earnings per share – basic and diluted

Basic earnings per share are calculated as profit attributable to equity holders of the Company divided by weighted average number of ordinary shares during the year.

	12 months ended 31 December 2012	12 months ended 31 December 2011
Profit attributable to equity holders of the Parent Company	(162 844)	(286 198)
Weighted average number of ordinary shares (in thousands)	34 091	34 068
Earnings per share	-4.78	-8.40

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

The weighted average number of ordinary shares for the year 2012 has been fixed taking into account changes in the number of shares (registration of the capital increase on 12 November 2012, from 34 068 252 to 34 231 466).

For the purposes of calculating earnings per share, the number of shares issued as part of the business combination was used as comparative data.

32 Reporting segments

In accordance with a definition in IFRS 8, the CPD Group represents one operating segment and is recognized by the Management Board as such.

The division of external operating income is presented in Note 15.

At the end of the year, the CPD Group's parent company had its registered office in Warsaw, where it did not generate income from unrelated entities and did not hold any fixed assets in the current year and in the previous year.

Operating income from companies not belonging to the CPD Group is divided by country as follows:

	12 months ended 31 December 2012	12 months ended 31 December 2011
Poland	13 187	20 613
Cyprus	913	6 942
United Kingdom	0	4 120
Italy	2 540	4 977
Montenegro	0	4 975
Hungary	88	3
	16 728	41 630

(All amounts in PLN thousands unless otherwise stated)

Additional notes and explanations to the consolidated financial statements

32 Reporting segments - cont.

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

	31 December 2012	31 December 2011
Poland	438 016	534 404
Cyprus	35	23 049
Other	1 114	1 129
	439 167	558 581

These consolidated financial statements were prepared and approved by the Management Board of the Company on 21.03.2013 and signed on its behalf by:

Andrew Morrison Shepherd
Chairman of the Board

Aled Rhys Jones
Board Member

Andrew Pegge
Board Member

Elżbieta Donata Wiczkowska
Board Member