



CONSOLIDATED ANNUAL REPORT 2015

CPD S.A.
CONSOLIDATED ANNUAL REPORT
FOR THE YEAR ENDED 31 DECEMBER 2015

TRANSLATORS' EXPLANATORY NOTE

The following document is a free translation of the CPD S.A Consolidated Annual Report published on March 17, 2016.

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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I. SUPERVISORY BOARD OF CPD S.A.

As at the day of December 31, 2015, the Supervisory Board of CPD S.A. included the following persons:

- **MR WIESŁAW OLEŚ - (SUPERVISORY BOARD MEMBER NOT MEETING THE REQUIREMENTS OF INDEPENDENT MEMBER OF THE SUPERVISORY BOARD)**

Mr Wiesław Oleś was appointed to the Supervisory Board of the third term on 15 September 2015. The term of office of Mr. Wiesław Oleś expires on 15 September 2018. Mr. Wiesław Oleś has a higher education degree in law, 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 ANDREW PEGGE – (SUPERVISORY BOARD MEMBER NOT MEETING THE REQUIREMENTS OF INDEPENDENT MEMBER OF THE SUPERVISORY BOARD) Mr Andrew Pegge was appointed to the Supervisory Board of third term on 15 September 2015. The term of office of Mr Andrew Pegge expires on 15 September 2018. Mr Andrew Pegge has a higher education degree. 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).

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

Mr Mirosław Gronicki was appointed to the Supervisory Board of the third term on 15 September 2015. The term of office of Mr Mirosław Gronicki expires on 15 September 2018. Mr. Mirosław Gronicki has a higher education degree in economics, 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 acquired the PhD in economics at the Faculty of Economics of the Production at the University of Gdansk.

- **MS GABRIELA GRYGER - (SUPERVISORY BOARD MEMBER MEETING THE REQUIREMENTS OF INDEPENDENT MEMBER OF THE SUPERVISORY BOARD)**

Ms Gabriela Gryger was appointed to the Supervisory Board of the third term on 24 November 2015. The term of office of Ms Gabriela Gryger expires on 15 September 2018. Ms. Gabriela Gryger has education background in finance and economics having graduated from the following universities: - Cambridge University (St. John's College), UK - Huntsman Program in International Studies and Business (The Wharton School/CAS), the University of Pennsylvania, Philadelphia, USA. Mrs. Gryger has nearly 20 years of experience in real estate investing and consulting, both in Poland and in Europe.

- **MR MICHAEL HAXBY - (SUPERVISORY BOARD MEMBER NOT MEETING THE REQUIREMENTS OF INDEPENDENT MEMBER OF THE SUPERVISORY BOARD)**

Mr Michael Haxby was appointed to the Supervisory Board of the third term on 15 September 2015. The term of office of Mr Michael Haxby expires on 15 September 2018. Mr. Michael Haxby has a degree in economics (BSc) in accounting and financial management. Mr. Michael Haxby began his cooperation with Laxey Partners in February 2001, where since December 2002 he has been the Managing Director. Before Laxey Partners has worked in Kingpin and Buchanan Partners.

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In comparison to the status at the end of 2014, the composition of Supervisory Board of CPD S.A. has changed in following manner:

- June 17, 2015, Ms. Marzena Bielecka, acting as Chairman of the Supervisory Board, resigned from her position on the date of the General Meeting CPD SA, whose agenda will contains the change of the Supervisory Board, ie 17 June 2015. The resignation was for professional reasons.
- 17 June 2015 the Annual General Meeting appointed Mr. Michael Haxby as Member of the Supervisory Board since 17 June 2015 year.
- 29 October 2015 Mr. Wiesław Rozłucki, Member of the Supervisory Board of CPD SA. resigned, effective at the end of 31 October 2015. Mr. Wiesław Rozłucki as a reason for resignation presented the entry into force on 1 November 2015 the amended Act - Banking Law, and in particular Article 22aa paragraph. 3.
- 24 November 2015 Extraordinary General Meeting appointed Ms. Gabriela Gryger as Member of the Supervisory Board since 24 November 2015.

LETTER OF THE PRESIDENT OF THE MANAGEMENT BOARD

II. LETTER OF THE PRESIDENT OF THE MANAGEMENT BOARD

Warsaw, 17 March, 2016

DEAR SIRS AND MADAMS, DEAR SHAREHOLDERS,

We are very pleased to present CPD S.A. Group's Annual Report for 2015. This was a another crucial year for the Group, in terms of adopted strategic goals and continuation of projects in progress.

It was possible because of commencement of Smart City Ursus Project, September 2015. In 2015 Smart City Ursus construction as well as sale phase has started in cooperation with Unibep S.A. Group. In addition to this, similarly to previous years, in 2015 we were taking actions to maximise the lease revenues. We have left high occupancy rate in Iris, Solar, and Aquarius office buildings in Warsaw.

The company took advantage of favorable conditions on the financial markets and refinance its portfolio on very favorable financial conditions, optimizing the financial costs of operations. These measures allowed the Group to achieve a positive financial result in 2015 and retain a stable financial standing.

Summarising the entire previous year, was very intense but extremely favourable for the Group. I would like to thank all our Employees and Partners for their efforts to launch the Group's key project and deliver the remaining projects. I would like to thank our Clients for their confidence in us. Thank you to the members of CPD S.A.'s Supervisory Board for their commitment and effort in building the Group's position. And thank you to our Shareholders, for their confidence in us and allocation of capital to CPD S.A..

YOURS SINCERELY,

ELŻBIETA WICZKOWSKA
PRESIDENT OF THE MANAGEMENT BOARD
OF CPD S.A.

MANAGEMENT BOARD

III. MANAGEMENT BOARD OF CPD S.A.

As at the day of December 31, 2015, the Management Board of CPD S.A. included the following persons:

- **MS ELŻBIETA WICZKOWSKA – PRESIDENT OF THE MANAGEMENT BOARD**

Ms Elżbieta Wiczowska was appointed to the Management Board of third term on 17 June 2015. On 25 September 2013, the Company's Supervisory Board entrusted Ms Elżbieta Wiczowska with the function of the President of the Company's Management Board. The term of office of Ms Elżbieta Wiczowska expires on 17 June 2020. Ms Elżbieta Wiczowska has a higher education degree in medicine. She completed medical studies at Physicians Faculty of the Medical Academy in Szczecin. Ms Elżbieta Wiczowska has an 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 Wiczowska holds qualifications of the ACCA (The Association of Chartered Certified Accountants).

- **MR COLIN KINGSNORTH – MEMBER OF THE MANAGEMENT BOARD**

Mr Colin Kingsnorth was appointed to the Management Board on 17 June 2015. The term of office of Mr Colin Kingsnorth expires on 17 June 2020. Mr Colin Kingsnorth has a higher education degree in economics (BSc), he graduated from the University of East London UEL (Great Britain). Mr Colin Kingsnorth is a member of the UK Society of Investment Professionals.

- **MS IWONA MAKAREWICZ – MEMBER OF THE MANAGEMENT BOARD**

Ms Iwona Makarewicz was appointed as a Member of the Management Board of third term on 17 June 2015. The term of office of Ms Iwona Makarewicz expires on 17 June 2020. Ms Iwona Makarewicz has a higher education degree being a graduate of the Warsaw School of Economics (Poland); she completed a post-graduate programme in Property Appraisal and Management w Sheffield Hallam University (Great Britain) and a post-graduate programme in property appraisal at the Warsaw University of Technology (Poland); she is a member of the Royal Institute of Chartered Surveyors and she holds the title of a licensed real estate agent.

- **MR JOHN PURCELL - MEMBER OF THE MANAGEMENT BOARD**

Mr John Purcell was appointed to the Management Board on 17 June 2015. The term of office of Mr John Purcell expires on 17 June 2020. Mr. John Purcell has 30 year's experience in real estate advice, investment and development in the UK and throughout Europe. He trained at Savills and also worked at Cushman & Wakefield, before joining CLS Holdings plc where he was Group Head of Property and was responsible for acquisitions, sales and asset management of the £1 billion portfolio. Following that he worked at Lend Lease REI and then joined UBS Global Asset Management to help create their European property platform. While there he also set up and ran UBS's Flagship Open Ended European Fund from 2003 – 2007. He arranged a pan-European finance facility for the Fund. He was instrumental in forming the UBS Global Asset Management Real Estate capability in Europe and was a member of the UBS Global Asset Management Real Estate Investment Committee. He has transacted in excess of €1.5bn of property during his career.

In comparison to the status at the end of 2014, the composition of the Management Board of CPD S.A. changed as follows:

- On 17 June 2015, Mr John Purcell was appointed to the Management Board;

**IV. INFORMATION ON THE PARTICIPATION OF MEN AND WOMEN IN
THE MANAGEMENT BOARD AND SUPERVISORY BOARD**

CPD S.A., according to the *Good Practices of the Companies Listed on the Warsaw Stock Exchange* 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 CPD S.A.

date	women	men
31 December 2014	1	4
31 December 2015	1	4

Board CPD S.A.

date	women	men
31 December 2014	2	1
31 December 2015	2	2

V. MANAGEMENT BOARD'S REPORT ON THE GROUP'S ACTIVITY

1. INFORMATION ON CPD GROUP

CPD Group started its activities in Poland in 1999 from the foundation of Celtic Asset Management Sp. z o.o. In subsequent years, 1999-2005, the activities of the company focused on building and managing a real estate portfolio for external institutions in Poland, Czech Republic, Lithuania, Romania, Hungary and Germany. In 2005, Celtic Asset Management Sp. z o.o started development activity 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 contributed to the creation of a strong and stable capital group, which debuted on the Warsaw Stock Exchange on 23 December 2010. 17th of September the Company has changed the name for CPD S.A.

Today, CPD S.A. is the holding company controlling a group of 36 subsidiaries and one half controlled, focusing on activities in the office and residential segments. Current Group's plans focus on the residential development, mainly through the implementation of its leading project in the Warsaw's district of Ursus.

2. GROUP STRUCTURE

As of the day of publication hereof, the CPD Group (hereinafter referred to as "the Group", "CPD Group") was composed of a dominant entity – CPD S.A. (hereinafter referred to as "the Company") and 36 subsidiaries and one half controlled. Development activities of the Group are conducted via investment companies, direct subsidiaries of Buffy No1 Holdings Ltd (Cyprus) and Lakia Enterprises Ltd (Cyprus). Dominant entity - CPD S.A. - coordinates and supervises the activities of subsidiaries and at the same time is the decision making centre with regard to the strategic planning. CPD S.A. performs actions aiming at optimising the operating costs of the whole Group, designs investment and marketing policies and serves as the coordinator of this activity.

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

The following changes in CPD Group's structure took place during the reporting period:

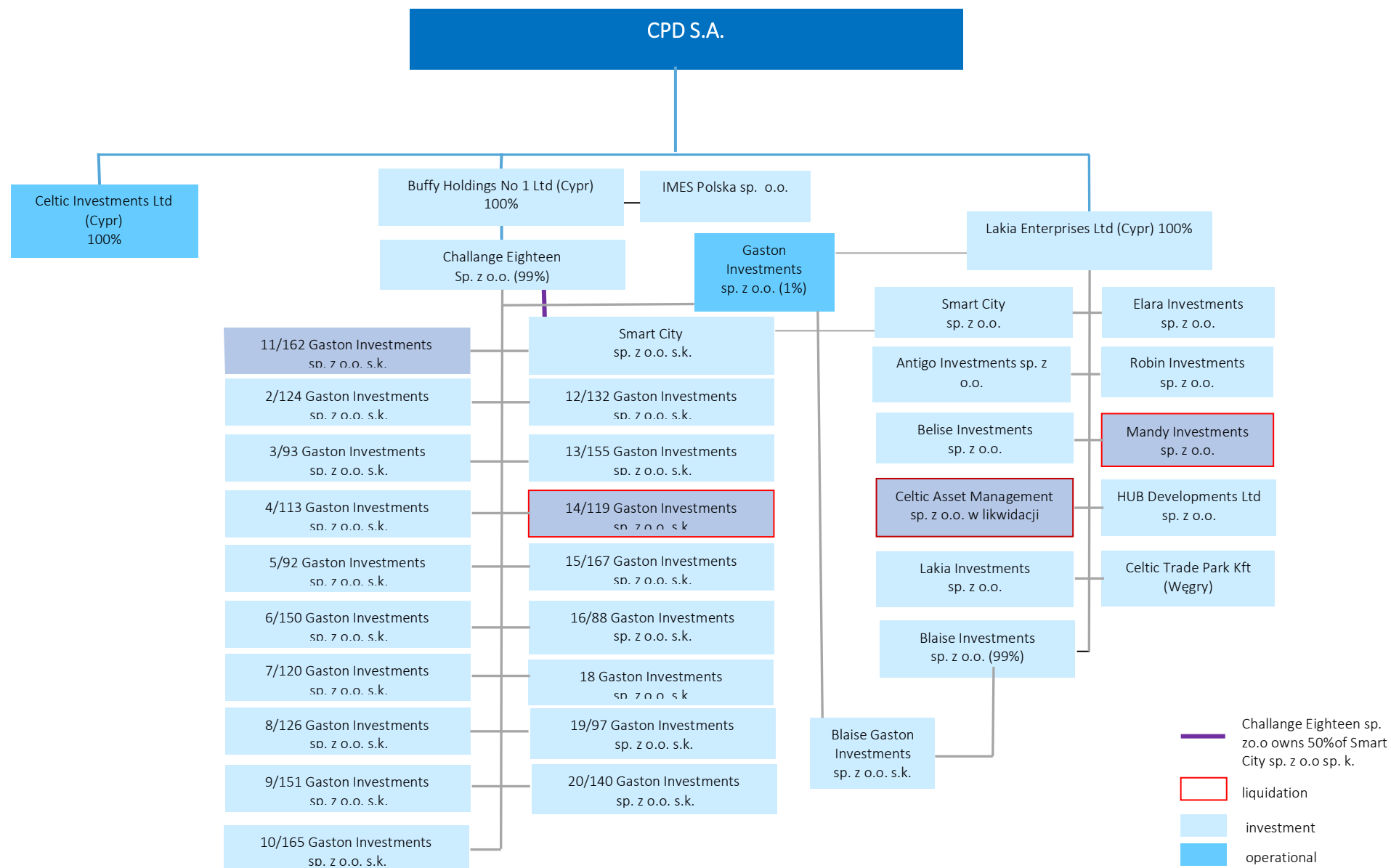
- On 30 January 2015, IMES sp z o.o. company was acquired.
- On 27 February 2015, sale of Geatan Investments sp z o.o. company was completed.
- On 18 August 2015 the resolution for opening the liquidation process for Mandy Investments sp. z o.o. was passed
- On 18 August 2015 the resolution for opening the liquidation process for 14/119 Gaston Investments spółka z ograniczona odpowiedzialnością sp. k. was passed

The above changes are compliant with the Group's strategy, which is oriented among others on optimisation of its operation costs by sales of inactive companies and simplification of the Group's structure.

All Group companies are fully consolidated, except for the company Smart City limited liability company, limited partnership. Due to the fact that the investment agreement concerns a part of real estate held by Smart City Sp. o.o. Sp.k., and the remaining part of the plot to remains under the complete control of the Group - until the disposal of the Group's management decided to extract all assets, liabilities and equity of the entity which is a joint venture and recognition as a separate entity, in accordance with IFRS 10.

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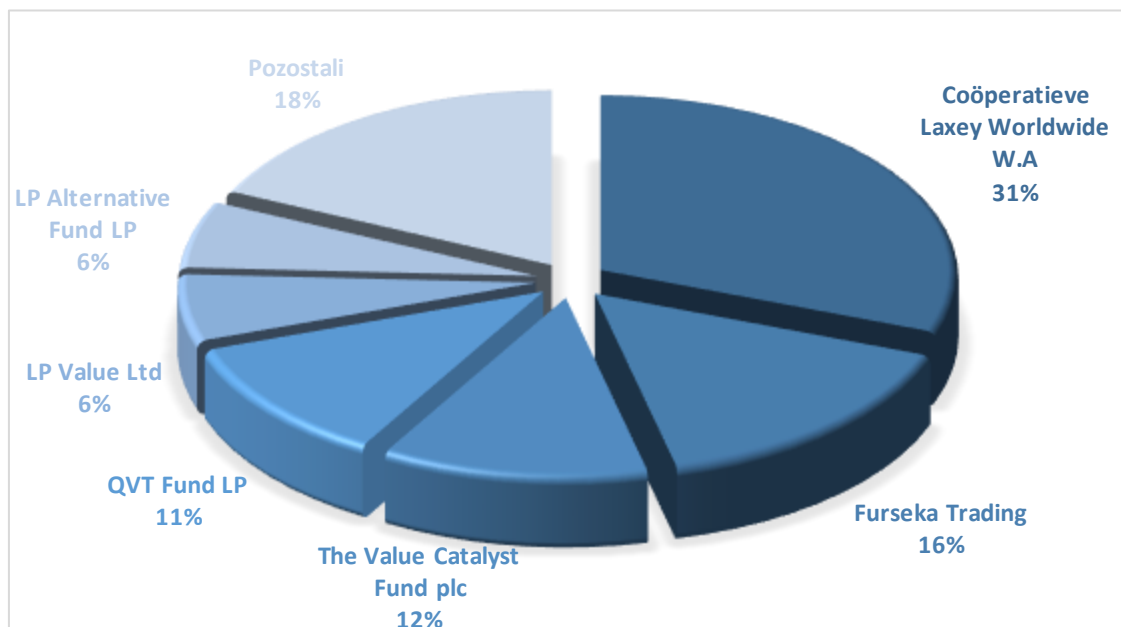
CPD Group structure on the December 31, 2015.



3. SHAREHOLDERS

- CONTROLLING SHARES

CPD S.A. SHAREHOLDING STRUCTURE



According to the information held by the Company in the reporting period, 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 (the number of shares provided on the basis of shareholders' notices pursuant to Article 69 of the Act on Public Offering or the data included in the prospectus) are:

Shareholder	Amount of shares	Type of shares	Amount of votes	As % of total number of shares	As % of total number of votes
Coöperatieve Laxey Worldwide W.A	10 082 930	Na okaziciela	10 082 930	30.68 %	30.68 %
Furseka Trading	5 137 222	Na okaziciela	5 137 222	15.63 %	15.63 %
The Value Catalyst Fund plc	3 975 449	Na okaziciela	3 975 449	12.10 %	12.10 %
QVT Fund LP	3 701 131	Na okaziciela	3 701 131	11.26 %	11.26 %
LP Value Ltd	2 005 763	Na okaziciela	2 005 763	6.10 %	6.10 %
LP Alternative Fund LP	2 003 981	Na okaziciela	2 003 981	6.10 %	6.10 %
Pozostali	5 956 727	Na okaziciela	5 956 727	18.13 %	18.13 %

The above shareholding structure was presented for the total number of shares, that is 32,863,203, including series B, C, D, E, and F shares accounting for 100% of votes at the General Meeting of the Company's Shareholders.

On 5 August 2014, resolution was adopted to issue series A bonds convertible to series G shares in the Company, conditionally increase the Company's share capital, deny the existing shareholders entirely their right of subscription for series G shares, amend the Company's Articles, dematerialise

series G shares, and apply for admission and floating of series G shares on a stock exchange. Redemption date of tranche 1 bonds is 26 September 2017.

- **SHAREHOLDERS WITH SPECIAL RIGHTS**

All shares issued by the Company are ordinary bearer shares. The Company's Articles 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 Article 4(5) of the Company's Articles, neither pledgee nor user shall have the right to exercise voting right from shares which were pledged or given for use. The Company, in accordance with applicable laws, may not exercise voting rights from own shares.

- **RESTRICTIONS REGARDING SHARES TRANSFER**

All hitherto issued B, C, D and F series shares of CPD S.A. are the object of free trade and shall not be subject to any restrictions, except those arising under the Company Articles, Code of Commercial Companies, Act on Trading in Financial Instruments, Act on Public Offering, as well as other relevant provisions of the law.

In accordance with Article 4(6) of the Company Articles, bearer shares shall not be subject to conversion to registered shares. Conversion of registered shares into bearer shares shall be carried out at the request of the Shareholder by means of a resolution of the Management Board, which should be adopted 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 Articles in respect of the number of registered shares.

4. CORPORATE GOVERNANCE

- **RULES OF CORPORATE GOVERNANCE**

CPD S.A. is regulated by such corporate regulations as the Company Articles, General Meeting by-laws, Supervisory Board by-laws and Management Board by-laws. All these documents are available on the Company website: www.cpdsa.pl.

In 2015 the Company applied principles of corporate governance included in the document *Good Practices of the Companies Listed on the Warsaw Stock Exchange*, available on https://www.gpw.pl/pub/files/PDF/RG/DPSN2016_EN.pdf.

- **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 the 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

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periodic reports. The effective system of internal control and risk management in the process of financial reporting was built through an 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 laws. Published half-year and annual financial statements, 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 Articles, 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's exposure to market risks, a correct assessment of the planned development projects as well as the control of current ones 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 guarantees or insurance policies from sub-contractors and tenants that cover 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.

• SHAREHOLDERS OWNING QUALIFYING SHARES AMOUNT

According to the information held by the Company in the reporting period, 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 (the number of shares provided on the basis of shareholders' notices pursuant to Article 69 of the Act on Public Offering or the data included in the prospectus) are:

Shareholder	Amount of shares	Type of shares	Amount of votes	As % of total number of shares	As % of total number of votes
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Pozostali	5 956 727	Na okaziciela	5 956 727	18.13 %	18.13 %

• HOLDERS OF SECURITIES GIVING SPECIAL CONTROL RIGHTS

The Company has not issued any securities that give special control rights to the shareholders.

• RESTRICTIONS ON THE EXERCISE OF VOTING RIGHTS

The Company has not issued any securities, limiting with regard to the exercise of voting rights, such as limiting the voting rights of holders given percentage or number of votes, deadlines for exercising voting rights or provisions according to which, the company's cooperation, the financial rights attaching to the securities they are separated from the ownership of securities.

- **RESTRICTIONS ON THE TRANSFER OF OWNERSHIP OF SECURITIES OF THE ISSUER**

The limitation applies to the sale of any Bonds Series A (including load a registered pledge and financial entitling to acquisition). The sale requires written consent of the Issuer and is effective against the Issuer from the date of notification of this fact. Registered Bonds are not convertible into bearer bonds.

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

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 Articles and according to the mode provided by the Company's Articles and relevant law provisions. The Supervisory Board complied with the condition of having at least two independent members in its composition, in accordance with the criteria of independence laid down in the Company's Articles. 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 22. *REMUNERATION OF THE MANAGEMENT BOARD AND THE SUPERVISORY BOARD* of this report.

An Audit Committee was created within the Supervisory Board. The Audit Committee is composed of 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**

Members of the Management Board are appointed and dismissed by the Supervisory Board. The current term of office of the Management Board runs from 17 June 2015 (i.e. from the date of the General Meeting for 2014 and the appointment of the Management Board of the third term) and ends on 17 June 2020. The term of office of the current Management Board is common and lasts 5 years (§ 13(1) of the Company's Articles). Dismissal or suspension of a member of the Management Board may take place only for significant reasons. Article 368(4) of the Code of Commercial Companies also provides to for the General Meeting's right to dismiss or suspend a member of the Management Board.

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

- fixing the date and the agenda and convening General Meetings;
- submitting motions to the General Meeting, together with the opinion of the Supervisory Board, in matters covered by the agenda of these Meetings

- submitting to the Supervisory Board financial statements and the Management Board's written report on its activities during the accounting period and the motion 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 the operation of the Company's business;
- creating and adopting Company's annual, long-term and strategic plans;
- establishing procuration and granting powers of attorney;
- applying with the Supervisory Board for convening its meetings,
- applying with 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.

• **AMENDMENTS TO THE COMPANY ARTICLES**

The Code of Commercial Companies regulates in detail the amendments to the articles of association of a joint-stock company in Chapter 4, 5 and 6 of *Provisions on the joint-stock company* (Article 430 of CCC et seq.). Amendment to the Articles of Association requires decisions taken by the General Meeting.

• **GENERAL MEETING**

The General Meeting is the highest governing body of the Company. The General Meeting acts in accordance with the principles set out in the Code of Commercial Companies, Company's Articles and General Meeting's by-laws. The Articles and rules of procedure of the General Meetings are presented on the Company's website: www.cpdsa.pl. General meetings can be ordinary or extraordinary. The General Meeting is convened by competent governing bodies or persons whose entitlement derives from the provisions of the law or the Articles. The General Meeting is held at the place and time to facilitate the participation to the widest circle of shareholders. Shareholders having registered shares and temporary rights as well as pledgees 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 are entitled to participate in 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 their remuneration as well as on other matters indicated in CCC.

• **COMPOSITION AND CHANGES TOOK PLACE DURING LAST FINANCIAL YEAR AND DESCRIPTION OF MANAGING, SUPERVISORY OR ADMINISTRATIVE AUTHORITY OF ISSUER AND ITS COMMITTEES**

Supervisory board

The Supervisory Board acts in accordance with the provisions of the Code of Commercial Companies, the provisions of the Company's Articles 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

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Principles of Good Practices of Companies Listed on the Warsaw Stock Exchange. The Supervisory Board is a 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 composition of Supervisory Board of CPD S.A. is:

- Mr Wiesław Oleś
- Mr Andrew Pegge
- Mr Mirosław Gronicki
- Ms Gabriela Gryger
- Mr Michael Haxby

The composition of Supervisory Board of CPD S.A. has changed in following manner:

- June 17, 2015, Ms. Marzena Bielecka, acting as Chairman of the Supervisory Board, resigned from her position on the date of the General Meeting CPD SA, whose agenda will contains the change of the Supervisory Board, ie 17 June 2015. The resignation was for professional reasons.
- 17 June 2015 the Annual General Meeting appointed Mr. Michael Haxby as Member of the Supervisory Board since 17 June 2015 year.
- 29 October 2015 Mr. Wiesław Rozłucki, Member of the Supervisory Board of CPD SA. resigned, effective at the end of 31 October 2015. Mr. Wiesław Rozłucki as a reason for resignation presented the entry into force on 1 November 2015 the amended Act - Banking Law, and in particular Article 22aa paragraph. 3.
- 24 November 2015 Extraordinary General Meeting appointed Ms. Gabriela Gryger as Member of the Supervisory Board since 24 November 2015.

Management board

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

The composition of Management Board of CPD S.A. is:

- Ms Elżbieta Wiczowska – President of the Management Board
- Mr Colin Kingsnorth – Member of the Management Board
- Ms Iwona Makarewicz – Member of the Management Board
- Mr John Purcell - Member of the Management Board

The composition of the Management Board of CPD S.A. changed as follows:

- On 17 June 2015, Mr John Purcell was appointed to the Management Board;

• **DEROGATIONS FROM CORPORATE GOVERNANCE RULES**

The Company does not apply the following rules mentioned in the *Good Practices of the Companies Listed on the Warsaw Stock Exchange*:

DISCLOSURE POLICY, INVESTOR COMMUNICATIONS

- **PRINCIPLE I.Z.1.3. A CHART SHOWING THE DIVISION OF DUTIES AND RESPONSIBILITIES AMONG MEMBERS OF THE MANAGEMENT BOARD DRAWN UP ACCORDING TO PRINCIPLE II.Z.1;**

The Company does not apply the principle.

On the Company's website the scheme for the division of tasks and responsibilities between the Board members is not attached. Due to the lack of developed organizational structure in the Company the scheme of division of tasks and responsibilities between members of the Board is not developed either.

- **PRINCIPLE I.Z.1.11. INFORMATION ABOUT THE CONTENT OF THE COMPANY'S INTERNAL RULE OF CHANGING THE COMPANY AUTHORISED TO AUDIT FINANCIAL STATEMENTS OR INFORMATION ABOUT THE ABSENCE OF SUCH RULE;**

The Company does not apply the principle.

The Company has not posted information about the content of the company's internal rule of changing the company authorized to audit financial statements on its website, as there is no such internal rules. The company applies to the content of art. 89 of the Act of 7 May 2009 on auditors and their self-government, entities authorized to audit financial statements and public oversight:

"1. Key statutory auditor can not perform auditing activities in the same unit of public interest for a period longer than 5 years.

2. Key auditor can again perform the financial audit in the entity referred to in paragraph. 1, after at least two years."

- **PRINCIPLE I.Z.1.15. INFORMATION ABOUT THE COMPANY'S DIVERSITY POLICY APPLICABLE TO THE COMPANY'S GOVERNING BODIES AND KEY MANAGERS; THE DESCRIPTION SHOULD COVER THE FOLLOWING ELEMENTS OF THE DIVERSITY POLICY: GENDER, EDUCATION, AGE, PROFESSIONAL EXPERIENCE, AND SPECIFY THE GOALS OF THE DIVERSITY POLICY AND ITS IMPLEMENTATION IN THE REPORTING PERIOD; WHERE THE COMPANY HAS NOT DRAFTED AND IMPLEMENTED A DIVERSITY POLICY, IT SHOULD PUBLISH THE EXPLANATION OF ITS DECISION ON ITS WEBSITE;**

The Company does not apply the principle.

The Company does not have a diversity policy in relation to the authorities of the Company and its key managers. In deciding whether the employment of board members or managers, the Company is guided by the criteria: professional experience, competence, education.

- **PRINCIPLE I.Z.1.16. INFORMATION ABOUT THE PLANNED TRANSMISSION OF A GENERAL MEETING, NOT LATER THAN 7 DAYS BEFORE THE DATE OF THE GENERAL MEETING;**

The Company does not apply the principle.

The costs of implementation of internet transmission, recording sessions, and publishing these transmissions, the need of broad for legal analysis relating to, among others, publication of shareholders images and their expression and organizational burden associated with these activities do not allow for implementation of these procedures in the Company. Currently there is also the relevant regulations in the Articles of Association and Regulations of the General Meeting.

- **PRINCIPLE I.Z.1.20. AN AUDIO OR VIDEO RECORDING OF A GENERAL MEETING;**

The Company does not apply the principle.

The company did not register the proceedings of the General Meetings in the form of audio or video so far. The Company believes that a form of documentation of the General Meetings allows the preservation of transparency and protection of shareholder rights. Information on resolutions adopted by the General Meetings, the Company shall publish in the form of current reports and on its website www.cpsa.pl.

MANAGEMENT BOARD, SUPERVISORY BOARD

- **PRINCIPLE II.Z.1. THE INTERNAL DIVISION OF RESPONSIBILITIES FOR INDIVIDUAL AREAS OF THE COMPANY'S ACTIVITY AMONG MANAGEMENT BOARD MEMBERS SHOULD BE CLEAR AND TRANSPARENT, AND A CHART DESCRIBING THAT DIVISION SHOULD BE AVAILABLE ON THE COMPANY'S WEBSITE.**

The Company does not apply the principle.

In accordance with the provisions of the Commercial Companies Code (KSH), the members of the Board are obliged to jointly manage the Company's affairs. Due to the absence of the Company's organizational structure and extensive activity in one specific area of the property precisely there were no formalized division of responsibilities between the Board members.

- **PRINCIPLE II.Z.2. A COMPANY'S MANAGEMENT BOARD MEMBERS MAY SIT ON THE MANAGEMENT BOARD OR SUPERVISORY BOARD OF COMPANIES OTHER THAN MEMBERS OF ITS GROUP SUBJECT TO THE APPROVAL OF THE SUPERVISORY BOARD.**

The Company does not apply the principle.

Corporate Documentation of Company does not provide records relating to the commented rules and agreements with the members of the Board do not impose restrictions of this type. The Company on the other hand applies the applicable law (art. 380 of the Code of Commercial Companies), according to which the board member may not, without the consent of the Company's competitive business or participate in a competitive company; (I) in accordance with the provisions of the Rules of the Supervisory Board member shall not carry out activities competitive to the Company without the consent of the Supervisory Board, (ii) in accordance with the regulations of the Management Board, member of the Board may not

engage in competitive business or participate in a competitive company as a partner or a member of its authorities, without the consent of the Supervisory Board.

GENERAL MEETING, SHAREHOLDER RELATIONS

- **PRINCIPLE IV.Z.2. IF JUSTIFIED BY THE STRUCTURE OF SHAREHOLDERS, COMPANIES SHOULD ENSURE PUBLICLY AVAILABLE REAL-TIME BROADCASTS OF GENERAL MEETINGS.**

The Company does not apply the principle.

Costs of implementation of internet transmission, recording sessions, and publishing these transmissions, the need of broad for legal analysis relating to, among others, publication of shareholders images and their expression and organizational burden associated with these activities do not allow for implementation of these procedures in the Company. Currently there is also the relevant regulations in the Articles of Association and Regulations of the General Meeting.

CONFLICT OF INTEREST, RELATED PARTY TRANSACTIONS

- **PRINCIPLE V.Z.5. BEFORE THE COMPANY CONCLUDES A SIGNIFICANT AGREEMENT WITH A SHAREHOLDER WHO HOLDS AT LEAST 5% OF THE TOTAL VOTE IN THE COMPANY OR WITH A RELATED PARTY, THE MANAGEMENT BOARD SHOULD REQUEST THE SUPERVISORY BOARD'S APPROVAL OF THE TRANSACTION. BEFORE GIVING ITS APPROVAL, THE SUPERVISORY BOARD SHOULD EVALUATE THE IMPACT OF THE TRANSACTION ON THE INTEREST OF THE COMPANY. THE FOREGOING DOES NOT APPLY TO TYPICAL TRANSACTIONS AND TRANSACTIONS AT ARM'S-LENGTH MADE AS PART OF THE COMPANY'S OPERATIONS BETWEEN THE COMPANY AND MEMBERS OF ITS GROUP. IF THE DECISION CONCERNING THE COMPANY'S SIGNIFICANT AGREEMENT WITH A RELATED PARTY IS MADE BY THE GENERAL MEETING, THE COMPANY SHOULD GIVE ALL SHAREHOLDERS ACCESS TO INFORMATION NECESSARY TO ASSESS THE IMPACT OF THE TRANSACTION ON THE INTEREST OF THE COMPANY BEFORE THE DECISION IS MADE.**

The Company does not apply the principle.

Company's Corporate Documentation (§ 13 paragraph. 2 point 14) contains provisions concerning the need of Supervisory Board a consent for conclusion of agreement by the Company with related parties of the Company within the Regulation of the Minister of Finance on current and periodic information published by issuers of securities and conditions for recognizing as equivalent information required by laws of a non-member state (Journal of laws of 2014, item. 133); consent is not required for typical transactions concluded on market terms within the operating business by the Company with a subsidiary in which the Company holds a majority stake. However, the above definition does not, qualify for the category of "related parties" shareholder holding 5% to 20% percent of the total number of votes in the Company.

- **PRINCIPLE V.Z.6. IN ITS INTERNAL REGULATIONS, THE COMPANY SHOULD DEFINE THE CRITERIA AND CIRCUMSTANCES UNDER WHICH A CONFLICT OF INTEREST MAY ARISE IN THE COMPANY, AS WELL AS THE RULES OF CONDUCT WHERE A CONFLICT OF INTEREST HAS ARISEN OR MAY ARISE. THE COMPANY'S INTERNAL REGULATIONS SHOULD AMONG OTHERS PROVIDE FOR WAYS TO PREVENT, IDENTIFY**

AND RESOLVE CONFLICTS OF INTEREST, AS WELL AS RULES OF EXCLUDING MEMBERS OF THE MANAGEMENT BOARD OR THE SUPERVISORY BOARD FROM PARTICIPATION IN REVIEWING MATTERS SUBJECT TO A CONFLICT OF INTEREST WHICH HAS ARISEN OR MAY ARISE.

The Company does not apply the principle.

The Company has not adopted internal regulations relating to the determination of situations that can result in the company to a conflict of interest, and did not define the rules of conduct in the face of conflict of interest or the possibility of its occurrence. The Company will consider the possibility of implementing appropriate regulations taking into account, inter alia, how to prevent, identify and resolve conflicts of interest, as well as rules-off member of the Management Board or the Supervisory Board from participating in the consideration of matters covered by or at risk of conflict of interest.

REMUNERATION

- **PRINCIPLE VI.Z.1. INCENTIVE SCHEMES SHOULD BE CONSTRUCTED IN A WAY NECESSARY AMONG OTHERS TO TIE THE LEVEL OF REMUNERATION OF MEMBERS OF THE COMPANY'S MANAGEMENT BOARD AND KEY MANAGERS TO THE ACTUAL LONG-TERM FINANCIAL STANDING OF THE COMPANY AND LONGTERM SHAREHOLDER VALUE CREATION AS WELL AS THE COMPANY'S STABILITY.**

The Company does not apply the principle.

The Company has no current incentive programs based on options or financial instruments (or to members of the Board or for key managers). Existing internal bonus programs for employees of the capital of the Company (including the members of the Board) are associated with the net proceeds from the sale of the investments in question do not apply while the long-term financial situation of the Company and long-term growth in shareholder value and stability of the Company.

- **PRINCIPLE VI.Z.2. TO TIE THE REMUNERATION OF MEMBERS OF THE MANAGEMENT BOARD AND KEY MANAGERS TO THE COMPANY'S LONG-TERM BUSINESS AND FINANCIAL GOALS, THE PERIOD BETWEEN THE ALLOCATION OF OPTIONS OR OTHER INSTRUMENTS LINKED TO THE COMPANY'S SHARES UNDER THE INCENTIVE SCHEME AND THEIR EXERCISABILITY SHOULD BE NO LESS THAN TWO YEARS.**

The Company does not apply the principle.

Due to the conditions of application of the rule (indicated in explaining the principle of VI.Z.1) it is not possible to comply with the rules VI.Z.2.

- **PRINCIPLE VI.Z.4. IN THIS ACTIVITY REPORT, THE COMPANY SHOULD REPORT ON THE REMUNERATION POLICY INCLUDING AT LEAST THE FOLLOWING:**

- 1) GENERAL INFORMATION ABOUT THE COMPANY'S REMUNERATION SYSTEM;**
- 2) INFORMATION ABOUT THE CONDITIONS AND AMOUNTS OF REMUNERATION OF EACH MANAGEMENT BOARD MEMBER BROKEN DOWN BY FIXED AND VARIABLE REMUNERATION COMPONENTS, INCLUDING THE KEY PARAMETERS OF SETTING THE VARIABLE REMUNERATION COMPONENTS AND THE TERMS OF PAYMENT OF**

SEVERANCE ALLOWANCES AND OTHER AMOUNTS DUE ON TERMINATION OF EMPLOYMENT, CONTRACT OR OTHER SIMILAR LEGAL RELATIONSHIP, SEPARATELY FOR THE COMPANY AND EACH MEMBER OF ITS GROUP;

- 3) INFORMATION ABOUT NON-FINANCIAL REMUNERATION COMPONENTS DUE TO EACH MANAGEMENT BOARD MEMBER AND KEY MANAGER;
- 4) SIGNIFICANT AMENDMENTS OF THE REMUNERATION POLICY IN THE LAST FINANCIAL YEAR OR INFORMATION ABOUT THEIR ABSENCE;
- 5) ASSESSMENT OF THE IMPLEMENTATION OF THE REMUNERATION POLICY IN TERMS OF ACHIEVEMENT OF ITS GOALS, IN PARTICULAR LONG-TERM SHAREHOLDER VALUE CREATION AND THE COMPANY'S STABILITY.

The Company does not apply the principle.

This principle can not be applied due to the fact that the Company does not have the policy of remuneration (salary system). Legal forms of contracts and remuneration for the members of the Board shall be determined within individual students negotiations between members of the Management Board and the Supervisory Board. Due to the large group of the capital of the Company is not possible to develop such extensive data in such a short time, however, the Management Board will consider the possibility to adapt in the future reports of the Company's operations in a manner consistent with this principle. The Company publishes a report on the activities of the remuneration of the members of the Management Board and the Supervisory Board.

5. CORPORATE SOCIAL RESPONSIBILITY

CPD Group perceives its activities in the field of developer projects in the broader context of creating a modern, multidimensional urban space, providing new quality of life for residents and users of implemented investments. The Group expresses its responsibility for the environment through the support for various social initiatives, directly or indirectly related to its investment business.

CPD Group is continuing leasing a building for the Arsus, for symbolic amount of PLN 100 per month, which allows the centre to allocate more funds for its statutory activities. The Arsus Centre, operating since 1992, is located at Traktorzystów 14 street on a site belonging currently to CPD Group. It includes a fully equipped cinema with 500 seats, a room with stage and 120 seats, an "Arsus" basement for alternative activities (concerts, theatre plays, performance), a modern art gallery "Ad-Hoc", as well as clubrooms to conduct artistic amateur activities.

In relation to our key development project on former ZPC Ursus industrial land, and being aware of our role in such a comprehensive task as revitalisation of this area, CPD Group has for several years been undertaking initiatives exceeding the scope of typical real estate development and construction. In 2015, the Group along with the City District of Ursus Office co-organised a cycle of cultural events "Ursus Days", "Farewall to Summer with Ursus", and supported preparation of light decorations in the district during the Christmas season.

In 2016, CPD Group will use spare funds to continue the commenced community support initiatives in belief that they will bring measurable effects both to direct beneficiaries and to communities in which they are delivered.

6. STRATEGY AND POLICY REGARDING FURTHER GROUP DEVELOPMENT DIRECTIONS

In the coming years, the Group is going to implement a strategy aimed at building the value of the Group's assets successively and consistently through maximisation of proceeds from rents and comprehensive implementation of the Ursus project. As part of implementing strategic assumptions, the Group's actions will primarily focus on launching the Ursus project. In order to hasten the growth in the value of the Group's assets, the Group intends to divide the project in Ursus into smaller projects and implement them in cooperation with experienced housing developers. Simultaneous implementation of several smaller developer undertakings as part of the Ursus project will enable the shortening of the entire project completion time, which will at the same time translate into faster growth in the value of other Group's assets in that region, and permit the achievement of the synergy effect and optimisation of promotion, sales and marketing costs related to those undertakings.

Regardless of the strategic assumptions adopted for the incoming years, the Group does not exclude that in the future it will be interested in sale of the part of the investment land to other potential developers or acquisitions of other entities of the development sector. Potential targets of acquisitions will be primarily companies holding lands in interesting locations and/or executing projects matching the Group's image.

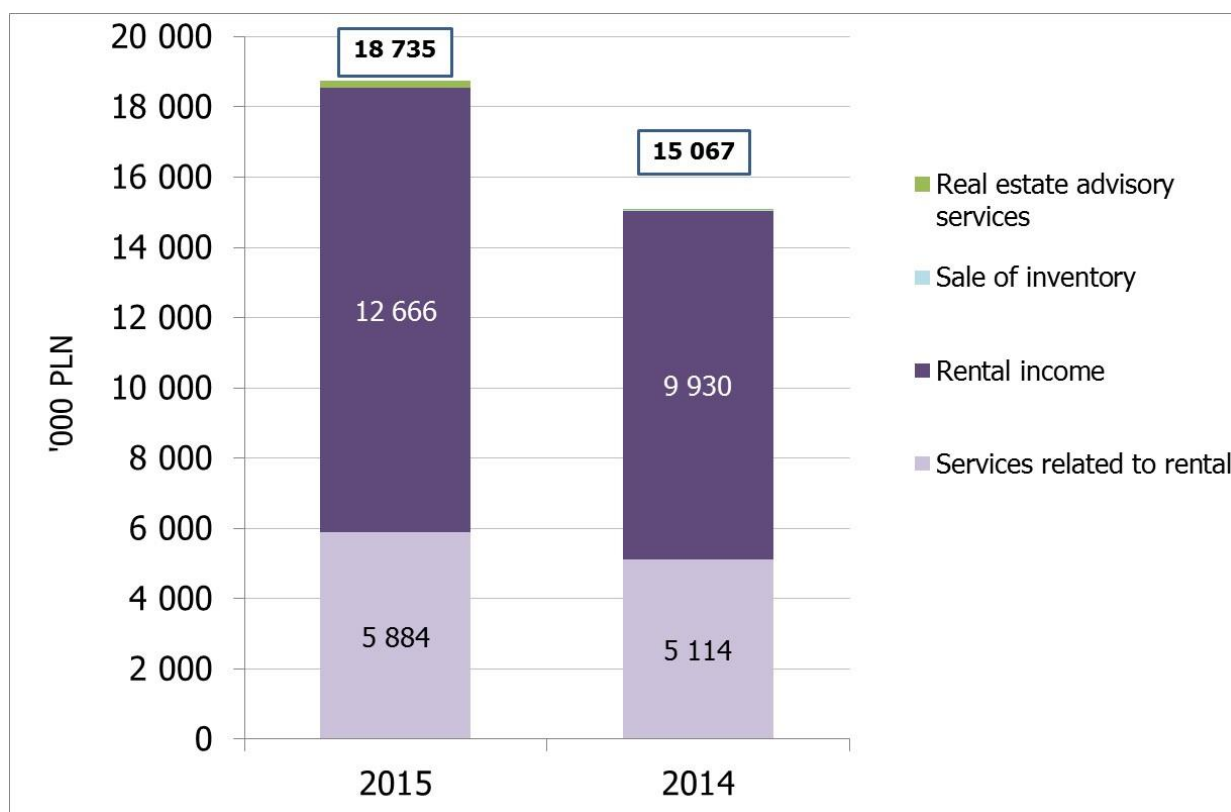
The overall strategy, as defined above, executed in very demanding market conditions, determined by the overall economic slowdown, the decrease in demand for real estate and more difficult access to the capital, defines the guidelines for each of the areas of Group's activity during next few years and aims at increasing the Shareholders' assets and optimizing their return on investment.

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

• REVENUES STRUCTURE AND INFORMATION ON PRODUCTS

In 2015, CPD Group's activities consisted in development and sale of own developer projects (residential and commercial), from which the Group achieved revenues from sale of inventories, income from lease and income from lease related services;

CPD Capital Group structure of revenues



The Group's revenue for the year 2015 amounted to PLN 18.7 million and almost entirely related to the lease and lease-related services. Rental income was generated primarily by three office buildings in Warsaw - building on the Cybernetics IRIS 7B, Solar Street building Cybernetics 7B and Aquarius Street building Połczyńska 31A.

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

The main market of the CPD Group is Poland, and in particular the Warsaw metropolitan area where ca. 99% (in terms of value) of investments held by the Group are located.

Geographical structure of the Group's revenue in 2015 reflects the Group adopted the strategy of focusing on the Polish market. In the year 2015 100% of the Group came from the domestic market. Recipients of the Company and its Group are divided into two basic groups of closely related to the type of projects carried out by the Group: specialized real estate funds and individual customers. Of the commercial projects are ultimately sold to specialized institutional investors operating in the real estate market. Smaller projects are sold to individual investors. Before the start of the sale, the Company makes the commercialization of the building. Accordingly Commercial tenants are also indirect audience.

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

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Due to the nature of CPD's business, the main suppliers for the Company and its Group are general contractors, construction companies, engineering companies, architects and design studios, real estate management 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**

➤ **APPROVAL OF UOKIK**

On 17 February 2015 issued by the President of the Office of Competition and Consumer Protection after antitrust proceedings initiated upon Challenge Eighteen sp. with its registered office in Warsaw, Smart City sp. with its registered office in Warsaw and Unidevelopment SA with its registered office in Warsaw, the President of the Office of Competition and Consumer Protection approved for concentration, involving the establishment of a joint venture Smart City sp. in the organization of a limited partnership with its registered office in Warsaw by the Subsidiary, Smart City sp. with its registered office in Warsaw and Unidevelopment SA with its registered office in Warsaw.

In this way, fulfilled the condition precedent of the Investment Agreement of September 10 2014 for accession Unidevelopment SA Smart City company o.o limited partnership with its registered office in Warsaw.

➤ **ACCESSION OF UNIDEVELOPMENT SA TO LIMITED PARTNERSHIPS**

On 9 March 2015, the Memorandum of Association of Smart City w organizacji sp. z o.o. sp.k. was annexed, and under this annex Unidevelopment S.A. joined the Limited Partnership as a Limited Partner, made the first portion of their contribution, and committed to make the remaining portion of financial contribution until the date stipulated in the investment agreement of 10 September 2014.

➤ **BUILDING PERMIT DECISION**

28 of September 2015 the President of Warsaw issued a decision approving construction project and granting the construction permit. The decision concerns the construction of residential multi-family housing with services on the ground floor, underground parking, landscaping located named "URSA" in the part of the plot no. 95, precinct 2-09-09 at Hennela Street in Warsaw - Ursus district.

➤ **GENERAL CONSTRUCTOR AGREEMENT**

8 October 2015 the agreement was made by Smart City spółka z ograniczoną odpowiedzialnością spółka komandytowa with UNIBEP S.A. for the performance of construction works as a general contractor. Under the terms of the Agreement, Smart City commissioned to UNIBED S.A. the performance as a general contractor of the works for the construction of the residential project with the name of URSA – Smart City comprising the construction of four modern buildings designed specifically as regards their functionality, along with the underground garage, development of the area as well as the necessary accompanying works. Investment project shall be located on part of the plot of land with the survey number 95 from the zone 2-09-09 at Hennela street in Warsaw – District of Ursus.

Works shall be performed in two stages and as a result of conclusion of the Agreement the realization of the first stage was ordered as part of which one residential building with underground garage under four buildings (with the total of 359 parking spaces) shall be constructed. 181 apartments and 13 commercial premises will be located in the 7-storeys building.

Moreover the decision to of the second stage may made by the Smart City at any time by notifying the UNIBEP at least 2 months prior to the planned commencement date for construction of this stage.

First stage shall be completed in the period between October 2015 – February 2017. And the deadline for the possible completion of the second stage was determined as 59 weeks from the commencement of works as part of that stage.

➤ **INCREASE VALUE OF REAL ESTATE AT THE END OF THE YEAR 2015**

According to the valuation made by the company Savills sp. o.o. at the end of 2015 the total fair value of real estate held by the Group, including its investment properties and inventories amounted to PLN 656.4 million and was higher by PLN 68.5 million from the value reported at the end of 2014. The increase of value of real estate was recognized as a result of valuation of investment properties, which at the end of 2015 was positive and amounted to PLN 59.4 million. To increase of value of the property portfolio of the Group was mainly due to an increase of the value of the investment project in Ursus. It should be noted that the decrease in the real estate portfolio of parcel traffic as a result of gratuitous transfer of public land for m st. Warszawa, has not affected the value of the property portfolio and the opposite. Transfer of roads was one of the elements that made decision easier for councilors of Warszawa on the adoption of the local development plan in the area of the former factories ZPC Ursus, and thus increase value of investing the entire area of the Ursus district.

Another factor, which positively affected the value of the property portfolio of the Group was the increase in value of the building Iris, due to increased rental income due to the progressive commercialization of space.

➤ **COMMERCIALIZATION IRIS BUILDING AT CYBERNETYKI 9 STREET, IN WARSAW**

Iris is a six-storey building office building with a total leasable area of approx. 14,3 thous. m2 with 233 parking places and is the final stage of the project office and residential located at the intersection of Cybernetics and Progress in Warsaw. At the date of this report are still under active efforts to commercialize 100% of the building. At the date of this report the building is 94% leased.

➤ **CHANGES IN THE COMPOSITION OF THE COMPANY'S MANAGEMENT BOARD**

In 2015, the composition of the Company's Management Board changed as described in detail in section II of this report. As a result of the changes, the following persons constituted the Management Board as of the day of publication hereof:

- Ms Elżbieta Wiczowska – President of the Management Board
- Mr Colin Kingsnorth – Member of the Management Board
- Ms Iwona Makarewicz – Member of the Management Board
- Mr John Purcell - Member of the Management Board

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➤ CHANGES IN THE COMPOSITION OF THE COMPANY'S SUPERVISORY BOARD

In 2015, the composition of the Company's Supervisory Board changed as described in detail in section I of this report. As a result of the changes, the following persons constituted the Supervisory Board as of the day of publication hereof:

- Mr Wiesław Oleś
- Mr Andrew Pegge
- Mr Mirosław Gronicki
- Ms Gabriela Gryger
- Mr Michael Haxby

8. ASSESSMENT OF INVESTMENT POSSIBILITIES AND PROJECT OPPORTUNITIES

CPD Group, implementing development projects, finances them both using its own funds, debt securities and bank loans. In the future, the Group assumes the implementation of projects through subsidiaries or joint ventures, and the financing of construction projects and investments (loans targeted) will be obtained directly by the company or through CPD SA

Value of the property held by the Group, including investment properties and inventories stood at the end of 2015 PLN 656.4 million to 587.9 million PLN at the end of last year. A factor that positively affected the value of the Group's property portfolio was an increase in the value of real estate in Ursus and Iris building due to the increased level of lease. Valuation of the property at the end of 2015, the same as last year, have been carried out by an independent expert - the company Savills Poland Sp. with o.o

The following table summarizes the properties belonging to the Group as at 31 December 2015.

	Type	Site Area	Building Area – leasing, sale (m kw)	Valuation for 31.12.2015 (mln PLN)	Valuation for 31.12.2014 (mln PLN)
Investment properties			700 323	651,09	581,39
1	URSUS	Residential / office / retail	45,3 ha	675 169	457,12
2	SOLAR	Office	3 908 m kw	5 792	31,58
3	IRIS	Office	7 449 m kw	14 200	101,85
4	AQUARIUS	Office	15 480 m kw	5 205	26,34
5	WOLBÓRZ	Logistic park	10 ha	-	2,10
Capitalised rights of perpetual usufruct of land			-	32,11	29,26
Inventories (of fair value)			18 567,00	5,30	6,53
6	ŁÓDŹ	Residential / office / retail	1 457 m kw	3 506	2,95
7	KOSZYKOWA	Residential	744 m kw	454	0,56
8	CZOSNÓW	Land	15,2 ha	nd	0,64
9	JAKTORÓW	Land	2,0 ha	nd	0,24
10	NOWA PIASECZNICA	Land	6 247 m kw	nd	0,12
11	ALSONEMEDI (Węgry)	Warehouse / office	42 495 m kw	14 607	0,77
TOTAL				656,39	587,92

➤ **URSUS**

In the second half-year of 2006, CPD Group purchased over 58 hectares of land formerly occupied by ZPC Ursus industrial facility for, financed from its own funds, in order to launch a multiple function urban development project.

In addition to this, on 30 January 2015, CPD SA Group through one of its subsidiaries purchased Imes sp. z o.o., a company owning land on the corner of Gierdziewskiego and Silnikowa streets on the Smart City Ursus premises. This acquisition was financed by series B bonds issued in January 2015.

The purchased land of 7 hectares will allow building over 80,000 sq m of residential and commercial space in an area where also educational and leisure facilities are planned to be built. The purchased property is directly adjacent to other land owned by CPD S.A. capital group. Its acquisition expanded our real estate portfolio in the Smart City premises by the key area directly neighbouring with the areas allocated for educational and leisure purposes. According to the local zoning plan, the acquired property along with the adjacent land, will ultimately become a unique and modern residential, leisure, and educational complex of over 20 hectares. Owing to its location and extraordinary combination of the residential, educational, and leisure functions, it will offer high comfort of living to its residents.

As a result of the above transaction, CPD SA Capital Group controls an area of approx. 54 ha within the Smart City project.

This land is in the area covered by the local zoning plan adopted in July 2014, comprising approx. 220 hectares, including also post-industrial premises around the Orłów Piastowskich street in Ursus.

The plan provides for development of a modern urban area which - apart from housing estates for around 25,000 residents - will feature offices of many companies, businesses, craft trades, and services shops, including those currently operating in the district of Ursus. It is estimated that around 20,000 new jobs will be created in the new office and service buildings in the plan-covered area. The plan also sets aside areas for public utility buildings such as schools, nurseries, kindergartens, parks, greeneries, and cycling paths, necessary for proper functioning of the newly created urban space.

The project is attractive for prospective buyers owing to proximity of the city centre (9km), convenient public transport access (3 suburban railway stops within the project premises and dense network of bus services), as well as reasonable pricing of apartments on offer.

The original intent of CPD Group for this area was to develop a comprehensive, multiple function urban development project, with dominant residential function, offering over approx. 675,000 sq m of area. Advantage of this solution for the future residents consisted in delivery of the architectural and urban planning concept by a single real estate developer, ensuring coherence of both functions and design. However, due to the long-lasting process of adoption of the local zoning plan for former ZPC Ursus premises, the Management Board made a strategic decision to divide the project into smaller projects to be delivered in co-operation with other developers, as joint venture projects.

Stage 1 of the project consists in development of an area of 88,890 sq m with around 101,964 sq m of residential and service space. Design works in stage 1 were commenced in co-operation with HRA Architekci design studio which has been operating on the design market since 2004 and is the

successor of Hermanowicz MWH – Architekci studio, established in 1990. Completion of these works is planned for late first half of this year.

On 10 September 2014, the investment process commenced for stage 1 of the residential and service buildings on an area of 1.1 ha, with around 20,000 sq m of usable area to be built in two phases. The investment process is being delivered jointly with Unibep S.A. capital group, with an active involvement of Unidevelopment S.A. – its subsidiary.

The investment is situated on the corner of Hennela and Dyrekcyjna streets, in direct vicinity of the District of Ursus Office, Factory Outlet shopping mall, Ursus city railway stop, Arsus Cultural Centre, and a private schools complex of the Educational Society in Warsaw.

Developed complex of 4 apartment blocks mainly offers apartments with an area of 40 to 80 sq m. Apart from the apartment blocks, also office buildings and educational facilities tailored to the purposes of the local community will be built. The offer of apartments is addressed at young, employed adults and families looking for their first living quarters in the Warsaw agglomeration.

We also plan to regenerate the greenery directly adjacent to the south-western side of the first residential housing project. The aim of this regeneration is to transform the area directly neighbouring with the Arsus Cultural Centre and private schools complex into a public park with a playground. Sale of apartments has started in September 2015.

Further stages of Smart City Ursus project will be launched successively over the next few years so that there is a standing supply of apartments and shops available throughout the duration of the Smart City project. Current market trends show a large demand for small apartments at relatively low prices. The Ursus project perfectly matches these market needs which is why the Group anticipates high demand for apartments offered in the project.

Moreover, in the last few years the Group transferred to the Treasury road plots which according to the draft local zoning plan are allocated for four-strip road arteries which provide a collision-free connection of the regenerated areas with Al. Jerozolimskie by construction of Nowolazurowa street, and with Połczyńska street by construction of Nowomory street. The City Road Investments Board in 2013 successfully completed and commissioned both road arteries. Construction of Nowolazurowa and Nowomory streets is one of key elements of regeneration of the former ZPC Ursus industrial facilities by inclusion of the regenerated areas into the uniform network of city roads, owing to fast-lane and collision-free road connections. Commissioning of road arteries so important for this area is a part of consistent and comprehensive policy of Warsaw city and Ursus district authorities to regenerate post-industrial areas formerly owned by ZPC Ursus and transform them into a living and diverse urban fabric, serving all residents of the capital city. As a part of social responsibility and having noticed the need for active involvement in forming public urban space, CPD Group in July 2014 committed to transfer free of charge to Warsaw city authorities approx. 9,49 ha of land for road investments.

Transfer of this land for infrastructural purposes to strategic investors was aimed at allowing such institutions as City Road Investments Board, Dalkia Polska, Dalkia Warszawa, or RWE to launch their investment projects in the Ursus district. These actions are a part of conceptual and design works of the Group, continuing for several years and aimed at achieving full structural regeneration of post-industrial areas of former ZPC Ursus factory by building state-of-the-art road, energy, heating, water mains and sewage infrastructure so that the regenerated section, covering approx. 20% of the entire Ursus district, becomes a uniform, modern, and multi-function urban fabric. Although at the date of this report the Group has the necessary infrastructural conditions ensured

by providers of all utilities, situation of the above-mentioned comprehensive infrastructural investments in direct vicinity of the Group's planned projects is of vital importance for delivery of the entire project as it will significantly streamline the infrastructure costs.

Acting further as a part of social responsibility and having noticed the need for active involvement in forming public urban space, CPD Group on 10 September 2014 committed to transfer free of charge to Ursus district authorities approx. 4.9 ha of land for public education investments (schools, kindergartens, and nurseries). Transfer of land for public investments of the district authorities will bring a positive result in the form of synchronised and balanced launch of multi-functional urban development investments in these areas and will also be an important impulse for the entire district's economic growth.

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

The IRIS building, which is the final stage of the office and residential project located at the corner of Cybernetyki and Postępu streets in Warsaw's Mokotów district. It is a six-storey office building with the total lease area of circa 14.2 k sqm together with 233 parking spaces. For the 31 December 2015, the building is let in 94%. The project at the corner of Cybernetyki and Postępu streets is composed of Cybernetyki Office Park (Helion, Luminar, Solar and Iris buildings) and Mokotów Plaza office complexes, as well as Mozaika residential complex. The Group has constructed and sold 3 buildings in Cybernetyki Office Park to date: Helion, Luminar and Mokotów Plaza.

➤ **SOLAR BUILDING, 7B CYBERNETYKI STREET, WARSAW**

The eight storey B+ class office building of 5,749 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 2015, the building was leased in 84 %.

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

The Aquarius Office Park consists of a five storey B class office building of 5,205 sqm, an investment site with a valid building permit for the construction of an A class office building of ca 2,500 sqm as well as an investment site of approx. 10,000 sqm intended for the construction of an office and warehouse complex. The office building is currently leased to such companies as VB Leasing, Betacom S.A., Fly Away Travel. On 31 December 2015, the building was leased in 86 %.

➤ **WOLBÓRZ, MAZOWIECKIE VOIVODSHIP**

The 10-hectare real estate is located in Wolbórz, close to Auchan Distribution Centre and E67 road from Warsaw to Cracow and Katowice. In accordance with the applicable land use permit, there is a possibility to construct a logistics and distribution centre with area of 32.700 sqm. The Group intends to sell the undeveloped land together with a building permit design to a final investor.

PROJECTS IN PROGRESS AND REAL ESTATES FOR SALE (INVENTORIES):

➤ **18 LEGIONÓW STREET, ŁÓDŹ**

The real estate in Łódź is the building with total area of 3,506 sqm on a plot of 0.1457 ha, located on 18 Legionów street, in the vicinity of Piotrkowska street. The Group intends to realize a thorough renewal 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 row house (Ludwik Szanser's row house) and the outbuilding. The building was renovated and extended by Celtic Group, offering 14 apartments and commercial areas which were sold in 2011. As of 31 December 2015 Group's investment properties portfolio still included the outbuilding. The Group is currently taking actions to relocate the present lessees of the outbuilding and to commence renewal of this part of the row house.

➤ **CZOSNÓW**

The land in Czosnów has been purchased by the Group as part of 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.

➤ **JAKTORÓW**

The land in Jaktorów of the area of 3.2 ha has been purchased by the Group as part of the acquisition of 100% shares in Antigo Investments Sp. z o.o. As of the day of publication hereof, there were still 20.4 k m² for sales.

➤ **NOWA PIASECZNICA**

The land in Nowa Piasecznica has been purchased by the Group as part of the acquisition of 100% shares in Antigo Investments Sp. z o.o. The land in Nowa Piasecznica had a total area of 1.5 ha. As of the day of publication hereof, there were still 6.2 k m² for sales.

➤ **ALSONEMEDI, HUNGARY**

In 2009 the Group purchased land near Budapest measuring 42,495 sqm 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 a final investor.

9. FACTORS AND UNUSUAL EVENTS AFFECTING GROUP FINANCIAL RESULTS

In the Management Board's opinion, in the year 2015 there were no unusual events which affect the Group results.

10. FACTORS IMPORTANT FOR FURTHER GROUP DEVELOPMENT

• MACROECONOMIC SITUATION IN POLAND

Due to the concentration of the Group's activities on the Polish market, the overall condition of the Polish economy, with particular emphasis on its growth rate and the level of unemployment, will play a key role in shaping the demand for real estate offered by the Group.

In 2015, Polish GDP growth was 3.6%, and so much more than in 2014 (an increase of 3.3%). According to government forecasts the growth rate of the Polish economy in 2016 should be at the level of 3.8%. The main driver to maintain the current level of growth will be according to analysts domestic demand, mainly the higher growth rate of private consumption and maintaining high growth rate of private investment. Increase in the average wage and employment growth coupled with low inflation and low interest rates should support the continued growth of domestic demand in 2016. These factors should positively translate into improved consumer sentiment among workers and among entrepreneurs, and thus to increase in demand for housing and office space and commercial.

• **SITUATION ON FINANCIAL MARKETS**

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

• **BANKS' LOAN POLICY AND ACCESS TO MORTGAGE LOANS**

The impact of the credit policy of banks on the Group is twofold. The company, implementing new development projects, benefit greatly from bank financing. The terms of financing, such as credit margins and required own contribution, determine the return on equity of the Company involved in the implementation of the project. The availability of bank financing is also a key factor in determining the size of the population demand for housing, which must be taken into account when launching residential projects within the Group. The credit policy of the banks in turn depends on macroeconomic factors and monetary policy pursued by the central bank.

In 2015, we witnessed another rate cut - the reference rate of the National Bank of Poland decreased from 2.0% in October 2014 to 1.50% in March 2015. Maintaining the current level of interest rates in 2016 should contribute increase the attractiveness of mortgage loans as well as to extend their availability, which was significantly reduced in 2013, the introduction of the so-called. Recommendation S, which establishes stricter rules for the calculation of credit and the maximum amount of the credit limit.

• **GOVERNMENTAL POLICY SUPPORTING CONSTRUCTION INDUSTRY**

MdM program was launched on 1 January 2014. The new government assistance program is given in the form of a single payment for their contribution in the amount of 10 to 15% of the property, subject to certain limits on the surface of the housing and the price per square meter is determined according the location of the property. Just like in the Family on its own, the aid is directed to persons under 35 years of age, buying first apartment. Due to the target group of customers for the project in Ursus, a assistance program had a positive influence on the demand for housing offered by the Group CPD. As a program will not be continued, the demand for offered apartments can be influenced.

• **ADMINISTRATIVE DECISIONS ON THE HELD LANDS**

Group's ability to implement development projects intended CPD is dependent on the Group's local administration bodies to a number of licenses. Any legislative initiatives aimed at simplifying the construction will have a positive impact on operations.

11. OVERVIEW OF BASIC ECONOMIC AND FINANCIAL INFORMATION

Selected items of the consolidated statement of comprehensive income

	12 months period		Change (%)
	From 01.01.2015 to 31.12.2015 (EUR ths.)	From 01.01.2014 to 31.12.2014 (EUR ths.)	
Revenue	18 735	15 067	24,3%
Cost of sales	-3 499	-3 648	-4,1%
Gross profit	15 236	11 419	33,4%
Administrative expenses - property related	-9 508	-9 732	-2,3%
Other administrative expenses	-11 213	-10 645	5,3%
Selling and marketing costs	-334	-561	-40,5%
Gain (loss) on disposal of investment properties	0	0	0,0%
Other income	5 514	420	1212,9%
Gain (loss) on revaluation of investment properties	59 382	114 810	-48,3%
Post-tax share of the profit or loss of the joint-venture accounted for using the equity method	-911	0	-
Gain (loss) on disposal of subsidiaries	6	-41	-114,6%
Profit from operations	58 172	105 670	-44,9%
Finance income	8 626	9 734	-11,4%
Finance costs	-13 380	-10 546	26,9%
Profit before tax	53 418	104 858	-49,1%
Income tax	-7 070	-364	1842,3%
Profit for the period	46 348	104 494	-55,6%
Earnings per share (PLN)	1,41	3,04	-53,7%
Diluted earnings per share (PLN)	0,99	2,66	-62,5%

In 2015, CPD Group recorded a net profit of 46.3 million PLN. This is already the second consecutive year, the Group recorded a high net profit.

Among the factors that had a positive impact on the Group's performance in 2015 can be replaced mostly positive result of revaluation of investment property in the amount of PLN 59.4 million, as well as other income in the amount of PLN 5.5 million and a gain on the sale in the amount of 15.2 million PLN.

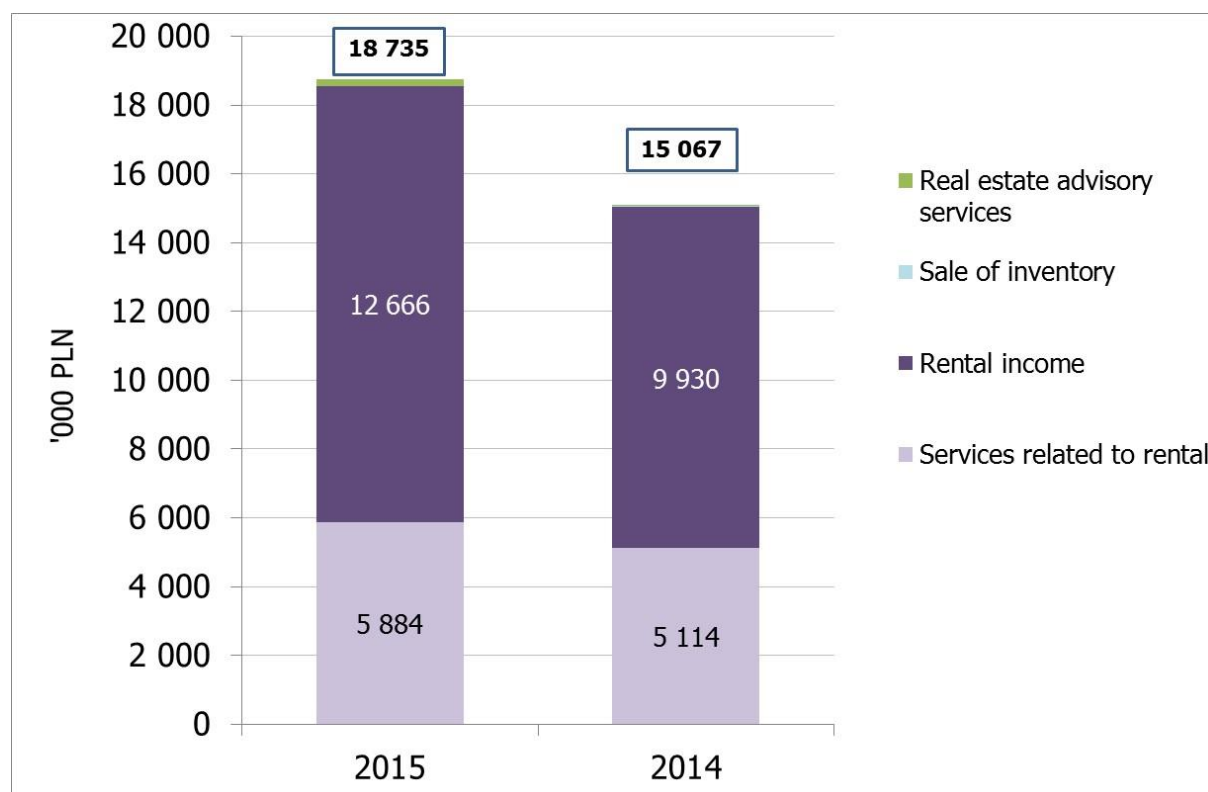
On the other hand, the main negative factor for the Group's net results in 2015 compared to 2014 was an increase in financial expenses by 2.8 million PLN and losses on joint ventures in the amount of 0.9 million PLN.

Sales revenues in 2015 amounted to 18.7 million PLN. The largest, 68 percent share of this amount accounted for rental income. With respect to the value for 12 months of 2015 years rental income amounted to PLN 12.7 million to PLN 9.9 million in 2014 (up 28%). Rental income was generated by 3 office buildings in Warsaw - building Aquarius Polczyńska 31A Street, building Solar Cybernetyki 7B Street and the building of Iris Cybernetics 9 Street. The increase in rental income was the result of the commercialization of the building IRIS conducted in 2012-2015.

The increase in sales revenues of 3.7 million coupled with a decrease in cost of sales by 0.1 million contributed to a significant increase in profit on sales (an increase of 3.8 million PLN, ie 33%).

In 2015 the Group has not recorded significant revenue from the sale of stocks or the advisory activity.

The chart below shows the structure of sales revenue in 2015 and 2014.



In 2015 the Group recognized a positive revaluation of investment property in the amount of PLN 59.4 million. The increase in value was mainly plots located in Warsaw's Ursus district and was the result of an excellent situation on the Warsaw residential market.

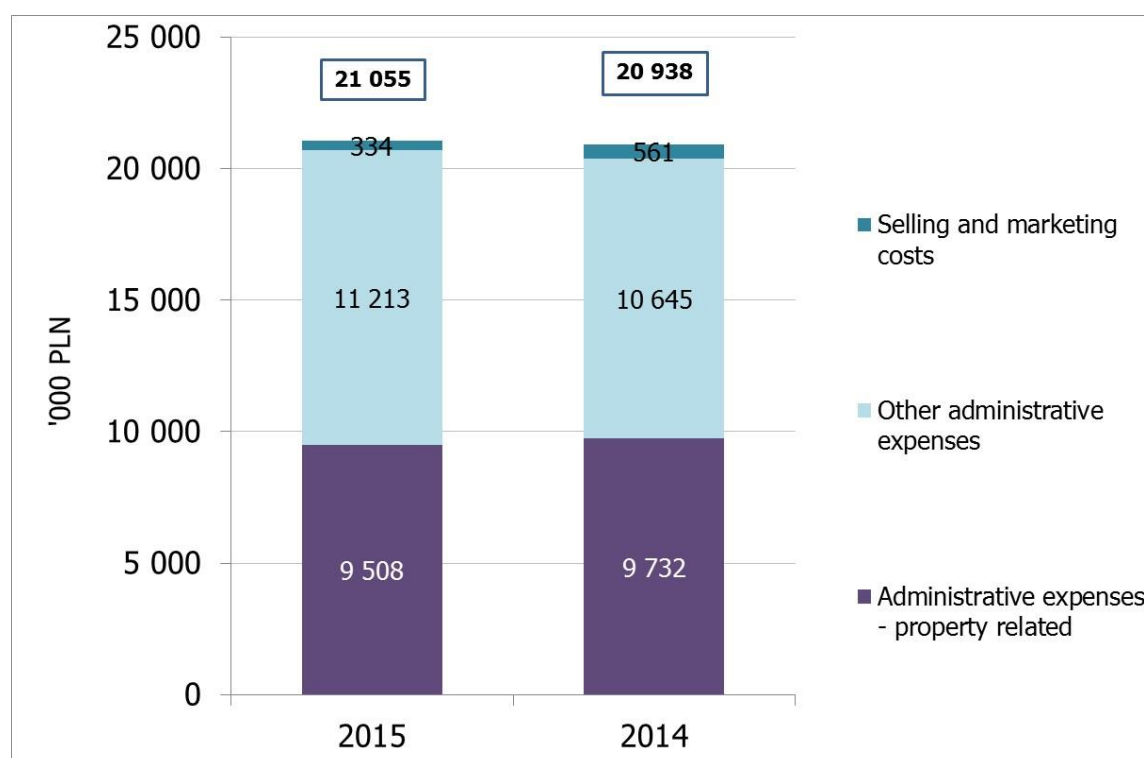
In 2015 the Group recognized other operating income in the amount of 5.5 million PLN. Other operating income achieved in 2015. Mainly relate to repayment of tax on civil law (and the costs of litigation) in the amount of 2.6 million PLN and overpaid property tax in the amount of PLN 1.1 million.

While the increase in financial expenses in the amount of PLN 2.8 million, primarily due to an increase in operating costs of bonds had a negative impact on the final amount of the net profit of the Group. The increase in interest expense on the bonds was associated with the issuance of new bonds in January 2015, contributed to a significant increase in financial expenses in 2015 compared with 2014.

Also participated in loss of joint ventures (joint venture) had a negative impact on the Group's results. The loss is due to the fact that the project is at the stage of construction of housing, and the proceeds from the sale will be recognized at the moment of the transfer of housing buyers. This project will significantly increase the Group's results in the coming years.

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The chart below shows the structure of the Group's operating expenses in 2015 and 2014.



Selected items of the consolidated statement of financial position.

Selected items of the consolidated statement of financial position

	As at:		Change (%)
	31.12.2015 (PLN ths.)	31.12.2014 (PLN ths.)	
TOTAL ASSETS	711 477	621 056	14,6%
Non-current assets, including:	667 182	585 907	13,9%
Investment properties	651 094	581 386	12,0%
Investments in joint ventures accounted for using the equity method	14 512	0	-
Current assets, including:	44 295	35 149	26,0%
Inventory	5 296	6 525	-18,8%
Trade and other receivables	9 256	9 854	-6,1%
Cash and cash equivalents	26 073	18 770	38,9%
TOTAL EQUITY AND LIABILITIES	711 477	621 056	14,6%
Equity, including:	450 831	404 493	11,5%
Share capital	3 286	3 286	0,0%
Reserve capital	987	987	0,0%
Fair value of capital element at inception date	-27 909	-27 909	-
Translation reserve	-5 311	-5 301	0,2%
Retained earnings	479 778	433 430	10,7%
Total liabilities, including:	260 646	216 563	20,4%
Non-current liabilities	235 126	129 240	81,9%
Current liabilities	25 520	87 323	-70,8%

CPD S.A.

ANNUAL REPORT OF THE GROUP FOR 2015

At the end of December 2015 value of total assets of the Group increased significantly compared to the end of 2014 (an increase of 90.4 million PLN). First of all, it increased the value of investment property (increase of 69.7 million PLN), which was the result of growth in the value of real estate located in Warsaw's Ursus district and the acquisition of another large plot of land in the area. It has also increased the value of assets (26%), mainly as a result of the bond issue received subsequent tranches of the investment loan and the consequent increase in cash balances.

At the end of December 2015 value of the equity amounted to 450.8 million PLN, which accounted for 63% of total assets of the Group, while liabilities accounted for 37% of total assets. These indicators have changed slightly compared to the end of 2014 (respectively 65% and 35%).

In 2015, significantly increased the value of liabilities (20%). This was mainly due to the issuance of bonds and the ongoing process of commercialization of the office building IRIS, which necessitated the borrowing of subsequent tranches of the loan at a bank BZ WBK to finance construction works to equip office space.

The following table shows the share of individual categories of liabilities in the balance sheet total.

	31.12.2015	31.12.2014
Liabilities to total assets	36,6%	34,9%
Non-current liabilities to total assets	33,0%	20,8%
Borrowings including finance leases	20,3%	11,5%
Bonds	7,9%	3,9%
Embedded derivative	1,6%	3,0%
Deferred income tax liabilities	2,9%	2,2%
Trade and other payables	0,3%	0,2%
Current liabilities to total assets	3,6%	14,1%
Borrowings including finance leases	1,1%	11,5%
Trade and other payables	2,3%	2,5%
Bonds	0,2%	0,0%

Compared to the end of 2014 the structure of liabilities has changed. The share of long-term debt to total assets increased from 20.8% at the end of December 2014 to 33% at the end of December 2015. This change is the result of, inter alia, conversion of the construction loan in BZ WBK in May 2015 for 6-year-old investment loan but also the issue of 4-year bonds in January 2015 year by the CPD SA. The share of short-term debt fell while 14.1% at December 31, 2014. To 3.6% at 31 December 2015 The structure of liabilities has so improved, because at the end of December 2015 a significant majority of liabilities were long-term liabilities (90% vs. of 60% at the end of December 2014).

12. RISK FACTORS AND THREATS

CPD 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, might have a significant negative impact on the Company's and its Group's business, its financial position, prospects of development, or Company's and Group's 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 position, prospects, or results of the Company and its Group.

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

Polish general macroeconomic situation, including factors such as GDP growth, inflation and interest rates, the level of investment in the economy and unemployment have a direct impact on the level of wealth and purchasing power of the public and the financial situation of companies. As a result of these factors also affect the demand for products and services offered by the Company and the Group and may have an impact on their financial situation.

The growth rate of the Polish economy in 2015 was 3.6% and was significantly faster than in 2014, when it stood at 3.3%. Government forecasts for 2016 predict Polish GDP growth at 3.8%, while it can not be ruled out that GDP growth in the coming years will be lower. In the event of a reduction in GDP growth, the demand for products offered by the Company and the Group may fall, which may lead to a decline in prices of residential and commercial real estate, and have a negative impact on 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 Group requires obtaining numerous administrative decisions enabling the implementation of building projects, such as decisions on the project location, land use permits (if there is no master plan for a given area), building permits, occupancy certificates for the newly built structures, environmental decisions. The obligation to obtain the above administrative decisions entails the risk of inability to complete or delay in completing the building project implementation if the decisions are not obtained or the relevant procedures are protracted.

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

Furthermore, there is also the risk of inability to implement building projects within the areas where master plans have not been adopted and where the possibility to obtain a land use permit is prevented or hindered to a great extent.

- **RISK RELATING TO THE COMPETITION**

The Company, while focussing on the developer 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 lands at attractive prices for new projects. The increasing competition might also lead to increased supply of housing and commercial real estates 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 CPD Capital Group.

• **RISK RELATING TO THE IMPLEMENTATION OF DEVELOPMENT PROJECTS**

The efficient implementation of development projects depends on a number of factors, some of which are not directly controlled by the Company. At the project preparation stage the Company might, 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 adjacent to Orłów Piastowskich street in Ursus) or may face obstacles in obtaining appropriate enterprises for their implementation. Also, a number of factors exist that might cause the general contractor or subcontractors to 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 laws regulating the use of land. Should any of the above described risks occur, the development project completion might be delayed, the costs might increase, the funds invested in land rendered illiquid, and also, in extreme cases, the project completion totally prevented. The above described situations which, should they arise, might 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 of determining the expected income from the project. Inaccurate assessment of the location for its intended use might hinder or prevent the sales 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 CPD Group will fail to generate the expected sales revenue; 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 is delayed – the Company will be reliant on external financing to a greater extent.

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

The Company's and its Group's capacity to purchase land of hidden potential at moderate prices determines the business activity and profitability of the Group to a great extent. Due to increasing competition and the limited number of pieces of land showing appropriate investment parameters, the Company cannot 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 projects. The above factors may adversely affect the Company's and its Group's business operations and financial results.

• **RISK RELATING TO LACK OF LIQUIDITY OF REAL ESTATE PROJECTS**

Compared to other types of investments, development projects might be characterised by 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 might lead to funds being frozen in the project, which – in turn – may lead to a greater need for debt financing in the CPD 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 property portfolio in Warsaw, including the residential project in the Ursus District, exposes the Company to a higher risk of changes in the local market and business environment than that faced by other development companies with a greater geographical diversification of their property portfolio. The Group also owns a real estate in Hungary. The Hungarian market is less politically and economically stable than the Polish market, so it cannot be excluded that the negative perception of the Hungarian economy by investors might affect the valuation of the real estate owned by the Group. However, given the size of the project, its negative influence, if any, on the Group's result is very limited.

- **RISK RELATING TO INCREASE OF CONSTRUCTION COSTS OF THE DEVELOPMENT PROJECTS**

During the implementation of the development project the project costs might increase. This increase may result from: changes introduced to the building permit design, increased material costs, increased labour costs, sub-contractor costs, land/facility use fees, taxes and other administrative fees. Consequently, the Company might fail to achieve the expected return on investment, which in turn might 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 might also adversely impact the profitability of future development projects.

- **RISK RELATING TO UNFAVOURABLE SOIL CONDITIONS**

This risk embraces unforeseen situations where, despite a detailed technical analysis of the land to be acquired, it might prove during the project implementation phase that there is some groundwater, the soil is unstable or archaeological findings or duds are discovered, contaminations, pollutions 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 CPD 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 also 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 or wind storms. Material damage at construction sites due to weather conditions also cannot be excluded. 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 lease rent rates for office space in the cities where the Company operates or intends to operate as a developer, as well as on discount rates at which investors are willing to purchase commercial real estate. The Company is unable to guarantee that, should the prices of flats or lease rates drop, 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, financial position or 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 status of real estate prior to purchase, however this does not completely rule out the risk of legal defects, which may emerge during the project implementation process, e.g. in the form of 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 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 Group are perpetual usufructuaries of post-industrial real estates which have been checked for 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 otherwise held liable. It cannot be excluded that in the future the Company or its Group members will not be 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 might adversely affect the business operations, financial position or development perspectives of the Company and its Group.

- **RISK RELATING TO CONTRACTS CONCLUDED WITH CONTRACTORS AND SUBCONTRACTORS OF CONSTRUCTION WORKS**

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 risk of non-performance or improper performance of the obligations of such contractors and subcontractors, which might adversely affect the performance of construction projects and, consequently, the business operations, financial position and results of the Group.

Moreover, taking into account the joint and several liability of the project owner and the contractor for payment of remuneration to subcontractors, the Company may not rule out the risk of the contractor's incapacity to pay such remuneration and, therefore, the occurrence of liability on the part of the Company or its subsidiary, acting as the project owner. The above risk will be limited by allocating individual projects to individual companies. Additionally, the payment for services provided by the general contractor is dependent on its timely payments to subcontractors. The Company monitors payments made by the general contractors to their subcontractors on an ongoing basis.

- **RISK RELATING TO LEASE AGREEMENTS**

The value of real estate to be leased depends on the time left to the elapse 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 might adversely affect the market value of the real estate portfolio. The financial position of a lessee may deteriorate in the short or long term, which in turn might lead the

lessee to bankruptcy or inability to pay its liabilities resulting from the lease agreement. If any of the above factors occurs, it might have a significant negative effect on the Company's financial results.

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

The Company may not guarantee that its assumed strategic goals will be attained, specifically the expected significant extension of its business operations scale. The implementation of strategy is dependent on many factors determining the real estate market situation, which fall outside the Company's control. The Company endeavours to build its strategy on the basis of the current market situation. The Company may not ensure, however, that the strategy has been grounded on a complete and accurate analysis of current and future trends of the market. It cannot be excluded that the activities undertaken by the Company will prove 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 might have a significant adverse effect on its financial results.

- **RISK RELATING TO THE MANAGERIAL STAFF**

The business activity of the CPD Group and its further development are largely dependent on the knowledge, experience and qualifications of its managerial staff and key employees. It is the competence of the managerial staff that determines success of all milestones of the development project implementation. If key employees leave the Company, there might be a risk relating to inability to employ equally experienced and qualified experts who would be able to continue the Company's strategy 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 Group are exposed to the risk of increase in interest rates and more significant service costs of the loan on the one hand. On the other hand, if the demand for the Company's products decreases, in an extreme case the company implementing the investment may be unable to serve the debt. Thus, if the terms of loan agreements providing funds for construction projects are breached, there is risk that the lenders will take over those assets of the CPD Group members which secure the repayment of the loans. The Company can neither exclude the risk of impaired access to debt financing or a material rise in the costs of debt due to a change in a bank's 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**

CPD Group's debt denominated in foreign currencies amounted to 31 December 2015 equivalent of PLN 146.3 million. Also in the future, the Company and the Group does not rule out further borrowing loans denominated in foreign currencies, primarily the euro. In view of the above, the Company and the Group is exposed to the risk of depreciation of the zloty against the currencies in which they are incurred loans, which could adversely affect the Company's financial position. This risk is partly compensated by the fact that the settlement proceeds from the rental and sale of office projects carried out in foreign currencies.

- **RISK RELATING TO ACCESS OF PROSPECTIVE CLIENTS OF CELTIC GROUP TO LOAN FINANCING**

The regulations on mortgage loans issued by the Financial Supervision Authority in 2010 - 2012 (so-called T-recommendation issued in August 2010 and the amended S-recommendation in force since January 2012) may substantially limit the accessibility of loans designated to finance the purchase of a property. As a result they may cause a drop in demand for flats and houses and consequently reduce the interest in the Group's development projects.

13. COURT, ADMINISTRATIVE AND ARBITRATION PROCEEDINGS WITH VALUE OF OVER 10% OF THE EQUITY

CPD S.A. and any of its subsidiaries are not party to proceedings before a court, an authority competent for arbitration or a public administration body, with total value exceeding 10% of CPD S.A. equity.

14. ORGANIZATIONAL OR CAPITAL RELATIONSHIPS

CPD S.A. organizational and capital relationships as well as the structure of the Group are presented in the Section *V.2 GROUP STRUCTURE*.

15. SIGNIFICANT AGREEMENTS

In 2015, the Company and other Capital Group companies entered into agreements being material agreements as defined in the Regulation of the Minister of Finance of 19 February 2009 on current and periodical information published by the issuers of securities.

At the date of report publication, the Company and its subsidiaries have been parties to the following agreements considered material according to the above-mentioned Regulation:

- Credit agreement between Belise Investments sp. z o.o. and Bank Zachodni WBK S.A.. The agreement is material because of its value at 31-12-2015 amounting to PLN 77 458 000 (at the average EUR exchange rate published by the National Bank of Poland on 31 December 2015, amounting to 4.2615 PLN/EUR) which exceeds the value 10% of CPD S.A.'s equity at 31 December 2015;
- Credit agreement between Lakia Investments sp. z o.o. and mBank. The agreement is material because of its value at 31-12-2014 amounting to PLN 23 814 152.57 (at the average EUR exchange rate published by the National Bank of Poland on 31 December 2015, amounting to 4.2615 PLN/EUR);

- Credit agreement between Robin Investments sp. z o.o. and mBank. The agreement is material because of its value at 31-12-2014 amounting to PLN 18 441 033,39 (at the average EUR exchange rate published by the National Bank of Poland on 31 December 2015, amounting to 4.2615 PLN/EUR);
- Credit agreement between Smart City sp. z o.o. and BZ WBK S.A. The agreement is an agreement significant due to its value at 31.12.2015 of 65 146 288 PLN, which exceeds 10% of the equity CPD SA 31 December 2015;

The above agreements are described in item 17: CREDIT AND LOAN AGREEMENTS, SURETIES AND GUARANTEES hereof.

- General constructor agreement between Smart City sp. z o.o. and Unibep S.A. The agreement is a significant agreement because its value at 10-08-2015 r. amounting to PLN 67 560 000 PLN, which exceeds the value 10% of the equity CPD SA 31 December 2015;

16. MATERIAL TRANSACTIONS WITH RELATED PARTIES

In the reporting period, the Company did not enter into transactions with related parties other than market conditions. Transactions with related parties are described in the explanatory note 26 to the Consolidated Financial Statements.

17. LOAN AND BORROWING AGREEMENTS, SURETIES AND GUARANTEES

In 2015, the liabilities under the following agreements of the Group were being performed in a timely manner:

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

This agreement was signed on 12 August 2011 between Bank Zachodni WBK S.a. and our subsidiary Belise Investments Sp. z o.o. as the borrower, with guarantors being: CPD S.A., Lokia Enterprises Ltd. with registered office in Nicosia (Cyprus), and East Europe Property Financing A.B. with registered office in Stockholm (Sweden), and concerned funding of construction and finishing of Iris office building located at Cybernetyki 9 in Warsaw, commissioned in October 2012. Funding under this credit agreement included:

- 1) Investment Credit up to EUR 20,077,458 granted for financing or re-financing of some project costs or costs of finishing the leasable area;

31 May 2015 the Annex to the credit agreement was executed in connection with maturity of the existing loan.

The following amendments have been introduced by the Annex:

- 1) the Investment Loan up to EUR 18,500,000.00 was extended to refinance the debt by the Conversion and/or refinancing or financing of costs of the lease space finishing and/or payment of the Dividend;
- 2) the Term for full repayment of the Loan with interest and other costs was set by the parties on 31 May 2021;

- 3) the Conversion means usage of the funds provided in Tranche B by converting the Debt Amount of Tranche A into the Debt Amount of Tranche B and launching an additional tranche up to a maximum of EUR 1,500,000.

Other essential provisions of the Contract remain unchanged.

At the same time, in order to secure repayment of the Loan in connection with the executed Annex, CPD S.A and Lakia Enterprises Limited with the corporate seat in Nicosia (Cyprus) submitted themselves to enforcement. Moreover, the Company signed the Annex to the Warranty Contract.

• **CREDIT AGREEMENT WITH MBANK**

On 18 June 2014, a credit agreement was signed between Robin Investments sp. z o.o., the Issuer's subsidiary, and mBank Hipoteczny S.A. under which Robin Investments Sp. z o.o. was granted a credit of EUR 4,450,000 for refinancing of Aquarius office building, among others by a complete and irrevocable repayment of this company's debt under credit agreement with HSBC Bank Polska S.A.

As a collateral for repayment of a mortgage loan, the following mortgages and pledges have been established:

- 1) contractual joint mortgage up to EUR 8,900,000;
- 2) registered pledge on all shares in the Borrower's share capital, with a total nominal value of PLN 50,000.00 along with the statement of LAKIA ENTERPRISES LIMITED with registered office in Nicosia ("Shareholder") of submission to enforcement from the pledged shares, drawn up in line with Article 97 of the Banking Law, up to the amount of EUR 4,450,000.
- 3) registered pledges (and financial pledges as a transitional collateral until the registered pledges are entered into the register of pledges) on the Borrower's receivables from Bank Accounts;

Other credit collaterals typical for such agreements include: bank transfer to secure receivables under the Property and Building insurance agreement, bank transfer or receivables under Lease Agreements, blockade and power-of-attorney to use the Borrower's bank accounts, Debt Service Reserve equivalent to 3 capital with interest instalments.

The credit was disbursed and used by the Borrower in the amount of EUR 4,450,000 to refinance the existing credit granted to the Shareholder by HSBC.

Final repayment of the Mortgage Loan will take place not later than on 20 June 2029. The due amounts shall be repaid in EUR according to the agreed repayment schedule. For the credit granted, the Subsidiary will pay interest at the 6M EURIBOR floating interest rate increased by the Bank's profit margin.

• **CREDIT AGREEMENT WITH MBANK**

On 18 June 2014, a credit agreement was signed between our subsidiary Lakia Investments sp. z o.o. and mBank Hipoteczny S.A. under which Lakia Investments Sp. z o.o. is to be granted a credit of EUR 5,850,000 for refinancing of Solar office building, among others by a complete and irrevocable repayment of this company's debt under credit agreement with HSBC Bank Polska S.A.

As a collateral for repayment of a mortgage loan, the following mortgages and pledges have been established:

- 1) contractual joint mortgage up to EUR 11,700,000 established on:

- 2) registered pledge on all shares in the Borrower's share capital, with a total nominal value of PLN 50,000.00 along with the statement of LAKIA ENTERPRISES LIMITED with registered office in Nicosia ("Shareholder") of submission to enforcement from the pledged shares, drawn up in line with Article 97 of the Banking Law, up to the amount of EUR 5,850,000.
- 3) registered pledges (and financial pledges as a transitional collateral until the registered pledges are entered into the register of pledges) on the Borrower's receivables from Bank Accounts;

Other credit collaterals typical for such agreements include: bank transfer to secure receivables under the Property and Building insurance agreement, bank transfer or receivables under Lease Agreements, blockade and power-of-attorney to use the Borrower's bank accounts, Debt Service Reserve equivalent to 3 capital with interest instalments.

The credit was disbursed and used by the Borrower in the amount of EUR 5,850,000 to refinance the existing credit granted to the Shareholder by HSBC.

Final repayment of the Mortgage Loan will take place not later than on 20 June 2029. The due amounts shall be repaid in EUR according to the agreed repayment schedule. For the credit granted, the Subsidiary will pay interest at the 6M EURIBOR floating interest rate increased by the Bank's profit margin.

● INVESTMENT AGREEMENT

The agreement was September 10, 2014, by and between:

CPD SA in Warsaw, Challenge Eighteen limited liability company in Warsaw, 1/95 Gaston Investments limited liability limited partnership with its registered office in Warsaw, Lakia Enterprise Ltd in Nicosia (Cyprus),

and

Unibep SA in Bielsko Podlaski, Unidevelopment SA in Warsaw.

The Agreement provides for a joint project be completed on the part of the property belonging to the Capital Group CPD ie. The company 1/95 Gaston Investments Sp. Z oo limited partnership in Warsaw. The property consists of the above plot no 95, no rev. Reg. No. 2-09-09, with an area of 3.6811 ha and is located at ul. Traktorzystów in Warsaw (Warsaw district - Ursus).

● PURCHASE AGREEMENT

30 January 2015. CPD belonging to the group of companies:

(1) Buffy Holdings No. 1 Limited, based in Nicosia, Cyprus,

(2) Challenge Eighteen limited liability company with its registered office in Warsaw

signed with the company

I.M.E.S. - INDUSTRIA MECCANICA E stampaggio S.P.A. based in Sumirago, Italy

a sales agreement for Buffy Holdings No. 1 Limited, 100% of the shares of IMES POLAND Sp. Z oo.

The Company has acquired the right of perpetual usufruct, consisting of plot No. 98, No. rpm. Reg. No. 2-09-09, with an area of 69 457 m2 and located near the street Gierdziejewskiego in Warsaw

(Warsaw district - Ursus). In accordance with the provisions of the Local Development Plan, the property allows you to build about 80 000 m² of residential and commercial. Purchase of the above assets play an important part in the strategy of the Group CPS SA because it is a strategic complement to the portfolio of building land with great potential residential- service in the district of Ursus. With this transaction, the Company controlled area of over 57 hectares, of which 80% are residential areas - service. Through this transaction, the Company has become a major investor in one of the most attractive investment areas in Warsaw.

Pursuant to the Agreement, the Subsidiary Buyer guarantees payment:

- Full price adjusted in accordance with the conditions set out in the Agreement;
- Contractual penalties resulting from the events specified in the Agreement;
- Any payments under the guarantees and false representation of the Buyer under the Contract.

• **CREDIT AGREEMENT WITH BANK ZACHODNI WBK S.A.**

the credit agreement between the subsidiary company Smart City spółka z ograniczoną odpowiedzialnością spółka komandytowa which is the Company's subsidiary and Bank Zachodni WBK S.A., entered into force. On that basis Smart City spółka z ograniczoną odpowiedzialnością spółka komandytowa was granted a credit to the maximum amount of PLN 65.146.288 for financing the construction of a multi-family housing project Ursa Smart City Stage I at Hennela and Dyrekcyjna streets in Warsaw in the district of Ursus

Repayment security for Agreement are mortgages on property and registered pledges on the rights of corporate shareholders and shares in the share capital of the general partner of the Borrower(Smart City sp. z o.o.)to be established in the near future.

Bank loan shall be made available to the Borrower after the securities have been established and the normal conditions for availability have been met.

18. ISSUES OF SECURITIES, ACQUISITION OF OWN SHARES

• **ISSUE OF SERIES B BONDS**

On 13 January 2015, the Company issued a total of 30,000 series B secured bonds. The bonds were issued in the manner defined in Article 9.3 of the Bonds Act, i.e. as a private offering.

The bonds were issued on the following terms:

- The issuer did not determine the purpose of issue, as defined in the Bonds Act, or the project which is to be funded by issue of the Bonds.
- The issued Bonds are series B bearer bonds with a nominal value of PLN 1,000 each, secured and dematerialised.
- Total nominal value of all Bonds issued does not exceed PLN 30,000,000.
- Nominal value of each Bond is PLN 1,000. The issue price of one Bond is equivalent to its nominal value, that is PLN 1,000.
- The Bonds will be redeemed by the Company 4 years of the Bonds issue date, i.e. on 13 January 2019 (hereinafter "Redemption Date") except for cases of earlier redemption of Bonds should the Issuer infringe the terms on which the Bonds had been issued or upon the Issuer's request.

- The bonds bear a fixed interest of 9.1% per year.
- If the Issuer fails to redeem Bonds earlier in the case of infringements, at the Bond Holder's or the Issuer's request, the Bonds shall be redeemed on the Redemption Date by payment of an amount equivalent to nominal value of the Bonds increased by the unpaid and due interest on the Bonds.

19. DESCRIPTION OF DIFFERENCES IN FORECAST FINANCIAL RESULTS

CPD Group and its dominant entity did not publish financial result forecasts for the year 2015.

20. FINANCIAL RESOURCES MANAGEMENT ASSESSMENT

CPD Group finances its operations primarily with equity. In the financial year 2015 the Group's financial resources are used in accordance with the plans, specifications and current needs. Group fulfilled its regularly with its obligations to customers, banks and the mandatory duty to the State. Liabilities representing 336,6% of the total assets of the Group do not pose a threat to the financial condition of the Group.

Supplementary source of financing for the Group's loans and bonds. At the end of 2015, the total value of liabilities from loans and borrowings amounted to PLN 152 million compared to PLN 143 million at the end of 2014. As part of the liabilities from loans and borrowings CPD Group recognizes liabilities from finance leases, which is the obligation of the Group with perpetual usufruct of land. At the end of 2015 these commitments amounted to PLN 32.1 million, which represented 21.1% of total liabilities from loans and borrowings.

In September 2014, the Group issued convertible bonds. At the end of 2015 value of these liabilities amounted to PLN 26.4 million, and also taking into account the value of the embedded derivative (PLN 11.6 million) total liabilities on the balance sheet of the Group amounted to PLN 38 million.

In January 2015, the Group issued bonds SERIES B. At the end of 2015 value of these liabilities amounted to 30.9 million PLN.

21. CHANGES IN MANAGEMENT POLICIES

In 2015, continuing the Group's strategy focusing on the Polish market, and in particular on the project in Ursus, further simplifying the structure of the Group. The process of Celtic Asset Management Sp. z oo liquidation was continued, as well as the decision was made to liquidate or sale of two other companies not engaged in investment activities or operations (Mandy Investments Sp. z oo, 14/119 Gaston Investments Sp. Partnership) as a result of sale of property or discontinuation of their operations. In February 2015, sale of Gaetan Investments Sp. z o. o. was completed. The reduction of subsidiaries from 44 at the end of 2011 to 37 at the date of this report, simplified the management of the Group. In addition to changes in the structure of the Group in 2015 (described in detail in Section VI.2 GROUP STRUCTURE of this report) and further simplification of organizational procedures, there were no major changes in the Group's management.

22. REMUNERATION OF THE SUPERVISORY BOARD AND THE MANAGEMENT BOARD

• SUPERVISORY BOARD REMUNERATION

In 2015, the following remuneration amounts for holding an office in the Company's Supervisory Board were disbursed to the members of the Supervisory Board of CPD S.A.:

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Name	Function	Currency	PLN	Period	Comments
Marzena Bielecka	President	PLN	38 964	01.2015 - 06.2015	Resignation for 17.06.2015
Wiesław Oleś	Vice President	PLN	60 000	01.2015 - 12.2015	-
Andrew Pegge	Secretary	PLN	60 000	01.2015 - 12.2015	-
Mirosław Gronicki	Member	PLN	60 000	01.2015 - 12.2015	-
Wiesław Rozłucki	Member	PLN	50 000	01.2015 - 12.2015	Resignation for 29.10.2015
Gabriela Gryger	Member	PLN	6 167	11.2015 - 12.2015	-
Michael Haxbey	Member	PLN	32 333	09.2015 - 12.2015	-
TOTAL		PLN	307 467		

• **MANAGEMENT BOARD REMUNERATION**

In 2015 CPD 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 the CPD Group.

Name	Function	Wynagrodzenie z tytułu pełnienia funkcji w Zarządzie Spółki (PLN)	Wynagrodzenie z tytułu pełnienia innych funkcji w Grupie (PLN)	TOTAL (PLN)	Period	Comments
Elżbieta Wiczowska	President	60 000	643 395	703 395	01.2015 - 12.2015	-
Iwona Makarewicz	Member	60 000	669 483	729 483	01.2015 - 12.2015	-
Colin Kingsnorth	Member	60 000	-	60 000	01.2015 - 12.2015	-
John Purcell	Member	32 333	-	32 333	06.2015 - 12.2015	-
Total		212 333	1 312 878	1 525 211		

23. AGREEMENTS WITH MEMBERS OF THE MANAGEMENT BOARD – COMPENSATIONS

CPD S.A. Management Board members are not employed under employment agreements in the Company. The Company did not conclude such agreements with members of the Management Board that provide 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:

Name	Function	No. of shares	Nominal value of shares (PLN)	As % of total no. of shares	As % of total no. of votes
Elżbieta Wiczowska	President	42 498	4250	0,13%	0,13%
Iwona Makarewicz	Member	4 734	473	0,01%	0,01%
TOTAL		47 232	4 723	0,14%	0,14%

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

25. AGREEMENTS CHANGING OWNERSHIP STRUCTURE

At the date of this report, the Company has not received other complaints concerning the changes in the proportion of shares held by shareholders holding not yet at least 5.0% of the shares of the Company.

26. CONTROL SYSTEM FOR EMPLOYEE SHARES SCHEMES

During the reporting period the Company did not implement employee shares schemes.

27. AGREEMENT WITH AN ENTITY AUTHORISED FOR AUDITING FINANCIAL STATEMENTS

The financial statements of CPD SA and the consolidated financial statements of the Group for the years 2014 and 2015 were reviewed and audited by an auditing firm PricewaterhouseCoopers. with o.o with its registered office in Warsaw.

The total remuneration of the auditor for the audit, inspection Financial Statements for the year 2014, and other services provided by PricewaterhouseCoopers with net amounted to PLN 250,000, of which:

- PLN 85,000 was the reward for a review of the financial statements of CPD SA and the consolidated financial statements of the Group for the period from 1 January 2014 to 30 June 2014 (agreement dated 4 August 2014)
- PLN 111,000 was the fee for the audit of the financial statements of CPD SA and the consolidated financial statements of the Group for the period from 1 January 2014 to 31 December 2014 (agreement dated 3 February 2015)
- PLN 18,000 was the fee for the audit of the financial statements of the company Belise Investments sp. z o.o. (Agreement dated 3 February 2015)
- PLN 36,000 was the fee for the audit of financial statements of subsidiaries Celtic Investments Ltd, Buffy Holdings No 1 Ltd, Lakia for Enterprises Ltd period from 1 January 2014 to 31 December 2014 (Based on the agreements between these companies and PwC in some countries).

The total remuneration of the auditor for the year 2015 amounted to PLN 240,000 net, of which:

- PLN 65,000 was the reward for a review of the financial statements of CPD SA and the consolidated financial statements of the Group for the period from 1 January 2015 to June 30, 2015. (agreement of 18 June 2015)
- PLN 125,000 was the fee for the audit of the financial statements of CPD SA and the consolidated financial statements of the Group for the period from 1 January 2015 to 31 December 2015 (agreement dated 18 June 2015)
- PLN 15,000 was the fee for the audit of the financial statements of the company Belise Investments Sp. z o.o (Agreement dated 19 June 2015)
- PLN 35,000 was the fee for the audit of financial statements of subsidiaries Celtic Investments Ltd, Buffy Holdings No 1 Ltd, Lakia Enterprises Ltd for the period from 1 January 2015 to 31 December 2015 (Based on agreements between the two companies and PwC in some countries).

28. STRUCTURE OF ASSETS AND LIABILITIES – BY LIQUIDITY

CPD Group assets structure on 31 December 2015 and changes compared with the status at the end of 2015:

	As at:		% in total assets 2015	% in total assets 2014	Change 2015/2014 (%)
	31.12.2015 (PLN ths.)	31.12.2014 (PLN ths.)			
Investment properties	651 094	581 386	91,5%	93,6%	12,0%
Property, plant and equipment	964	914	0,1%	0,1%	5,5%
Intangible assets, excluding goodwill	60	92	0,01%	0,01%	-34,8%
Investments in joint ventures accounted for using the equity method	14 512	0	2,04%	0,00%	-
Deferred income tax assets	552	85	0,08%	0,01%	549,4%
Bonds	0	3 430	0,0%	0,6%	-100,0%
Non-current assets	667 182	585 907	93,8%	94,3%	13,9%
Inventories	5 296	6 525	0,7%	1,1%	-18,8%
Trade and other receivables	9 256	9 854	1,3%	1,6%	-6,1%
Bonds	3 670	0	0,5%	0,0%	-
Cash and cash equivalents	26 073	18 770	3,7%	3,0%	38,9%
Current assets	44 295	35 149	6,2%	5,7%	26,0%
TOTAL ASSETS	711 477	621 056	100%	100%	14,6%

CPD Group liabilities structure on 31 December 2015 and changes compared with the status at the end of 2015:

	As at:		% in total assets 2015	% in total assets 2014	Change 2015/2014 (%)
	31.12.2015 (PLN ths.)	31.12.2014 (PLN ths.)			
Share capital	3 286	3 286	0,5%	0,5%	0,0%
Other reserves	987	987	0,1%	0,2%	0,0%
Fair value of capital element at inception date	-27 909	-27 909	-3,9%	-4,5%	-
Translation reserve	-5 311	-5 301	-0,7%	-0,9%	0,2%
Retained earnings	479 778	433 430	67,4%	69,8%	10,7%
Equity	450 831	404 493	63,4%	65,1%	11,5%
Trade and other payables	2 070	1 494	0,3%	0,2%	38,6%
Borrowings, including finance leases	144 474	71 484	20,3%	11,5%	102,1%
Bonds	56 041	24 065	7,9%	3,9%	-
Embedded derivative	11 635	18 815	1,6%	3,0%	-
Deferred income tax liabilities	20 906	13 382	2,9%	2,2%	56,2%
Non-current liabilities	235 126	129 240	33,0%	20,8%	81,9%
Trade and other payables	16 712	15 830	2,3%	2,5%	5,6%
Bonds	1 279	0	0,2%	0,0%	#DZIEL/0!
Borrowings, including finance leases	7 529	71 493	1,1%	11,5%	-89,5%

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Current liabilities	25 520	87 323	3,6%	14,1%	-70,8%
Total liabilities	260 646	216 563	36,6%	34,9%	20,4%
TOTAL EQUITY AND LIABILITIES	711 477	621 056	100,0%	100,0%	14,6%

29. CONTINGENT LIABILITIES

• INVESTMENT AGREEMENT

On 10 September 2014, an investment agreement for a joint venture to build a complex of apartment blocks with service shops and appurtenant infrastructure in Warsaw city district of Ursus was signed between the Issuer, subsidiaries on one side and Unibep S.A. and Unidevelopment S.A. on the other side.

The subject matter of the Agreement was joint delivery of a construction project on a part of real property owned by a CPD Capital Group company, that is 1/95 Gaston Investments sp. z o.o. sp.k. in Warsaw. The above-mentioned property comprises plot no. 95, cadastral district no. 2-09-09, with an area of 3.6811ha, and is situated at Traktorzystów in Warsaw (Warsaw city district of Ursus).

The agreement was to enter into force provided that the parties thereto agree to (approve) all schedules to the Agreement by 13 October 2014. Moreover the agreement concerning Unidevelopment S.A. joining the Limited Partnership entered into force on condition that the President of the Office for Protection of Competition and Consumer (UOKiK) grants approval for merger of companies.

On 24 February 2015, the companies obtained permission from the UOKiK President for the merger consisting in establishment of a joint enterprise under the name of Smart City sp. z o.o. w organizacji spółka komandytowa with registered office in Warsaw.

On 9 March 2015, the Memorandum of Association of Smart City w organizacji sp. z o.o. sp.k. was annexed, and under this annex Unidevelopment S.A. joined the Limited Partnership as a Limited Partner, made the first portion of their contribution, and committed to make the remaining portion of financial contribution until the date stipulated in the investment agreement of 10 September 2014. The condition was fulfilled in the term specified in investment agreement.

• CREDIT AGREEMENT WITH BANK ZACHODNI WBK S.A.

The credit agreement between the subsidiary company Smart City spółka z ograniczoną odpowiedzialnością spółka komandytowa which is the Company's subsidiary and Bank Zachodni WBK S.A., entered into force. On that basis Smart City spółka z ograniczoną odpowiedzialnością spółka komandytowa was granted a credit to the maximum amount of PLN 65.146.288 for financing the construction of a multi-family housing project Ursa Smart City Stage I at Hennela and Dyrekcyjna streets in Warsaw in the district of Ursus

Repayment security for Agreement are mortgages on property and registered pledges on the rights of corporate shareholders and shares in the share capital of the general partner of the Borrower(Smart City sp. z o.o.) to be established in the near future.

Bank loan shall be made available to the Borrower after the securities have been established and the normal conditions for availability have been met.

30. GRANTED LOANS

Details of the loans granted to related parties 31.12.2015

Related party	Currency	Principal amount in PLN	Accrued interest in PLN	Interest Rate	Margin	Maturity
1/95 Gaston Investments	PLN	0	0	3M WIBOR	1,55%	on demand
2/124 Gaston Investments	PLN	3 089	399	3M WIBOR	1,55%	on demand
3/93 Gaston Investments	PLN	2 900	350	3M WIBOR	1,55%	on demand
4/113 Gaston Investments	PLN	6 001	1 035	3M WIBOR	1,55%	on demand
5/92 Gaston Investments	PLN	4 068	417	3M WIBOR	1,55%	on demand
6/150 Gaston Investments	PLN	2 491	341	3M WIBOR	1,55%	on demand
7/120 Gaston Investments	PLN	1 678	228	3M WIBOR	1,55%	on demand
8/126 Gaston Investments	PLN	5 315	607	3M WIBOR	1,55%	on demand
9/151 Gaston Investments	PLN	1 092	149	3M WIBOR	1,55%	on demand
10/165 Gaston Investments	PLN	2 007	177	3M WIBOR	1,55%	on demand
11/162 Gaston Investments	PLN	1 292	152	3M WIBOR	1,55%	on demand
12/132 Gaston Investments	PLN	3 530	452	3M WIBOR	1,55%	on demand
13/155 Gaston Investments	PLN	3 416	409	3M WIBOR	1,55%	on demand
15/167 Gaston Investments	PLN	1 914	189	3M WIBOR	1,55%	on demand
16/88 Gaston Investments	PLN	502	78	3M WIBOR	1,55%	on demand
18 Gaston Investments	PLN	3 316	331	3M WIBOR	1,55%	on demand
19/97 Gaston Investments	PLN	548	79	3M WIBOR	1,55%	on demand
20/140 Gaston Investments	PLN	624	93	3M WIBOR	1,55%	on demand
Antigo Investments	PLN	5 001	74	3M WIBOR	1,55%	on demand
<i>Impairment on Antigo Investments loan</i>		(1 077)	(74)			
Blaise Gaston Investments	PLN	6 342	743	3M WIBOR	1,55%	on demand
Blaise Investments	PLN	24 125	4 970	3M WIBOR	1,55%	on demand
Belise Investments	PLN	12 960	4 723	3M WIBOR	1,55%	on demand
<i>Impairment on Belise Investments loan</i>			0			
Buffy Holdings No 1 Ltd	PLN	161 846	32 911	3M WIBOR	0,75%	on demand
<i>Impairment on Buffy Holdings loan</i>	PLN	0	(30 652)			
Celtic Asset Management	PLN	30	0			
<i>Impairment on CAM loan</i>	PLN	(3)				
Celtic Investments Ltd	PLN	1 801	47	3M LIBOR	0,75%	on demand
<i>Impairment on CIL loan</i>	PLN	(1 746)	(47)			
Challange 18	PLN	161 316	23 890	3M WIBOR	1,55%	on demand
Elara Investments	PLN	2 780	34	3M WIBOR	1,55%	on demand
<i>Impairment on Elara Investments loan</i>	PLN	(2 240)	(34)			
Gaston Investments	PLN	7 998	1	3M WIBOR	1,55%	on demand
<i>Impairment on Gaston Investments loan</i>	PLN	(2 848)	(1)			
HUB Developments	PLN	2 423	126	3M WIBOR	1,55%	on demand
<i>Impairment on HUB loan</i>		(375)	(126)			
Smart City	PLN	4	0	3M WIBOR	1,55%	on demand
<i>Impairment on Smart City loan</i>		(4)				
IMES		3 343	70		1,55%	26.03.2020
Lakia Enterprises Limited	PLN	50 996	6 999	3M WIBOR	1,55%	on demand
<i>Impairment on Lakia Enterprises loan</i>		0	(4 436)			
Mandy Investments	PLN	16 017	4 463	3M WIBOR	1,55%	on demand
<i>Impairment on Mandy loan</i>		(16 017)	(4 463)			
Total book value		476 457	44 703			

CPD S.A.
ANNUAL REPORT OF THE GROUP FOR 2015

Value of loans	500 767	84 537
Impairment	24 310	39 833
Total book value	476 457	44 703

VI. MANAGEMENT BOARD STATEMENT

The Management Board of CPD S.A. ("Company") confirms that according to its best knowledge, the consolidated financial statements of the CPD Group ("the Group") for the financial year ending on 31 December 2015 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's 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, and the both the entity and the chartered auditors carrying out the audit meet the conditions for issuing an unbiased and independent opinion on the audited annual consolidated financial statements, in accordance with the applicable regulations and professional standards. In 2015 financial statements of CPD S.A. and the Group were reviewed and audited by PricewaterhouseCoopers Sp. z o.o., an audit firm based in Warsaw.

ELŻBIETA WICKOWSKA
PRESIDENT OF THE MANAGEMENT
BOARD

COLIN KINGSNORTH
MEMBER OF THE MANAGEMENT BOARD

IWONA MAKAREWICZ
MEMBER OF THE MANAGEMENT
BOARD

JOHN PURCELL
MEMBER OF THE MANAGEMENT BOARD

VII. INDEPENDENT CHARTERED AUDITOR'S OPINION



Independent Registered Auditor's Report

To the General Shareholders' Meeting and the Supervisory Board of CPD S.A.

Report on the financial statements

We have audited the accompanying consolidated financial statements of the CPD S.A. Group (hereinafter called "the Group"), having CPD S.A., Cybernetyki 7B Street, Warsaw, as its parent company, which comprise the consolidated statement of financial position as at 31 December 2015, the consolidated statement of comprehensive income for the year from 1 January to 31 December 2015, the consolidated statement of changes in equity, the consolidated cash flow statement for the financial year and additional information on adopted accounting policies and other explanatory notes.

Management and Supervisory Board's Responsibility for the consolidated financial statements

The Parent Company's Management Board is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with the International Financial Reporting Standards as adopted by the European Union, the Report on the Group's operations and for the correctness of the accounting records in accordance with the applicable regulations. The Parent Company's Management Board is also responsible for internal controls as management determines necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

The Management Board and Supervisory Board are obliged to ensure that the consolidated financial statements and the Report on the Group's operations meet the requirements of the Accounting Act of 29 September 1994 ("the Accounting Act" – Journal of Laws of 2013, item 330 as amended).

Auditor's Responsibility

Our responsibility was to perform an audit of the accompanying consolidated financial statements and to express an opinion and the report on whether the consolidated financial statements present, in all material respects, a true and fair view of the Group's financial position and its financial results in accordance with the regulations and the applicable accounting policies and on the correctness of the accounting records constituting the basis for their preparation.

We conducted our audit in accordance with section 7 of the Accounting Act and International Standards on Auditing as adopted by the National Council of Certified Auditors as the National Standards on Audit and Assurance. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Group's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

PricewaterhouseCoopers Sp. z o.o., International Business Center, Al. Armii Ludowej 14, 00-638 Warszawa, Polska, T: +48 (22) 746 4000, F: +48 (22) 742 4040, www.pwc.com

PricewaterhouseCoopers Sp. z o.o. wpisana jest do Krajowego Rejestru Sądowego prowadzonego przez Sąd Rejonowy dla m. st. Warszawy, pod numerem KRS 0000044655, NIP 526-021-02-28. Kapitał zakładowy wynosi 10.363.900 złotych. Siedzibą Spółki jest Warszawa, Al. Armii Ludowej 14.



We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

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

- a. give a true and fair view of the Group's financial position as at 31 December 2015 and its financial performance and its cash flows for the year from 1 January to 31 December 2015, in accordance with the International Financial Reporting Standards (IFRS) as adopted by the European Union;
- b. comply in terms of form and content with the applicable laws, including the Decree of the Minister of Finance dated 19 February 2009 on current and periodic information provided by issuers of securities and the conditions of recognizing as equal information required by the law of other state, which is not a member state ("the Decree" – Journal of Laws of 2014, item 133);
- c. have been prepared on the basis of correctly maintained consolidation documentation.

Report on Other Legal and Regulatory Requirements

Opinion on the Report on the Group's operations

The information contained in the Report on the Group's operations for the year from 1 January to 31 December 2015 accommodate the requirements of article 49 paragraph 2 of the Accounting Act and the Decree and is consistent with the information contained in the audited consolidated financial statements.

Based on the knowledge of the Group and its environment obtained during our audit we have not identified any material misstatements in the Report on the Group's operations.

In the Statement of Corporate Governance, which is a separate part of the Report on the Group's operations, the Group included information in accordance with the scope defined in the Decree. This information is consistent with the applicable regulations and with the information contained in the consolidated financial statements.

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

Piotr Wyszogrodzki

Key Registered Auditor
No. 90091

Warsaw, 17 march 2016

**VIII. CHARTERED AUDITOR'S REPORT ON THE CONSOLIDATED
FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR FROM 1
JANUARY TO 31 DECEMBER 2015.**

CPD S.A. Group

Independent Registered Auditor's Opinion

Consolidated Financial Statements

Director's Report

Registered Auditor's Report on the audit of the consolidated financial statements

For the year from 1 January to 31 December 2015

Content:

Independent Registered Auditor's Opinion

prepared by PricewaterhouseCoopers Sp. z o.o.

Consolidated Financial Statements

prepared by CPD S.A. Group

Directors' Report

prepared by Management Board of CPD S.A.

Registered Auditor's Report on the audit of the consolidated financial statements

prepared by PricewaterhouseCoopers Sp. z o.o.

CPD S.A. Group

Registered auditor's report on the audit of the consolidated financial statements for the year from 1 January to 31 December 2015

Translation note:

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Registered auditor's report on the audit of the consolidated financial statements for the year from 1 January to 31 December 2015

To the General Shareholders' Meeting and the Supervisory Board of CPD S.A.

This report contains 15 consecutively numbered pages and consists of:

	Page
I. General information about the Group.....	2
II. Information about the audit	9
III. The Group's results, financial position and significant items of the consolidated financial statements	10
IV. The independent registered auditor's statements.....	14
V. Final information.....	15

CPD S.A. Group
Registered auditor's report on the audit of the consolidated financial
statements for the year from 1 January to 31 December 2015

I. General information about the Group

- a. CPD S.A. ("the Parent Company") with its seat in Warsaw, Cybernetyki 7B Street is the parent company of the CPD S.A. Group ("the Group").
- b. The Parent Company was incorporated under the name Celtic Development Corporation S.A. The Parent Company was formed on the basis of a Notarial Deed drawn up on 23 February 2007 by notarial assessor Radosław Chorabik at the Notary Public's Office of Dorota Mika in Cracow and registered with Rep. A No. 863/2007. On 23 March 2007, the Parent Company was entered in the Register of Businesses maintained by the District Court in Cracow XI Business Department of the National Court Register, with the reference number KRS 0000277147. On 2 September 2010 the Extraordinary General Shareholders' Meeting adopted a resolution changing the Parent Company's name to Celtic Property Developments S.A. On 29 May 2014 the Extraordinary General Shareholders' Meeting adopted a resolution changing the Parent Company's name to CPD S.A. The change of the Company's name was registered in the National Court Register on 17 September 2014.
- c. The Parent Company was assigned a tax identification number (NIP) 677-22-86-258 on 22 March 2007 for the purpose of making tax settlements. For statistical purposes the Parent Company was assigned on 6 March 2007 a REGON number 120423087.
- d. As at 31 December 2015 the Parent Company's share capital amounted to PLN 3,286,320.30 and consisted of 32,863,203 shares, with a nominal value of PLN 0.10 each.
- e. As at 31 December 2015, the Parent Company's shareholders were:

Shareholder's name	Number of shares held	Par value of shares held (PLN)	Type of shares held	Votes (%)
Cooperative Laxey Worldwide W.A.	10,082,930	1,008,293.00	ordinary	30.68
Furseka Trading and Investments Ltd.	5,137,222	513,722.20	ordinary	15.63
The Value Catalyst Fund plc	3,975,449	397,544.90	ordinary	12.10
QVT Fund LP	3,701,131	370,113.10	ordinary	11.26
LP Value Ltd	2,005,763	200,576.30	ordinary	6.10
LP Alternative Fund LP	2,003,981	200,398.10	ordinary	6.10
Shareholders holding less than 5% of shares	5,956,727	595,672.70	ordinary	18.13
	32,863,203	3,286,320.30		100.00

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CPD S.A. Group
Registered auditor's report on the audit of the consolidated financial
statements for the year from 1 January to 31 December 2015

I. General information about the Group (cont.)

f. In the audited year, the Group's operations comprised:

- property development
- asset management
- leasing of the properties.

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

- | | |
|-----------------------------|--------------------------------|
| • Elżbieta Donata Wiczowska | Chairman |
| • Colin William Kingsnorth | Board Member |
| • Iwona Ewa Makarewicz | Board Member |
| • John Purcell | Board Member from 17 June 2015 |

CPD S.A. Group
Registered auditor's report on the audit of the consolidated financial statements
for the year from 1 January to 31 December 2015

I. General information about the Group (cont.)

h. As at 31 December 2015, the CPD S.A. Group comprised the following entities:

Name	Nature of equity relationship (interest in %)	Consolidation method	Auditor of the financial statements	Type of opinion	Balance sheet date
CPD S.A.	Parent Company	Not applicable	PricewaterhouseCoopers Sp. z o.o.	unqualified	31 December 2015
Mandy Investments Sp. z o.o. in liquidation	Subsidiary 100%	Full	Not applicable	Not applicable	31 December 2015
Lakia Enterprises Limited	Subsidiary 100%	Full	PricewaterhouseCoopers Limited, Cyprus	As of date of this Opinion, the audit of this entity's financial statement was not completed.	31 December 2015
Lakia Investments Sp. z o.o.	Subsidiary 100%	Full	Not applicable	Not applicable	31 December 2015
Celtic Asset Management Sp. z o.o. in liquidation (previous name: Liliane Investments Sp. z o.o.)	Subsidiary 100%	Full	Not applicable	Not applicable	31 December 2015
Blaise Investments Sp. z o.o.	Subsidiary 100%	Full	Not applicable	Not applicable	31 December 2015
Robin Investments Sp. z o.o.	Subsidiary 100%	Full	Not applicable	Not applicable	31 December 2015
IMES Poland Sp. z o.o.	Subsidiary 100%	Full	Not applicable	Not applicable	31 March 2015
Elara Investments Sp. z o.o.	Subsidiary 100%	Full	Not applicable	Not applicable	31 December 2015
Celtic Investments Limited	Subsidiary 100%	Full	PricewaterhouseCoopers Limited, Cyprus	As of date of this Opinion, the audit of this entity's financial statement was not completed.	31 December 2015
Gaston Investments Sp. z o.o.	Subsidiary 100%	Full	Not applicable	Not applicable	31 December 2015

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CPD S.A. Group
Registered auditor's report on the audit of the consolidated financial statements
for the year from 1 January to 31 December 2015

I. General information about the Group (cont.)

Name	Nature of equity relationship (interest in %)	Consolidation method	Auditor of the financial statements	Type of opinion	Balance sheet date
Buffy Holdings No 1 Ltd	Subsidiary 100%	Full	PricewaterhouseCoopers Limited, Cyprus	As of date of this Opinion, the audit of this entity's financial statement was not completed.	31 December 2015
Challange Eighteen Sp. z o.o.	Subsidiary 100%	Full	Not applicable	Not applicable	31 December 2015
Celtic Trade Park Kft	Subsidiary 100%	Full	Not applicable	Not applicable	31 December 2015
Blaise Gaston Investments Spółka z ograniczoną odpowiedzialnością Sp.k.	Subsidiary 100%	Full	Not applicable	Not applicable	31 December 2015
Smart City Spółka z ograniczoną odpowiedzialnością Sp.k.	Jointly controlled 50%	Equity	Not applicable	Not applicable	31 December 2015
3/93 Gaston Investments Spółka z ograniczoną odpowiedzialnością Sp.k.	Subsidiary 100%	Full	Not applicable	Not applicable	31 December 2015
4/113 Gaston Investments Spółka z ograniczoną odpowiedzialnością Sp.k.	Subsidiary 100%	Full	Not applicable	Not applicable	31 December 2015
5/92 Gaston Investments Spółka z ograniczoną odpowiedzialnością Sp.k.	Subsidiary 100%	Full	Not applicable	Not applicable	31 December 2015
6/150 Gaston Investments Spółka z ograniczoną odpowiedzialnością Sp.k.	Subsidiary 100%	Full	Not applicable	Not applicable	31 December 2015
7/120 Gaston Investments Spółka z ograniczoną odpowiedzialnością Sp.k.	Subsidiary 100%	Full	Not applicable	Not applicable	31 December 2015
8/126 Gaston Investments Spółka z ograniczoną odpowiedzialnością Sp.k.	Subsidiary 100%	Full	Not applicable	Not applicable	31 December 2015

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CPD S.A. Group
Registered auditor's report on the audit of the consolidated financial statements
for the year from 1 January to 31 December 2015

I. General information about the Group (cont.)

Name	Nature of equity relationship (interest in %)	Consolidation method	Auditor of the financial statements	Type of opinion	Balance sheet date
9/151 Gaston Investments Spółka z ograniczoną odpowiedzialnością Sp.k.	Subsidiary 100%	Full	Not applicable	Not applicable	31 December 2015
10/165 Gaston Investments Spółka z ograniczoną odpowiedzialnością Sp.k.	Subsidiary 100%	Full	Not applicable	Not applicable	31 December 2015
11/162 Gaston Investments Spółka z ograniczoną odpowiedzialnością Sp.k.	Subsidiary 100%	Full	Not applicable	Not applicable	31 December 2015
12/132 Gaston Investments Spółka z ograniczoną odpowiedzialnością Sp.k.	Subsidiary 100%	Full	Not applicable	Not applicable	31 December 2015
13/155 Gaston Investments Spółka z ograniczoną odpowiedzialnością Sp.k.	Subsidiary 100%	Full	Not applicable	Not applicable	31 December 2015
14/119 Gaston Investments Spółka z ograniczoną odpowiedzialnością Sp.k. in liquidation	Subsidiary 100%	Full	Not applicable	Not applicable	31 December 2015
15/167 Gaston Investments Spółka z ograniczoną odpowiedzialnością Sp.k.	Subsidiary 100%	Full	Not applicable	Not applicable	31 December 2015
16/88 Gaston Investments Spółka z ograniczoną odpowiedzialnością Sp.k.	Subsidiary 100%	Full	Not applicable	Not applicable	31 December 2015
18 Gaston Investments Spółka z ograniczoną odpowiedzialnością Sp.k.	Subsidiary 100%	Full	Not applicable	Not applicable	31 December 2015
19/97 Gaston Investments Spółka z ograniczoną odpowiedzialnością Sp.k.	Subsidiary 100%	Full	Not applicable	Not applicable	31 December 2015

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CPD S.A. Group
Registered auditor's report on the audit of the consolidated financial statements
for the year from 1 January to 31 December 2015

I. General information about the Group (cont.)

Name	Nature of equity relationship (interest in %)	Consolidation method	Auditor of the financial statements	Type of opinion	Balance sheet date
20/140 Gaston Investments Spółka z ograniczoną odpowiedzialnością Sp.k.	Subsidiary 100%	Full	Not applicable	Not applicable	31 December 2015
Belize Investments Sp. z o.o.	Subsidiary 100%	Full	PricewaterhouseCoopers Sp. z o.o.	As of date of this Opinion, the audit of this entity's financial statement was not completed.	31 December 2015
Antigo Investments Sp. z o.o.	Subsidiary 100%	Full	Not applicable	Not applicable	31 December 2015
Smart City Sp. z o.o.	Subsidiary 100%	Full	Not applicable	Not applicable	31 December 2015

I. General information about the Group (cont.)

- i. During the financial year, the following changes took place in the scope of consolidation:
- Buffy Holdings No 1 Ltd (subsidiary) acquired 100% shares in IMES Poland Sp. z o.o. company.
 - 220 shares of Gaetan Investments Sp. z o.o. were sold,
 - Unidevelopment S.A joined to a limited partnership company Smart City Spółka z ograniczoną odpowiedzialnością Sp.k. as a limited partner.
- j. The Parent Company is an issuer of securities admitted for trading on the Warsaw Stock Exchange and in accordance with the Accounting Act, the Parent Company prepares its consolidated financial statements in accordance with IFRS as adopted by the European Union.

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CPD S.A. Group
Registered auditor's report on the audit of the consolidated financial
statements for the year from 1 January to 31 December 2015

II. Information about the audit

- a. The audit of the consolidated financial statements as at and for the year from 1 January to 31 December 2015 was conducted by PricewaterhouseCoopers Sp. z o.o. with its seat in Warsaw, Al. Armii Ludowej 14, registered audit company no. 144. The audit was conducted on behalf of the registered audit company under the supervision of the key registered auditor, the Group's registered auditor Piotr Wyszogrodzki (no. 90091).
- b. PricewaterhouseCoopers Sp. z o.o. was appointed as registered auditor to the Group by Resolution No. 3 of the Supervisory Board of CPD S.A. dated 15 June 2015 in accordance with paragraph 11, point 8 of the Parent Company's Memorandum of Association.
- c. PricewaterhouseCoopers Sp. z o.o. and the key registered auditor conducting the audit are independent of the entities belonging to the Group within the meaning of art. 56, clauses 2-4 of the Act dated 7 May 2009 on registered auditors and their self-government, registered audit companies and on public supervision (Journal of Laws of 2015, item 1011).
- d. The audit was conducted in accordance with an agreement dated 18 June 2015 in the period from 8 February 2016 to 17 March 2016 (with intervals).

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CPD S.A. Group
Registered auditor's report on the audit of the consolidated financial
statements for the year from 1 January to 31 December 2015

III. The Group's results, financial position and significant items of the consolidated financial statements

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
as at 31 December 2015 (selected lines)

	31.12.2015	31.12.2014	Change		Structure	
	PLN '000	PLN '000	PLN '000	(%)	31.12.2015 (%)	31.12.2014 (%)
ASSETS						
Non-current assets	667,182	585,907	81,275	13.9	93.8	94.3
Current assets	44,295	35,149	9,146	26.0	6.2	5.7
Total assets	711,477	621,056	90,421	14.6	100.0	100.0
LIABILITIES AND EQUITY						
Share capital	3,286	3,286	-	-	0.5	0.5
Reserve capital	987	987	-	-	0.1	0.2
Equity component on initial recognition	(27,909)	(27,909)	-	-	(3.9)	(4.5)
Translation reserves	(5,311)	(5,301)	(10)	0.2	(0.7)	(0.9)
Retained earnings	479,778	433,430	46,348	10.7	67.4	69.8
Liabilities	260,646	216,563	44,083	20.4	36.6	34.9
Total liabilities and equity	711,477	621,056	90,421	14.6	100.0	100.0

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
for the year from 1 January to 31 December 2015 (selected lines)

	2015	2014	Change		Structure	
	PLN '000	PLN '000	PLN '000	(%)	2015 (%)	2014 (%)
Revenue	18,735	15,067	3,668	24.3	40.4	14.6
Costs of sales	(3,499)	(3,648)	149	(4.1)	(7.6)	(3.5)
Gross profit	15,236	11,419	3,817	33.4	32.9	11.1
Operating profit	58,172	105,670	(47,498)	(44.9)	125.5	102.6
Profit for the year	46,348	104,494	(58,146)	(55.6)	100.0	101.4
Currency translation adjustment	(10)	(1,454)	1,444	(99.3)	-	(1.4)
Total net comprehensive income for the year	46,338	103,040	(56,702)	(55.0)	100.0	100.0

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III. The Company's results, financial position and significant items of the consolidated financial statement (cont.)

Selected ratios characterising the Group's financial position and results

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

	2015	2014	2013
Asset ratios			
- receivables turnover	24 days	80 days	175 days
Profitability ratios			
- net profit margin	(31)%	(63)%	(156)%
- return on capital employed	11%	28%	(12)%
Liability ratios			
- gearing	37%	35%	31%
- payables turnover	88 days	95 days	39 days
	31.12.2015	31.12.2014	31.12.2013
Liquidity ratios			
- current ratio	1.7	0.4	0.3
- quick ratio	1.5	0.3	0.2

The above ratios have been calculated on the basis of the consolidated financial statements.

It was not the purpose of the audit to present the Group in the context of the results of operations and ratios achieved. A detailed interpretation of the ratios requires an in-depth analysis of the Group's operations and its circumstances.

III. The Company's results, financial position and significant items of the consolidated financial statement (cont.)

The consolidated financial statements do not take into account the effects of deflation. The consumer price index (on a December to December basis) amounted to -0.5% in the audited year (2014: -1.0%).

CPD S.A. is as at 31 December 2015 a parent company in a Group which consists of 36 associated companies (including 36 fully consolidated) and one company jointly controlled.

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

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

- At the end of the financial year, the Group's total assets amounted to PLN 711,477 thousand. During the year total assets increased by PLN 90,421 thousand, i.e. by 14.6%. This increase was financed mainly by an increase in, net profit of PLN 46,348 thousand and by an increase in of bonds issued by PLN 33,255 thousand and by increase in long term loans and borrowings, including finance lease by PLN 9,026 thousand.
- The balance of long term loans and borrowings (including finance lease) as at 31 December 2015 amounted to PLN 144,474 thousand and comprised mainly bank loans of PLN 112,364 thousand. An increase in long-term loans and borrowings, including finance lease compared with the previous year by PLN 72,990 thousand resulted mainly from transfer of liabilities from a bank loan in the company Belise Investments Sp. o.o. with short-term liabilities. Change in presentation of the loan was due to the signing on 29 May 2015 ammendment to the credit agreement, lengthening the repayment date to 31 May 2021.
- Liability ratios and the structure of liabilities have changed. The gearing ratio increased from 35% at the end of the previous year to 37% at the end of the current year. The payables turnover ratio decreased from 95 days to 88 days, respectively.
- Revenue amounted to PLN 18,735 thousand and increased by PLN 3,668 thousand, i.e by 24.3% compared with the previous year.
- Financial costs incurred in the audited year in the amount of PLN 13,380 thousand comprised mainly interest expense on bonds of PLN 4,932 thousand, interests from bank loans of PLN 3,604 thousand and interests from finance leases of PLN 2,429 thousand. An increase in financial costs by PLN 2,834 thousand, i.e. by 26.9% compared with the previous financial year was resulted mainly from an increase in interest expense on bonds by PLN 4,312 thousand.
- Financial income achived by Group in the audited year amounted to PLN 8,626 thousand and comprised mainly income from revaluation of bonds of PLN 7,180 thousand.

Translation note:

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III. The Company's results, financial position and significant items of the consolidated financial statement (cont.)

- The Group's liquidity has changed. In the audited year, the current and quick ratios, which amounted to 1.7 (2014: 0.4) and 1.5 (2014: 0.3) respectively, improved mainly due to decrease in short term liabilities balance as at 31/12/2015 when compared to prior year in connection with conversion of bank loan in Belise Investments Sp. z o.o. from short term liabilities.
- The receivables turnover ratio decreased in comparison to prior year and amounted to 24 days (80 days in previous year). The main reason for the change was mainly increase in Revenues.

The consolidated financial statements have been prepared on the assumption that the Group will continue in operation as a going concern.

IV. The independent registered auditor's statements

- a. The Management Board of the Parent Company provided all the information, explanations, and representations required by us in the course of the audit and provided us with a representation letter confirming the completeness of the information included in the accounting records and the disclosure of all contingent liabilities and post balance-sheet events which occurred up to the date on which that letter was signed.
- b. The scope of the audit was not limited.
- c. The consolidation of equity items and the determination of minority interests were carried out properly in all material respects.
- d. The elimination of mutual balances (receivables and payables) and transactions (revenue and costs) of the consolidated entities were carried out, in all material respects, in accordance with IFRS as adopted by the European Union.
- e. The elimination of unrealized gains/losses of consolidated entities included in the book value of assets and in respect of dividend payments was carried out, in all material respects, in accordance with IFRS as adopted by the European Union.
- f. The impact of the disposal or partial disposal of shares in subordinated entities was accounted for properly in all material respects, in accordance with IFRS as adopted by the European Union.
- g. The consolidation documentation was complete and accurate and it is stored in a manner ensuring proper safeguarding.
- h. The consolidated financial statements of the Group as at and for the year ended 31 December 2014 were approved by Resolution No. 7 passed by the General Shareholders' Meeting of the Parent Company on 17 June 2015 and filed with the National Court Register in Warsaw on 26 June 2015.
- i. The notes to the consolidated financial statements, which include the introduction and additional notes and explanations present all the significant information in accordance with IFRS as adopted by the European Union.
- j. The information in the Group Directors' Report for the year from 1 January to 31 December 2015 has been presented in accordance with the provisions of the Decree of the Minister of Finance dated 19 February 2009 on current and periodic information to be provided by issuers of securities and conditions for recognizing as equivalent the information required by the provisions of law of a country not being a member state (Journal of Laws of 2014, item 133) and is consistent with that presented in the consolidated financial statements.

Translation note:

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CPD S.A. Group
Registered auditor's report on the audit of the consolidated financial
statements for the year from 1 January to 31 December 2015

V. Final information

This report has been prepared in connection with our audit of the consolidated financial statements of the CPD S.A. Group having CPD S.A., Cybernetyki 7B Street, Warsaw, as its Parent Company. The consolidated financial statements were signed by the Parent Company's Management Board on 9 March 2016.

This report should be read in conjunction with the Independent Registered Auditor's unqualified Opinion to the General Shareholders' Meeting and the Supervisory Board of CPD S.A. dated 17 March 2016 concerning the said consolidated financial statements. The opinion on the consolidated financial statements expresses a general conclusion drawn from the audit and involves assessing the materiality of individual audit findings rather than being a sum of all the evaluations of individual financial statement components. This assessment takes account of the impact of the facts noted on the truth and fairness of the consolidated financial statements.

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

Piotr Wyszogrodzki

Group Registered Auditor, Key Registered
Auditor
No. 90091

Warsaw, 17 March 2016



Translation note:

This version of our report is a translation from the original, which was prepared in Polish language. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of our report takes precedence over this translation.

**IX. CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR FROM
1 JANUARY TO 31 DECEMBER 2015**

CPD S.A.

Consolidated financial statements
for the year ended 31 December 2015

CPD S.A.**Consolidated financial statements for the period from 1 January 2015 to 31 December 2015**

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CPD S.A.

Consolidated financial statements for the period from 1 January 2015 to 31 December 2015

(All amounts in PLN thousand unless otherwise stated)

Consolidated property portfolio**INVESTMENT PROPERTY (Note 5)**

Property	Company	As at	
		31 December 2015	Fair value
Solar (Viterra)	Lakia Investments		31 578
Aquarius	Robin Investments		26 336
Ursus	Blaise Gaston Investments		62 090
Ursus	Challange Eighteen		4 500
Ursus	Smart City		16 000
Ursus	2/124 Gaston investments		32 550
Ursus	3/93 Gaston investments		33 310
Ursus	4/113 Gaston Investments		52 580
Ursus	5/92 Gaston Investments		40 730
Ursus	6/150 Gaston Investments		16 360
Ursus	7/120 Gaston Investments		14 290
Ursus	8/126 Gaston Investments		20 890
Ursus	9/151 Gaston Investments		8 140
Ursus	10/165 Gaston Investments		16 230
Ursus	11/162 Gaston Investments		12 870
Ursus	12/132 Gaston Investments		23 350
Ursus	13/155 Gaston Investments		26 210
Ursus	15/167 Gaston Investments		16 490
Ursus	16/88 Gaston Investments		4 000
Ursus	18 Gaston Investments		2 900
Ursus	19/97 Gaston Investments		8 270
Ursus	20/140 Gaston Investments		4 300
Ursus	Imes Poland		41 060
Wolbórz	HUB Developments		2 100
IRIS	Belise Investments		101 850
Capitalised rights of perpetual usufruct of land			32 110
			651 094

INVENTORIES (Note 9)

Property	Company	As at	
		31 December 2015	
		Carrying amount	Fair value
Tenement house in Łódź	Antigo Investments	2 950	2 950
Koszykowa	Elara Investments	560	560
		3 510	3 510
Jaktorów	Antigo Investments	240	240
Czosnów	Antigo Investments	640	640
Nowa Piasecznica	Antigo Investments	120	120
Lesznowola	Antigo Investments	15	15
Alsonemedi	Celtic Trade Park	771	771
		1 786	1 786
		5 296	5 296
Total fair value of property portfolio			656 390

CPD S.A.**Consolidated financial statements for the period from 1 January 2015 to 31 December 2015**

(All amounts in PLN thousand unless otherwise stated)

Consolidated statement of comprehensive income

		12 months ended	12 months ended
	Note	31 December 2015	31 December 2014
Revenue	17	18 735	15 067
Cost of sales	18	(3 499)	(3 648)
<i>Including: Costs of inventories sold</i>		0	(14)
<i>Inventory impairment</i>		(1 312)	(1 172)
<i>Cost of services sold</i>		(2 187)	(2 462)
GROSS PROFIT		15 236	11 419
Administrative expenses - property related	19	(9 508)	(9 732)
Administrative expenses - other	21	(11 213)	(10 645)
Selling and marketing expenses		(334)	(561)
Net loss on sale of investment property	28	0	0
Other income	20	5 514	420
Net gain from fair value adjustments on investment property	5	59 382	114 810
Post-tax share of the profit or loss of the joint-venture accounted for using the equity method		(911)	0
Net gain / (loss) on sale of subsidiaries	28	6	(41)
OPERATING PROFIT		58 172	105 670
Finance income	22	8 626	9 734
Finance costs	22	(13 380)	(10 546)
PROFIT BEFORE INCOME TAX		53 418	104 858
Income tax expense	23	(7 070)	(364)
PROFIT FOR THE YEAR		46 348	104 494
OTHER COMPREHENSIVE INCOME			
Currency translation adjustment		(10)	(1 454)
TOTAL COMPREHENSIVE INCOME		46 338	103 040
Profit attributable to:			
Equity holders of the Group		46 348	104 494
Total comprehensive income attributable to:			
Equity holders of the Group		46 338	103 040
Total comprehensive income for the period attributable to owners of the Group arises from:			
Continuing operations		46 338	103 040
Discontinued operations		0	0
BASIC EARNINGS PER SHARE (PLN)	32	1,41	3,04
DILUTED EARNINGS PER SHARE (PLN)	32	0,99	2,66

Elżbieta Donata Wiczowska
Chairman of the Board

John Purcell
Board Member

Colin Kingsnorth
Board Member

Iwona Makarewicz
Board Member

Explanatory notes set out on pages from 11 to 58 comprise the part of these consolidated financial statements

CPD S.A.

Consolidated financial statements for the period from 1 January 2015 to 31 December 2015

(All amounts in PLN thousand unless otherwise stated)

Consolidated statement of financial position

	Note	As at	
		31 December 2015	31 December 2014
ASSETS			
Non-current assets			
Investment properties	5	651 094	581 386
Property, plant and equipment		964	914
Intangible assets, excluding goodwill		60	92
Investments in joint ventures accounted for using the equity method	10	14 512	0
Deferred income tax assets	16	552	85
Bonds		0	3 430
Non-current assets		667 182	585 907
Current assets			
Inventory	8	5 296	6 525
Trade and other receivables, including:	7	9 256	9 854
<i>- receivables and loans</i>		3 988	4 851
<i>- prepayments</i>		5 268	5 003
Bonds		3 670	0
Cash and cash equivalents	9	26 073	18 770
Current assets		44 295	35 149
Total assets		711 477	621 056

Explanatory notes set out on pages from 11 to 58 comprise the part of these consolidated financial statements.

CPD S.A.**Consolidated financial statements for the period from 1 January 2015 to 31 December 2015**

(All amounts in PLN thousand unless otherwise stated)

Consolidated statement of financial position - cont.

		As at	
		31 December 2015	31 December 2014
Note			
EQUITY			
Capital and reserves attributable to the parent Company's equity holders			
Share capital	12	3 286	3 286
Own shares		0	0
Other reserves		987	987
Embedded element at inception date	15	(27 909)	(27 909)
Translation reserve		(5 311)	(5 301)
Retained earnings/(accumulated losses)		479 778	433 430
Total equity		450 831	404 493
LIABILITIES			
Non-current liabilities			
Trade and other payables	13	2 070	1 494
Borrowings, including finance leases	14	144 474	71 484
Bonds issued	15	56 041	24 065
Derevatives	15	11 635	18 815
Deferred income tax liabilities	16	20 906	13 382
Non-current liabilities		235 126	129 240
Current liabilities			
Trade and other payables	13	16 712	15 830
Bonds issued	15	1 279	0
Borrowings, including finance leases	14	7 529	71 493
Current liabilities		25 520	87 323
Total liabilities		260 646	216 563
Total equity and liabilities		711 477	621 056

 Elżbieta Donata Wiczowska
Chairman of the Board

 Colin Kingsnorth
Board Member

 John Purcell
Board Member

 Iwona Makarewicz
Board Member

CPD S.A.

Consolidated financial statements for the period from 1 January 2015 to 31 December 2015

(All amounts in PLN thousand unless otherwise stated)

Consolidated statement of changes in equity

	Note	Accumulated profit (loss)						
		Share capital CPD S.A.	Embedded element at inception date	Own shares	Translation reserve	Supplementary capital	Reserve capital	Retained earnings
Balance at 1 January 2014		3 460	-	(12 300)	(3 847)	-	987	341 062
								Total
Decrease of capital by redemption of shares		(174)	-	12 300	-	-	-	(12 126)
		(174)		12 300	0	0	0	(12 126)
Currency translation differences		-	-	-	(1 454)	-	-	-
Takeover of bonds		-	(27 909)	-	-	-	-	-
Profit for the year		-	-	-	-	-	-	104 494
Total comprehensive income		-	(27 909)	-	(1 454)	-	-	104 494
Balance at 31 December 2014		3 286	(27 909)	-	(5 301)	-	987	433 430
								404 493

Explanatory notes set out on pages from 11 to 58 comprise the part of these consolidated financial statements.

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CPD S.A.

Consolidated financial statements for the period from 1 January 2015 to 31 December 2015

(All amounts in PLN thousand unless otherwise stated)

Consolidated cash flow statement

		12 months ended	12 months ended
	Note	31 December 2015	31 December 2014
Cash flows from operating activities			
Cash generated from operations	24	(2 388)	(10 821)
Interest paid		(4 195)	(1 815)
Income tax paid		0	0
Net cash generated from operating activities		(6 583)	(12 636)
Cash flows from investing activities			
Capital expenditure on investment property		(5 927)	(16 547)
Purchases of property, plant and equipment		(238)	(290)
Purchases of subsidiaries		(23 059)	0
Proceeds from compensation from the transfer of plots of land to the City		6 977	0
Repayment of loans granted		20	0
Interest received		44	49
Cash and cash equivalents received in way of shares acquisition		939	0
Net cash used in investing activities		(21 244)	(16 788)
Cash flows from financing activities			
Proceeds from borrowings		7 745	55 999
Repayments of borrowings		(2 167)	(42 752)
Proceeds from issue of bonds		29 552	22 966
Net cash used in financing activities		35 130	36 213
Net (decrease)/increase in cash and cash equivalents		7 303	6 789
Cash and cash equivalents at beginning of the year		18 770	11 981
Exchange losses on cash and cash equivalents			
Cash and cash equivalents at end of the year		26 073	18 770

 Elżbieta Donata Wiczowska
Chairman of the Board

 Colin Kingsnorth
Board Member

 John Purcell
Członek Zarządu

 Iwona Makarewicz
Board Member

CPD S.A.

Consolidated financial statements for the period from 1 January 2015 to 31 December 2015

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

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

On 23 August 2010, an entry was made in the National Court Register to record a cross-border merger of the previous parent company of the Group, i.e. Celtic Property Developments S.A. (the Acquired Company) and Poen S.A. (the Acquiring Company) through transfer of the assets of the Acquired Company to the Acquiring Company in return for new shares of the Acquiring Company with a value of PLN 3,483,000. The merger process took place under the Merger Plan, whereby Celtic Property Developments Plc was to be acquired by Poen S.A., a full subsidiary of Celtic Property Developments Plc. As a result of the merger: (i) the previous shareholders of Celtic Property Developments Plc became 100% shareholders of Poen S.A., and (ii) Poen S.A. acquired, through general succession, treasury shares of PLN 500,000 from Celtic Property Developments Plc for the purpose of their redemption. The parity for the exchange of shares of Celtic Property Developments Plc for the shares of Poen S.A. was determined at such a level as not to cause changes in the ownership structure of Poen S.A.

On redemption of the treasury shares, the shareholders of Celtic Property Developments Plc became shareholders of Poen S.A. having the same stake in the share capital of Poen S.A. and in the total number of votes at the General Meeting of Poen S.A. as they held in Celtic Property Developments Plc before the merger date.

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 the National Depository of Securities ("KDPW") granted to the Company the status of participant of KDPW, type ISSUER, registered 34,068,252 Company's ordinary bearer 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.

On 29 May 2014 the Extraordinary General Shareholder's Meeting adopted a resolution changing the Company's name from Celtic Property Developments S.A. to CPD S.A. The change was recorded in the National Court Register on 17 September 2014.

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

CPD S.A.**Consolidated financial statements for the period from 1 January 2015 to 31 December 2015**

(All amounts in PLN thousand unless otherwise stated)

Additional notes and explanations to the consolidated financial statement

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

Management Board:

Elżbieta Donata Wiczowska	Chairman of the Board
Colin Kingsnorth	Board Member
John Purcell	Board Member
Iwona Makarewicz	Board Member

Supervisory Board:

Wiesław Oleś	Member of the Supervisory Board
Mirosław Gronicki	Member of the Supervisory Board
Andrew Pegge	Member of the Supervisory Board
Michael Haxby	Member of the Supervisory Board
Gabriela Gryger	Member of the Supervisory Board

As at 31 December 2015 Company's shareholders were*:

Company	Country	No. of shares	% owned capital	% of voting rights
Coopertave Laxey Worldwide W.A.,	Netherlands	10 082 930	30,7%	30,7%
Furseka Trading and Investments Ltd	Cyprus	5 137 222	15,6%	15,6%
The Value Catalyst Fund plc	Cayman Islands	3 975 449	12,1%	12,1%
QVT Fund LP	Cayman Islands, USA	3 701 131	11,3%	11,3%
LP Value Ltd	British Virgin Islands	2 005 763	6,1%	6,1%
LP Alternative Fund LP	USA	2 003 981	6,1%	6,1%
Shareholders with stakes below 5%		5 956 727	18,1%	18,1%
		32 863 203	100%	100%

* The above shareholder's structure is based on own data as at 31 December 2015.

1.2. Information about Capital Group

As at balance sheet date CPD Group comprised CPD S.A. as a parent entity, 36 subsidiaries and 1 under common control.

In 2015 there were the following changes in the Group structure:

- completion of sale of shares in Geatan Investments Sp. z o.o.;
- acquisition of 100% shares in IMES Poland Sp. z o.o.;
- start of the process of the liquidation of two subsidiaries: Mandy Investments and 14/110 Gaston Investments.

Additional information concerning consolidated subsidiaries is 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.

CPD S.A.

Consolidated financial statements for the period from 1 January 2015 to 31 December 2015

(All amounts in PLN thousand unless otherwise stated)

Additional notes and explanations to the consolidated financial statement**2 Summary of significant accounting policies**

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

2.1 Basis of preparation

Consolidated financial statements of CPD S.A. was prepared as at 31 December 2015 and for the period from 1 January 2015 to 31 December 2015, while comparative data is for the period from 1 January 2014 to 31 December 2014.

These consolidated financial statement of CPD 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.

New and amended standards and interpretations which came into force in 2015 and description of the impact of applying the amendments:**IFRIC 21 "Levies"**

IFRIC 21 was issued on 20 May 2013 and is effective for annual periods beginning on or after 17 June 2014.

The interpretation clarifies the accounting for an obligation to pay a levy that is not income tax. The obligating event that gives rise to a liability is the event identified by the legislation that triggers the obligation to pay the levy. The fact that an entity is economically compelled to continue operating in a future period, or prepares its financial statements under the going concern assumption, does not create an obligation. The same recognition principles apply in annual and interim financial statements. The application of the interpretation to liabilities arising from emissions trading schemes is optional.

Amendment of this standard has not affected the financial statements.

Improvements to IFRSs 2011-2013

In December 2013, the International Accounting Standards Board published "Improvements to IFRSs 2011-2013", which amend 4 standards. The improvements include changes to presentation, recognition and measurement, as well as terminology and editorial changes. The changes are effective in the EU for annual periods starting on 1 January 2015.

Amendment of this standard has not affected the financial statements.

Published standards and interpretations of existing standards which are not effective yet and which were not adopted by the Group before

In these consolidated financial statements the Group did not decide on early adoption of the following published standards, interpretations or improvements before their effective date:

CPD S.A.

Consolidated financial statements for the period from 1 January 2015 to 31 December 2015

(All amounts in PLN thousand unless otherwise stated)

Additional notes and explanations to the consolidated financial statement

2.1 Basis of preparation (cont.)

IFRS 9 "Financial Instruments: Classification and Measurement"

It replaces the guidance in IAS 39 that relates to the classification and measurement of financial instruments. The standard is effective for accounting periods beginning on or after 1 January 2018.

IFRS 9, 'Financial instruments', addresses the classification, measurement and recognition of financial assets and financial liabilities. The complete version of IFRS 9 was issued in July 2014. It replaces the guidance in IAS 39 that relates to the classification and measurement of financial instruments. IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortised cost, fair value through OCI and fair value through P&L. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are required to be measured at fair value through profit or loss with the irrevocable option at inception to present changes in fair value in OCI not recycling.

There is now a new expected credit losses model that replaces the incurred loss impairment model used in IAS 39. For financial liabilities there were no changes to classification and measurement except for the recognition of changes in own credit risk in other comprehensive income, for liabilities designated at fair value through profit or loss. IFRS 9 relaxes the requirements for hedge effectiveness by replacing the bright line hedge effectiveness tests. It requires an economic relationship between the hedged item and hedging instrument and for the 'hedged ratio' to be the same as the one management actually use for risk management purposes.

Contemporaneous documentation is still required but is different to that currently prepared under IAS 39.

The group is yet to assess IFRS 9's full impact.

IFRS 15, 'Revenue from contracts with customers'

The standard was published by the International Accounting Standards Board in May 2014 and is effective for annual periods beginning on or after 1 January 2017 and earlier application is permitted, subject to EU adoption.

IFRS 15, 'Revenue from contracts with customers' deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Revenue is recognised when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. The standard replaces IAS 18 'Revenue' and IAS 11 'Construction contracts' and related interpretations. The group is assessing the impact of IFRS 15.

Amendments to IAS 19 - Defined benefit plans: Employee contributions

Amendments to IAS 19 - Defined benefit plans: Employee contributions (issued in November 2013 and effective for annual periods beginning 1 February 2015). The amendment allows entities to recognise employee contributions as a reduction in the service cost in the period in which the related employee service is rendered, instead of attributing the contributions to the periods of service, if the amount of the employee contributions is independent of the number of years of service.

The Group applies the changes to IAS 19 after January 1, 2016.

Annual Improvements to IFRSs 2010-2012

Annual Improvements to IFRSs 2012 (issued in December 2013 and effective for annual periods beginning on or after 1 July 2014, unless otherwise stated below). The improvements consist of changes to seven standards.

The amendments include mainly changes made to presentation, valuation and definitions. The improvements are effective for annual periods beginning on February 1, 2015.

The Company applies the changes after January 1, 2016.

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2.1 Basis of preparation (cont.)

IFRS 15 "Revenue from Contracts with Customers"

IFRS 15 was published by the International Accounting Standards Board on 28 May 2014 and is effective for the annual periods commencing on or after 1 January 2017.

IFRS 15 provides principles to be applied to all contracts resulting in revenues. The fundamental principal of the new standard is to recognise revenues at the time of transfer of goods or services to the customer in the amount of the transaction price. Any good or service sold in a package that is separately identifiable within the package should be recognised separately. Furthermore, any discounts regarding transaction price should as a rule be allocated to specific parts of the package. Where revenue is variable, variable amounts are only included in revenue if, and to the extent that, it is highly probable that a significant revenue reversal will not occur in the future as a result of re-estimation. Moreover, under IFRS 15, the costs incurred to obtain and secure a contract with a customer should be capitalised and accounted for over the period of consumption of benefits from the contract.

The Group is going to adopt IFRS 15 on 1 January 2017.

At the date of preparation of these financial statements, IFRS 15 was not yet approved by the European Union.

Amendments to IFRS 11 – Accounting for Acquisitions of Interests in Joint Operations

The amendment requires that the acquirer of an interest in a joint operation in which the activity constitutes a business, as defined in IFRS 3, is required to apply all of the principles on business combinations accounting in IFRS 3 and other IFRSs with the exception of those principles that conflict with the guidance in IFRS 11.

The amendment is effective for annual periods beginning on or after 1 January 2016.

Amendments to IAS 16 and IAS 38 – Depreciation and Amortisation

The amendment clarifies that the revenue-based method should not be used to calculate charges for the depreciation or amortisation of items of property, plant and equipment or intangible assets. This is because a revenue-based method reflects a pattern of economic benefits being generated from the asset, rather than the expected pattern of consumption of the future economic benefits embodied in the asset.

The amendment is effective for annual periods beginning on or after 1 January 2016.

The Group is going to adopt the amendments on 1 January 2016.

Amendments to IAS 16 and IAS 41 for bearer plants

The amendments require that bearer plants, such as grape vines, rubber trees and oil palms (i.e. which yield crops over many years and are not intended for sale as seedlings or for harvest) should be accounted for in accordance with the requirements of IAS 16 "Property, Plant and Equipment" because their cultivation is similar to manufacturing. Consequently, the amendments include such plants within the scope of IAS 16, instead of IAS 41. The produce growing on bearer plants will remain within the scope of IAS 41.

The amendments were published on June 30, 2014 and are effective for the annual periods commencing on or after 1 January 2016.

The Group is going to adopt the amendment on 1 January 2016.

Amendments to IAS 27 – Equity Method in Separate Financial Statements

The amendments to IAS 27 allow an entity to account for investments in subsidiaries, joint ventures and associates in its separate financial statements using the equity method as one of alternative methods.

The amendments were published on 12 August 2014 and are effective for the annual periods commencing on or after 1 January 2016.

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Additional notes and explanations to the consolidated financial statement

2.1 Basis of preparation (cont.)

Amendments to IFRS 10 and IAS 28 — Sales or contributions of assets between an investor and its associates/joint ventures

The amendments address the conflict between the requirements of IFRS 10 and IAS 28. Accounting treatment depends on whether the non-assets sold or contributed to an associate or a joint venture constitute a business.

The gain or loss resulting from the sale or contribution to an associate or a joint venture of assets that constitute a business is recognised in full. The gain or loss resulting from the sale or contribution of a subsidiary that does not constitute a business to an associate or joint venture is recognised only to the extent of unrelated investors' interests in the associate or joint venture.

The amendments were published on 11 September 2014 and are effective for the annual periods commencing on or after 1 January 2016.

The Group is going to adopt the amendment on 1 January 2016.

At the date of preparation of these consolidated financial statements, the amendment was not yet approved by the European Union.

Improvements to IFRSs 2012-2014

In September 2014, the International Accounting Standards Board published "Improvements to IFRSs 2012-2014", which amend 4 standards: IFRS 5, IFRS 7, IAS 19 and IAS 34. The amendments are effective for annual periods beginning on or after 1 January 2016.

The Group is going to adopt the improvements to IFRSs on 1 January 2016.

Amendments to IAS 1

On 18 December 2014, as part of Disclosure Initiative, the International Accounting Standards Board published amendments to IAS 1. The amendment is designed to clarify the concept of materiality and explain that if an entity decides that certain information is immaterial, it should not include it in the financial statements, even if its inclusion is as a rule required by another IFRS. The amended IAS 1 clarifies that items presented in the statement of financial position and statement of profit or loss and other comprehensive income can be disaggregated and aggregated depending on their materiality. Also, additional guidance is introduced on presentation of subtotals in these statements. The amendments are effective for annual periods beginning on or after 1 January 2016.

The Group is going to adopt the amendment on 1 January 2016.

Amendments to IFRS 10, IFRS 12 and IAS 28 – Investment Entities: Applying the Consolidation Exception

On 18 December 2014, the International Accounting Standards Board issued narrow-scope amendments. The amendments to IFRS 10, IFRS 12 and IAS 28 clarify the requirements for investment entities and introduces certain facilitations.

The standard clarifies that an entity should measure at fair value through profit and loss all its subsidiaries that are investment entities. Further, a clarification was introduced that exemption from the obligation to prepare consolidated financial statements applies if the ultimate parent company prepares public accounts, regardless of whether or its subsidiaries are consolidated or measured at fair value through profit and loss in accordance with IFRS 10 in the financial statements of the ultimate or intermediate parent. The amendments are effective for annual periods beginning on or after 1 January 2016.

The Group is going to adopt the amendments on 1 January 2016.

At the date of preparation of these consolidated financial statements, the amendments to IFRS were not yet approved by the European Union.

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Additional notes and explanations to the consolidated financial statement

2.1 Basis of preparation (cont.)

Amendments to IFRS 16 Leases

The new standard sets out the principles for the recognition, measurement, presentation and disclosure of leases. All leases result in the lessee obtaining the right to use an asset at the start of the lease and, if lease payments are made over time, also obtaining financing. Accordingly, IFRS 16 eliminates the classification of leases as either operating leases or finance leases as is required by IAS 17 and, instead, introduces a single lessee accounting model. Lessees will be required to recognise: (a) assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value; and (b) depreciation of lease assets separately from interest on lease liabilities in the income statement. IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.

The amendments are effective for annual periods beginning on or after 1 January 2019.

The Group is going to adopt the amendments on 1 January 2019.

At the date of preparation of these consolidated financial statements, the amendments to IFRS were not yet approved by the European Union.

Amendments to IAS 12 Recognition of Deferred Tax Assets for Unrealised Losses

The amendment has clarified the requirements on recognition of deferred tax assets for unrealised losses on debt instruments. The entity will have to recognise deferred tax asset for unrealised losses that arise as a result of discounting cash flows of debt instruments at market interest rates, even if it expects to hold the instrument to maturity and no tax will be payable upon collecting the principal amount. The economic benefit embodied in the deferred tax asset arises from the ability of the holder of the debt instrument to achieve future gains (unwinding of the effects of discounting) without paying taxes on those gains.

The amendments are effective for annual periods beginning on or after 1 January 2017.

The Group is going to adopt the amendments on 1 January 2017.

At the date of preparation of these consolidated financial statements, the amendments to IFRS were not yet approved by the European Union.

Amendments to IAS 7 Disclosure Initiative

The amended IAS 7 will require disclosure of a reconciliation of movements in liabilities arising from financing activities.

The Group is going to adopt the amendments on 1 January 2017.

At the date of preparation of these consolidated financial statements, the amendments to IFRS were not yet approved by the European Union.

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Additional notes and explanations to the consolidated financial statement**2.2 Consolidation****(a) Subsidiaries**

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

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

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.

The surplus of the amount transferred for the acquisition, 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, over the fair value of acquired identifiable net assets is recognised as goodwill. If the acquisition cost is lower than the fair value of the net assets of the acquired entity, the different is reflected directly in the consolidated profit and loss account.

Goodwill represents the surplus of the amount transferred for the acquisition, 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.

(b) Joint-ventures

Jointly controlled entities are consolidated using the equity method.

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

	Name	Country	Shareholder	31 December 2015	31 December 2014
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	Gaetan Investments Sp. z o.o.	Poland	Lakia Enterprises Limited	100%	100%
5	Celtic Asset Management Sp. z o.o. w likwidacji	Poland	Lakia Enterprises Limited	100%	100%
6	Blaise Investments Sp. z o.o.	Poland	Lakia Enterprises Limited	100%	100%
7	Robin Investments Sp. z o.o.	Poland	Lakia Enterprises Limited	100%	100%
8	IMES Poland Sp. z o.o.	Poland	Buffy Holdings No 1 Ltd	100%	0%
9	Hub Developments Ltd Sp. z o.o.	Poland	Lakia Enterprises Limited	100%	100%
10	Elara Investments Sp. z o.o.	Poland	Lakia Enterprises Limited	100%	100%
11	Celtic Investments Limited	Cyprus	CPD S.A.	100%	100%
12	Gaston Investments Sp. z o.o.	Poland	Lakia Enterprises Limited	100%	100%

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

				31 December 2015	31 December 2014
	Name	Country	Shareholder		
13	Buffy Holdings No 1 Ltd	Cyprus	CPD S.A.	100%	100%
14	Challange Eighteen Sp. z o.o.	Poland	Buffy Holdings No 1 Ltd	100%	100%
15	Celtic Trade Park Kft	Hungary	Lakia Enterprises Limited	100%	100%
16	Blaise Gaston Investments Spółka z ograniczoną odpowiedzialnością Sp.k.	Poland	Blaise Investments Sp. z o.o. Gaston Investments Sp. z o.o.	99% 1%	99% 1%
17	Smart City Spółka z ograniczoną odpowiedzialnością Sp.k. (*)	Poland	Challange Eighteen Sp. z o.o. Gaston Investments Sp. z o.o.	99% 1%	99% 1%
18	2/124 Gaston Investments Spółka z ograniczoną odpowiedzialnością Sp.k.	Poland	Challange Eighteen Sp. z o.o. Gaston Investments Sp. z o.o.	99% 1%	99% 1%
19	3/93 Gaston Investments Spółka z ograniczoną odpowiedzialnością Sp.k.	Poland	Challange Eighteen Sp. z o.o. Gaston Investments Sp. z o.o.	99% 1%	99% 1%
20	4/113 Gaston Investments Spółka z ograniczoną odpowiedzialnością Sp.k.	Poland	Challange Eighteen Sp. z o.o. Gaston Investments Sp. z o.o.	99% 1%	99% 1%
21	5/92 Gaston Investments Spółka z ograniczoną odpowiedzialnością Sp.k.	Poland	Challange Eighteen Sp. z o.o. Gaston Investments Sp. z o.o.	99% 1%	99% 1%
22	6/150 Gaston Investments Spółka z ograniczoną odpowiedzialnością Sp.k.	Poland	Challange Eighteen Sp. z o.o. Gaston Investments Sp. z o.o.	99% 1%	99% 1%
23	7/120 Gaston Investments Spółka z ograniczoną odpowiedzialnością Sp.k.	Poland	Challange Eighteen Sp. z o.o. Gaston Investments Sp. z o.o.	99% 1%	99% 1%
24	8/126 Gaston Investments Spółka z ograniczoną odpowiedzialnością Sp.k.	Poland	Challange Eighteen Sp. z o.o. Gaston Investments Sp. z o.o.	99% 1%	99% 1%
25	9/151 Gaston Investments Spółka z ograniczoną odpowiedzialnością Sp.k.	Poland	Challange Eighteen Sp. z o.o. Gaston Investments Sp. z o.o.	99% 1%	99% 1%
26	10/165 Gaston Investments Spółka z ograniczoną odpowiedzialnością Sp.k.	Poland	Challange Eighteen Sp. z o.o. Gaston Investments Sp. z o.o.	99% 1%	99% 1%
27	11/162 Gaston Investments Spółka z ograniczoną odpowiedzialnością Sp.k.	Poland	Challange Eighteen Sp. z o.o. Gaston Investments Sp. z o.o.	99% 1%	99% 1%
28	12/132 Gaston Investments Spółka z ograniczoną odpowiedzialnością Sp.k.	Poland	Challange Eighteen Sp. z o.o. Gaston Investments Sp. z o.o.	99% 1%	99% 1%
29	13/155 Gaston Investments Spółka z ograniczoną odpowiedzialnością Sp.k.	Poland	Challange Eighteen Sp. z o.o. Gaston Investments Sp. z o.o.	99% 1%	99% 1%
30	14/119 Gaston Investments Spółka z ograniczoną odpowiedzialnością Sp.k.	Poland	Challange Eighteen Sp. z o.o. Gaston Investments Sp. z o.o.	99% 1%	99% 1%
31	16/88 Gaston Investments Spółka z ograniczoną odpowiedzialnością Sp.k.	Poland	Challange Eighteen Sp. z o.o. Gaston Investments Sp. z o.o.	99% 1%	99% 1%

(*) joint-venture

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

	Name	Country	Shareholder	31 December 2015	31 December 2014
32	15/167 Gaston Investments Spółka z ograniczoną odpowiedzialnością Sp.k.	Poland	Challange Eighteen Sp. z o.o. Gaston Investments Sp. z o.o.	99% 1%	99% 1%
33	18 Gaston Investments Spółka z ograniczoną odpowiedzialnością Sp.k.	Poland	Challange Eighteen Sp. z o.o. Gaston Investments Sp. z o.o.	99% 1%	99% 1%
34	19/97 Gaston Investments Spółka z ograniczoną odpowiedzialnością Sp.k.	Poland	Challange Eighteen Sp. z o.o. Gaston Investments Sp. z o.o.	99% 1%	99% 1%
35	20/140 Gaston Investments Spółka z ograniczoną odpowiedzialnością Sp.k.	Poland	Challange Eighteen Sp. z o.o. Gaston Investments Sp. z o.o.	99% 1%	99% 1%
36	Belise Investments Sp. z o.o.	Poland	Lakia Enterprises Limited	100%	100%
37	Antigo Investments Sp. z o.o.	Poland	Lakia Enterprises Limited	100%	100%
38	Smart City Sp. z o.o.	Poland	Lakia Enterprises Limited	100%	100%

2.3 Change in Group structure

In the financial year ended 31 December 2015, the following changes took place in the structure of CPD Group:

- on January 30, 2015 100 % of shares in IMES Poland Sp. z o.o. has been acquired by Buffy Holdings No 1 Ltd,
- remaining 220 shares in Gaetan Investments Sp. z o.o. has been sold (as at December 31, 2014 the Group held 69% share in this company),
- on March 9, 2015 Unidevelopment S.A joined the limited partnership Smart City Lspółka z ograniczoną odpowiedzialnością Sp.k. as a limited partner, thus implementing the provisions of the investment agreement of September 10, 2014 concerning the implementation of the joint venture.

The investment agreement was concluded on 10 September 2014 between Unidevelopment SA, Unibep SA, CPD SA, subsidiaries, ie., Smart City Spółka z ograniczoną odpowiedzialnością Sp.k. , Lakia Enterprises Ltd and relates to the implementation of the joint project, involving the construction of complex buildings with services together with associated infrastructure on the property belonging to the Smart City Spółka z ograniczoną odpowiedzialnością Sp.k., being part of the plot will be separated and transferred or sold to Capital City Warsaw or another entity, the public road and educational purposes.

All Group companies are fully consolidated, except for the company Smart City Spółka z ograniczoną odpowiedzialnością Sp.k.

Due to the fact that the investment agreement concerns a part real estate property held by Smart City Sp. o.o. Sp.k., and the remaining part of the plot to remain under the complete control of the Group - until the disposal of the Group's management decided to extract all assets, liabilities and equity of the entity which is a joint venture and recognition as a separate entity, in accordance with IFRS 10.

Description of the conditions to apply the above approach is presented in Note 3.

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Additional notes and explanations to the consolidated financial statement**2.4 Foreign currency translation***(a) Functional and presentation currency*

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

(b) CPD Group Companies

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

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

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

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

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

2.5 Investment property

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

Land, 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 confirmed change in its purpose. For a transfer from inventories to investment property that will be carried at fair value, any difference between the fair value of the property at that date and its previous carrying amount shall be recognised in profit or loss. For a transfer from investment property carried at fair value to inventories, the property's deemed cost for subsequent accounting in accordance with IAS 2 shall be its fair value at the date of change in use.

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

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

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Additional notes and explanations to the consolidated financial statement

2.5 Investment property (cont.)

After initial recognition, investment property is carried at fair value. Fair value is calculated using cash flow projections based on active market prices, adjusted, if necessary, for any difference in the nature, location or condition of the specific asset. These valuations are prepared annually by independent professional appraisers Savills Sp. z o.o. The investment property portfolio is appraised in accordance with 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

Property, plant and equipment are carried at historical cost less depreciation. The historical cost includes the expenditure directly associated with acquisition of the assets.

Any subsequent expenditure is reflected in the carrying amount of the asset or is recognised as a separate asset (where applicable) only when it is likely that the asset will generate economic benefits for the Group, and the cost of such an asset can be reliably estimated. Any other expenditure on improvement and maintenance is carried in profit or loss in the accounting period in which it was incurred.

Depreciation of tangible assets (or components thereof, if any) is calculated using the straight-line method to allocate their initial value, less residual value, over the asset's estimated useful lives. The residual value and the useful life of the tangible assets is reviewed (and changed if necessary) at each balance sheet date. Tangible assets are depreciated over their estimated useful lives (three to five years).

Where the carrying amount of the tangible asset is greater than its estimated recoverable amount, the asset's carrying amount is immediately written down to the recoverable amount.

The gains or losses on disposal of tangible assets are determined by comparing the inflow from their sale with their carrying amount, and are reflected in the profit or loss of the period when the disposal took place.

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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 recognized 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 CPD 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 CPD Group uses the fair value model set out in IAS 40 for the asset recognized.

In this case finance leases are capitalised at the time of commencement of the lease 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 other long-term liabilities.

2.8 Intangible assets, excluding goodwill

Intangible assets consist of computer software licences. The expenditure on acquired licences is capitalised with regard to the cost of acquisition of the software and the cost of ensuring operability of the software. Software licences are amortised over their estimated useful life from 3 to 5 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.

For the sake of impairment test, goodwill is allocated to the cash-generating units. The allocation relates to the cash-generating units (or group of such units) which are expected to derive benefits from the merger that gave rise to the goodwill.

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 other comprehensive income.

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Additional notes and explanations to the consolidated financial statement

2.10 Impairment of non-financial assets

Assets with undefined useful life, such as goodwill, are not amortised, but are each year tested for impairment. The amortised assets are tested for impairment each time any indications of impairment emerge. The impairment is recognised in the amount by which the carrying amount of the asset exceeds its recoverable amount. The recoverable amount is the higher of: fair value of assets decreased by their cost of sale or value-in-use. For the purpose of impairment test, assets are grouped at the lowest level at which separate identifiable cash flows occur (cash generating units). Non-financial assets other than goodwill, for which impairment was identified, are at each balance sheet date tested for indications that would permit reversal of the impairment charge.

2.11 Financial assets

The CPD Group classifies its financial assets in the category of loans and receivables. The classification is based on the purpose of acquisition of financial assets. Management determines the classification of its financial assets at initial recognition and re-evaluates this designation at every balance sheet date.

Financial assets are removed from the books when the rights to the related cash flows have expired or have been transferred, and CPD Group has transferred essentially the whole risks and benefits from their ownership.

Loans and receivables are financial assets other than derivatives, with determined or determinable payments, not quoted on active market and with no intention of trading. They are included in current assets unless their maturity date is longer than 12 months from the balance sheet date. Assets with maturity date longer than 12 months are classified as non-current assets. Loans and receivables are included in "Trade and other receivables" in the consolidated statement of financial position.

At the end of each reporting period, CPD Group tests its financial assets or groups of financial assets for objective indications of impairment.

Loans and receivables are initially measured at fair value and subsequently are carried at amortised cost using the effective interest method, less impairment. Impairment of trade receivables and loans is established when there is an objective evidence that CPD 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 or loan is impaired. The impairment amount is determined as a difference between the book value of the asset and the present value of estimated future cash flows discounted using the original effective interest rate for the particular financial asset.

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

The category comprises also cash and cash equivalents. Cash and cash equivalents include cash on hand, demand deposits, other highly liquid short-term investments with original maturity up to three months.

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.

Inventory items are stated at the lower of cost or net realisable value on a first-in, first-out basis (FIFO) or market. The net realisable value is the estimated sales 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),

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Additional notes and explanations to the consolidated financial statement**2.12 Inventories (cont.)**

- costs incurred relating to units unsold associated with a project or a phase of a project that is available for sale (finished goods).

Project construction costs include:

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

2.13 Assets held for sale

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

The sale is determined to be highly probable if:

- the 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.

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2.18 Complex financial instruments

Complex financial instruments issued by the Group include convertible bonds that can be converted into equity, at the election of their holder, provided that the number of shares to be issued is not conditional on changes in their fair value.

With regard to financial instruments, in the fair value of an instrument is different than the transaction price, and the fair value is based on market data, then the entity recognizes "day-one-loss" and accounts for it depending on the nature of the transaction. In the case of bonds that are convertible into equity, where the issue is fully placed with the Company's shareholders, the day-one-loss is reflected in equity.

The liability component of the complex financial instrument is initially carried at fair value of a similar liability, to which no conversion option relates. The equity component is initially carried at the difference between fair value of the complex financial instruments as a whole and the fair value of the liability component. Any directly attributable transaction costs are included in the measurement of the liability and equity component pro-rata to their initial carrying amounts.

On initial recognition, the liability component of the complex financial instrument is carried at amortised cost using the effective interest rate. The equity component of the complex financial instruments is not measured on first recognition until conversion or expiry. The equity component is at the same as an embedded derivative that at the balance sheet date is measured at fair value through profit or loss.

2.19 Embedded derivatives

Where a financial instrument is acquired, which contains an embedded derivative, with the effect that all or some of the cash flows of the such instrument vary in a way similar to a stand-alone derivative, the embedded derivative is recognised separately from the underlying contract. This takes place when the following conditions are met jointly:

- the financial instrument is not classified as assets held for trading or available for sale, whose revaluation effects are recognised in financial revenues or costs of the reporting period,
- the nature of the embedded instrument and related risks do not directly relate to the nature of the underlying contract and related risks,
- a separate instrument, whose nature corresponds to the characteristics of the embedded derivative would meet the definition of a derivative,
- the fair value of the embedded derivative can be reliably estimated.

Embedded derivatives are recognised similarly as stand-alone derivatives that are not deemed as hedging instruments.

An embedded derivative is classified into assets or liabilities measured at fair value through profit or loss.

2.20 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 financial year.

The tax is recognised in the profit and loss account excluding the period in which it relates directly to the items recognised in other comprehensive income or in equity. In this case the tax is also recognised in other comprehensive income or in equity, as appropriate.

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2.21 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.

2.22 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 CPD 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 or loss in the same period as the related salary expense.

According to the adopted principle, no provisions for retirement benefits are created that would correspond to a monthly salary in accordance with the Labour Code. Potential provisions would not have any material impact on the financial statements. If they do occur, they will be recognised on a cash basis.

(b) Share-based payments

The Group operates a remuneration programme in the form of subscription warrants entitling their holders to purchase shares at a preferential price. The qualified programme is settled in equity instruments. The fair value of the employee services received in exchange for the grant of the warrants is recognised as an expense and amortised over the vesting period. At the same time, the Group records an increase in reserves.

At each balance sheet date, the entity adjusts its estimates about the number of warrants expected to be exercised. The effects of adjustments to the original estimates, if any, are recognised in profit or loss, with a corresponding adjustment to owner's equity.

2.23 Provisions

Provisions are recognised only where CPD has a legal or customary obligation arising from past events, and it is likely that an outflow of resources will be required to meet such obligation, and its value can be reliably estimated.

If there is a number of similar obligations, the likelihood of outflow of resources to meet such obligations shall be determined in relation to the particular category of obligations as a whole. A provision is recognised even if there is low likelihood of outflow of resources in relation to a single item of a particular category of obligations. Provisions are recognised at the current value of the expenditure which is expected to be incurred to meet the obligation.

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2.24 Revenue recognition

Revenue includes proceeds from the sale of inventories, rental income, service charges, property management charges and income from real estate advisory services.

The CPD 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 CPD 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 profit or loss over the lease term on a straight line basis as a reduction in rental income.

(b) Service and management charges

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

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

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

Interest income is recognised using the effective interest rate method.

2.25 Expenses

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

Construction costs connected with products that have not been sold are capitalised in inventory as work in progress or finished goods, depending on how advanced their construction is. If it is expected that CPD Group may incur a loss on the inventories, the related impairment is immediately recognised as an expense. Inventory relating to units sold is expensed as cost of sales in the same period as the related sale.

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

Property-related administrative costs include day-to-day property administration, utilities, property taxes, maintenance costs, insurance premiums, valuation fees, etc. They are expensed as incurred.

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

Income from services recharged to tenants and relating to the cost of provision of such services are shown separately as CPD Group does not act as an agent.

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Additional notes and explanations to the consolidated financial statement

2.26 Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the financial statements of CPD Group at the end of the period in which the dividends are approved by the General Meeting.

2.27 Interest expense

Interest expense for borrowings are recognised within "Finance costs" in the consolidated profit or 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 amortised 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 determinesthe present value of the discounted estimated future cash flows through the expected life of the financial instrument or a shorterperiod, 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.

2.28 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 measures the services received or acquired in a share-based payment transaction at fair value and amortises the over the vesting period.

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 above financial instruments are described in Note 2. CPD Group's overall programme of risk management focuses on unpredictability of financial markets and seeks to minimize the potential adverse impact of unforeseen events on the Group's performance.

(a) Market risk

(i) Currency risk

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

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

	Year ended at 31 December 2015	Year ended at 31 December 2014
Debt in foreign currencies - EUR	157 933	156 594
Assumed change in PLN/EUR exchange rate	+/-1%	+/-1%
Tax shield	300	298
Effect on net profit/(loss)	1 279	1 268

(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, which 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 CPD Group, the risk of changes in interest rates is related to long-term bank loans (Note 14). Variable interest rate loans expose CPD Group to the risk of fluctuations in future cash flows. CPD Group does not use interest rate hedges. The Management Board keeps track of fluctuations in interest rates and responds adequately.

	Year ended at 31 December 2015	Year ended at 31 December 2014
Variable interest rate loans	119 893	113 714
Cost of interest in the period	8 973	5 382
Assumed change in interest rates	+/-1pp	+/-1pp
Effect of the change on the cost of interest	1 199	1 137
Tax shield	228	216
Effect on net profit/(loss)	971	921

Trade receivables and other receivables and liabilities as at 31.12.2015 are interest-free and due within 1 year.

(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, m-Bank, BZ WBK, PKO SA). The Company uses banks and other financial institutions with the following IDR ratings from an independent rating agency (Fitch):

- HSBC - AA-
- BZ WBK - BBB+
- mBank - BBB-

With respect to rental receivables, the Group has collateral in place in the form of cash deposits or bank guarantees and, in the case of receivables in respect of the sale of buildings, in the form of a deposit with an independent agent. The Group is also exposed to credit risk due to the purchase of unsecured bonds. Credit risk relating to unsecured receivables is assessed based on: evaluation of the creditor's financial proposals, past cooperation experience and other factors.

No all receivables of the Group are secured with deposits or guarantees. The Group revises the value of receivables taking into account the likelihood of their payment and recognises adequate impairment charges.

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

Impairment charges are recognised as follows:

- for amounts overdue from 91 to 180 days, 50% of the value of the overdue receivables,
- for amounts overdue above 180 days, 100% of the value of the overdue receivables.

(c) Liquidity risk

Liquidity risk arises when the due dates of assets and liabilities do not match. This can raise profitability, but also increases the risk of loss. CPD Group applies procedures designed to reduce such losses by maintaining the proper level of cash and other liquid assets and the proper access to credit facilities. The level of liquidity of the CPD Group is monitored by the Management Board on the day-to-day basis.

As at 31 December 2015 short-term liabilities amounted to PLN 25 520 thousand (including borrowings amounting to PLN 7 529 thousand) and are lower than current assets by PLN 18 775 thousand. A detailed description of the situation regarding borrowings presented in the financial statements at 31 December 2015 as borrowings, including finance lease, and the evaluation of risks by the Board are presented in note 14 "Borrowings, including finance leases".

In the table below are included analysis of the Group's financial liabilities by maturities corresponding to the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the table consists of the contractual undiscounted cash flows:

Undiscounted contractual cash flows:

As at 31.12.2015

	Within 1 year	1 – 5 years	More than 5 years
Loans and leases	10 099	27 305	271 495
Trade payables and other payables	16 340	2 070	0
	26 439	29 375	271 495

As at 31.12.2014

	Within 1 year	1 – 5 years	More than 5 years
Loans and leases	73 963	19 125	208 346
Trade payables and other payables	15 546	1 494	0
	89 509	20 619	208 346

3.2 Capital risk management

The purpose of the CPD Group capital management is to preserve CPD Group's ability to continue business so as to be able to generate return for the shareholders and other stakeholders, the cost of the capital being optimized at the same time.

CPD Group may change the amount of declared dividends payable to shareholders, repay the equity to shareholders, issue new shares or sell assets in order to reduce debt in order to maintain or modify the structure of the capital.

The financing structure ratio reflecting the structure of the capital is calculated as net debt divided by total capital. Net debt is calculated as the total of credits and loans including current and non-current credits and loans disclosed in the consolidated balance sheet, trade payables and other payables divided by cash and cash equivalents. Total capital is calculated as equity disclosed in the consolidated balance sheet along with net debt.

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

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Additional notes and explanations to the consolidated financial statement**3 Financial risk management - cont.****3.2 Capital risk management - cont.**

	31 December 2015	31 December 2014
Total loans (Note 14)	152 003	142 977
Liability under bonds issued (note 15).	38 040	42 880
Trade payables and other payables (Note 13)	18 782	17 324
Less: cash and cash equivalents (Note 9)	-26 073	-18 770
Net debt	182 752	184 411
Equity	450 831	404 493
Total capital	633 583	588 904
Financing structure ratio	28,8%	31,3%

4 Major Accounting Estimates and Judgments

Major estimates and judgments are based on past experience and other factors including anticipation of future events that seem reasonable in a given case. Accounting estimates and judgments are assessed on a regular basis.

The Management Board makes estimates and adopts assumptions concerning the future. Accounting estimates so obtained will seldom match actual results by their very nature. Estimates and assumptions involving significant risk of a major adjustment of the carrying value of assets and liabilities during the following financial year being required are discussed below.

Calculation of Fair Value of Embedded Derivatives

The company issued bonds designed for the existing shareholders on 26 September 2014. Financial details of the bonds issued are provided in note 14 (and in the stand-alone FS) to these financial statements. The bonds issued involved an embedded derivative instrument, namely, the option of conversion of the bonds into shares at a fixed rate of PLN 4.38 per share. As the bonds were issued in a currency (EUR) different than the functional currency of the company (PLN), the embedded derivative involved a currency cap, namely, conversion of value of shares received at the conversion date rate not exceeding, however, EUR 1 = PLN 4.1272.

The fair value of the embedded derivative was estimated at level 1 using a combination of two approaches: binomial trees in the share price variation part and the Monte Carlo approach adopted for the purposes of analysis of volatility of exchange rates.

Assumptions underlying the pricing model include:

- adjustment of the issuer credit risk discount curve: 8%;
- volatility of issuer share price: 58,9% based on historic quotations of shares of CPD S.A.;
- fixed bond-to-share conversion rate: PLN 4.38;
- exchange rate cap: EUR 1 = PLN 4.1272;
- opportunity to convert bonds to shares from 26 September 2015 to the day falling 5 days before the maturity date, i.e. 22 September 2017.

The liability under the embedded derivative amounted to PLN 11.6 million as at 31 December 2015 and was the difference between the price of bonds based on the fair value approach presented above and the value of bonds exclusive of the derivative established based on the depreciated cost using the effective interest rate approach.

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Additional notes and explanations to the consolidated financial statement

4 Major Accounting Estimates and Judgments (cont.)

Accounting recognition of Smart City Sp. z o. o. Sp. k.

According to the information included in note 2.2 "Changes in the structure of the Group", on 10 September 2014, an investment agreement was signed by CPD S.A. and its subsidiaries (Smart City Spółka z ograniczoną odpowiedzialnością Sp.k., Lakia Enterprises Ltd), of the one part, and entities not associated with the Group, i.e. Unidevelopment S.A. and Unibep S.A., of the other part. The agreement stipulates a joint venture consisting in the construction of a complex of multiple dwelling units with services and related infrastructure at a property belonging to Smart City Spółka z ograniczoną odpowiedzialnością Sp.k.

At the same time, the parties stipulated in the investment agreement that a part of lands (and all related costs and income) belonging to Smart City would be excluded from this joint venture and would remain under the exclusive control of CPD Group. The lands not included in the joint venture include areas which according to the local spatial development plan are destined for the construction of public roads and for educational purposes.

Joint control over Smart City was established on 9 March 2015, when Unidevelopment S.A. – in compliance with the provisions of the investment agreement – entered the limited partnership Smart City Spółka z ograniczoną odpowiedzialnością sp.k. as the limited partner.

In order to settle the above-mentioned transaction in these financial statements, the Management Board of the Company – in conformity with the provisions of IFRS 10 – decided to adopt the following approach regarding the investment in Smart City:

- assets and liabilities under the investment agreement were recognized as the joint venture and were settled in the consolidated financial statements in accordance with the equity method.
- land destined for roads and educational purposes as well as related liabilities (excluded from the investment agreement) were treated as a separate investment controlled in full by CPD Group and were recognized in accordance with the full method in the consolidated financial statements.

The Group decided to adopt this approach due to the fact that, pursuant to the provisions of the investment agreement, it maintained the control over this separated part of the land, which means that all decisions regarding this part of the land will be made by CPD Group, and all future income and costs connected with it will also be attributable to the Group.

However, as at the date of the preparation of these financial statements, these two separate elements of the investment, i.e. lands for the joint venture and lands for roads and educational purposes, did not constitute separate investments from the legal point of view. Any future liabilities related to these two separate investments will not be allocated to the investment in connection with which they arose – in the light of legal regulations, liabilities incurred in connection with one investment can be satisfied from the other investment. However, according to plans, the Management Board of the Group will strive to separate lands destined for roads and educational purposes so that the obligation of legal separation is met in the foreseeable future, before important liabilities connected with the planned development investment on the jointly controlled land arise.

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Additional notes and explanations to the consolidated financial statement**4 Major Accounting Estimates and Judgments (cont.)*****Calculation of Fair Value of Investment Properties***

The fair value of investment class real properties recognized in the balance sheet is calculated based on pricing established annually by Savills Sp. z o.o. - third party experts - as per Practice Statements of the Royal Institution of Chartered Surveyors' (RICS) Appraisal and Valuation Standards (the 'Red Book') published in February 2003 and valid as of 1 May 2003. Pricing fees are not related to the value of the real properties or the outcome of pricing. Bearing in mind the market environment as at the balance sheet date, the Management Board reviewed and approved experts' assumptions underlying the pricing approaches applied.

CPD Group distinguishes the following classes of assets included in its real property portfolio:

(i) non-developed land or land developed with tenement houses disclosed as inventory in the consolidated financial statements and priced at acquisition price or at cost not exceeding their net sale price; these mainly include land in Jaktorów, Czosnów, Lesznów and Nowa Piasecznica as well as tenement houses in Warsaw and Łódź;

the Group has those real properties valued annually at fair value as at the balance sheet date and decides to make impairment write-offs; details of changes in inventory made during the year are provided in note 8;

(ii) investment class real properties featuring significant rent income (3 office buildings in Warsaw);

(iii) investment class land in the district of Ursus in Warsaw designed for development with houses and shops as per the local zoning plan in force;

(iv) investment class land in the district of Ursus in Warsaw designed for development with houses and shops as per the local zoning plan in force and investment class land in Wolbórz.

The real property classes listed in paragraphs (ii)-(iv) are shown in the financial statement under the 'Investment Class Real Properties' header and priced at fair value. Fair value changes are recognized in the result under the 'Investment Class Real Property Valuation Result' header.

The Group valued individual real property classes using the following approaches:

Non-developed land and land developed with tenement houses were valued using the comparative method (comparison in pairs). The comparative method consists in finding out the value of a real property assuming that such value is equal to prices obtained for similar properties traded in the market. The value of real properties is adjusted according to their differentiating features and stated taking into account volatility of prices in time. The comparative method is used, if prices of real properties similar to the property valued are known.

The land to be developed with houses and shops was valued based on the following assumptions:

- the useful area of apartments to be built amounts to 605,787 sq.m.;
- the useful area of shops to be built on ground floors of the houses amounts to 58,475 sq.m.;
- the useful area of offices to be built amounts to 10,907 sq.m.; the assumed rent for the office space to amount to EUR 10.5 per sq.m. and the capitalization rate to be 8.25%.

The land to be developed with houses and shops was valued using the comparative method (comparison in pairs). The income approach (investment method) was applied to properties generating income. The income approach consists in defining the value of a real property based on the assumption that the buyer will pay the price depending on the anticipated income to be earned on the same real property provided that such price will not exceed that of another property featuring the same profitability and risk that it could buy.

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Additional notes and explanations to the consolidated financial statement**4 Major Accounting Estimates and Judgments (cont.)**

The value of the real properties was calculated based on the average transaction prices of real properties similar to the property valued adjusted by transaction features considered by potential market actors including without limitation situation as well as size and legal status of the land. The valuation reflects diversity of properties and their anticipated use as per provisions of the zoning plan. The price per square meter is the variable affecting the valuation result the most.

The investment method was applied to the real property generating rent income that can be defined based on the analysis of rental or lease market rates in order to determine its market value. When direct capitalization is used, the value of a real property is the quotient of a stable yearly income flow obtainable from the real property valued and the capitalization rate.

Net future operating income were estimated separately for each investment class property based on rental agreements existing as at the balance sheet date, contracted income (or, in the case of IRIS property, partly based on the market conditions for a given property as established by a third party expert) and the expected cost of operation of the properties. Useful areas underlying the calculations are based on construction documents in force. As most rentals concluded by the Group are expressed in EUR, the investment class properties were valued in EUR and values were then translated into PLN using the NBP average rate as at the balance sheet date.

Capitalization rates were estimated by third party experts separately for each major investment class property taking into account situation and type of the property. The capitalization rate is reviewed at least annually by third party property experts and the net operating income is updated based on rentals in force.

The table below includes information about methods used for and assumptions underlying the valuations of the investment class properties at fair value along with information about major unnoticeable entry data - 31 December 2015.

Real Property Class	valuation	capitalization rate	anticipated rent	discount rate
office buildings	income method / level 3	7,75% - 9,00%	9,34-11,75	N/A
Land in Ursus designed for housing, commercial and public purposes	residual method / level 3 and comparative method / level 2	N/A	N/A	3,00%

The table below includes information about methods used for and assumptions underlying the valuations of the investment class properties at fair value along with information about major unnoticeable entry data - 31 December 2014.

Real Property Class	valuation	capitalization rate	anticipated rent	discount rate
office buildings	income method / level 3	7.7% - 9.25%	9.26-11.50	N/A
Land in Ursus designed for housing, commercial and public purposes	residual method / level 3 and comparative method / level 2	N/A	N/A	7,00%

CPD S.A.

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Additional notes and explanations to the consolidated financial statement

4 Major Accounting Estimates and Judgments (cont.)

a) Income tax

CPD Group is an income tax payer in multiple countries. Determination of global amount of income tax liabilities requires a big amount of judgment. There are many transactions and calculations where the amount of tax is uncertain. CPD Group recognizes expected doubtful tax liabilities based on an estimation whether or not additional tax will be required. If the final tax settlements differ from the amounts initially recognized, the differences affect current and deferred income tax assets and liabilities in the period where the amount of tax is finally determined.

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.

Celtic Property Developments S.A.

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

	Year ended 31 December 2015	Year ended 31 December 2014
At the beginning of the period	581 385	442 793
Capital expenditure	5 927	16 547
Acquisition	23 990	0
Disposal of investment property in course of joint venture	(16 620)	0
Change in the balance of capitalized financial liability	2 847	7 236
Transfer of road plots of land in Ursus to the municipality of Warsaw	(5 818)	41 485
Net gain from fair value adjustment on investment property	59 382	114 810
including the effect of valuation of transfer of plots of land in Ursus as at 31.12.2014	0	(41 485)
	651 093	581 385

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 2015 and as at 31 December 2014 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.

Based on valuation prepared by Savills sp. z o.o. as at Dec 31, 2015, the total fair value of real properties owned by the Group and disclosed under the 'Investment Class Real Properties' header in the consolidated financial statements amounted to PLN 619 million (which value does not include the perpetual usufruct liability of PLN 32 110 thousand) exceeding the same value disclosed at the end of 2014 by PLN 67 million. The rise in value of properties was recognised in the result from fair value adjustment on investment properties that was positive and amounted to PLN 59 382 thousand at the end of 2015.

The increase of value of real estate portfolio of the Group was mainly influenced by the acquisition of real estate in Ursus, through the acquisition of shares in the subsidiary IMES Poland Sp. o.o. (The value of the acquired property was PLN 24 million). In 2015 CPD Group made also a gratuitous transfer of part of the portfolio of real estate located in Ursus including road plots to the municipality of Warsaw. The total value of the transferred land plots in 2015 amounted to PLN 5 818 thousand.

In 2014 the value of plots transferred to the municipality amounting to PLN 41 million was disclosed in the consolidated financial statements as capital expenditures necessary to be incurred in order to implement the investment project and recognized in the position of "the result from fair value adjustments on investment property" in the consolidated statement of comprehensive income.

In connection with the investment agreement concluded on 10 September 2014 between Unidevelopment between SA, Unibep SA, CPD SA and its subsidiaries, ie., Smart City limited liability company sp.k., Lakia Enterprises Ltd regarding the implementation of the joint project, involving the construction of the complex buildings with services and associated infrastructure and with the accession of Unidevelopment SA to the Smart City of the limited partnership as a limited partner on 9 March 2015, the Group spun off assets and liabilities relating to the joint venture. Land value of the investment associated with the joint venture amounted to PLN 16 620 thousand.

Celtic Property Developments S.A.

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Additional notes and explanations to the consolidated financial statements**5 Investment properties (cont.)**

Other positive contributors to the value of Group portfolio of real properties included rise in value of Iris building resulting from rising rental income connected with growing commercialization of the space. Its total effect on the consolidated result of the Group for 2015 therefrom amounted to PLN 5 927 thousand.

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

As at 31 December 2015, 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 2015	31 December 2014
Investment property acc. to external valuation	618 984	552 123
Liabilities in respect of perpetual usufruct	32 110	29 263
Investment property presented in the statement of financial position	651 094	581 386

Direct operating expenses relating to investment properties:

	12 months ended 31 December 2015	12 months ended 31 December 2014
- generating income from rent	3 987	4 025
- other	109	117
	4 096	4 142

6 Fair value of security

	31 December 2015	31 December 2014
Aquarius	26 336	27 279
Ursus	76 380	0
Cybernetyki 7b	31 578	34 098
IRIS	101 850	100 590
	236 144	161 967

Properties: Aquarius, Cybernetics 7B (Solaris) and IRIS are the collateral according to loan agreements, with the agreement of mBank in the amount of PLN 57 914 thousand and BZ WBK at PLN 101 850 thousand

Mortgage established on plots located in Ursus, owned by subsidiaries Blaise Gaston Investments spółka z ograniczoną odpowiedzialnością Sp.k. and 7/120 Gaston Investments spółka z ograniczoną odpowiedzialnością Sp.k. constitutes a collateral for bonds issued in January 2015 (with a nominal value of PLN 30 million).

Celtic Property Developments S.A.

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Additional notes and explanations to the consolidated financial statements**7 Trade receivables and other receivables**

	31 December 2015	31 December 2014
Trade receivables	1 292	803
Other receivables	0	325
Prepayments and accruals	5 268	5 310
Deferred income	0	(307)
Receivables from the state budget	2 678	3 723
Receivables from related entities	18	0
Short-term trade receivables and other receivables	9 256	9 854
Long-term receivables	0	0
Total trade receivables and other receivables	9 256	9 854

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.

Prepayments and accruals are the biggest trade receivables and other receivables item. This header mainly includes the balance connected with linear settlement of rental income in the case of leases concerned by no-rent periods at the beginning or by significantly lower rent rates in the said initial period. The total of balance of this section as at December 31, 2015 amounted to PLN 2.7 million. Another important balance on receivables are deferred prepaid commission costs (PLN 1,8 million).

The CPD Group recognized a loss of PLN 235 thousand in respect of impairment and write-off of receivables in the year ended 31 December 2015 (year ended 31 December 2014: PLN 29 thousand). The loss was recognized under "other administrative expenses" header in the consolidated comprehensive income.

Trade receivables	31 December 2015	31 December 2014
Current	1 292	803
Overdue, with recognized impairment (provided for in full)	371	570
Other receivables	31 December 2015	31 December 2014
Current	0	0
Overdue, no impairment	0	0
Overdue, with recognized impairment (provided for in full)	313	0
Impairment of receivables	31 December 2015	31 December 2014
- trade receivables:		
Opening balance	570	5 256
- increases	235	0
- decreases	(121)	(4 686)
Closing balance	684	570

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.

8 Inventories

Celtic Property Developments S.A.

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Additional notes and explanations to the consolidated financial statements

	31 December 2015	31 December 2014
Work in progress	2 950	4 100
Finished goods	560	370
Goods for resale	1 786	2 055
	5 296	6 525

Finished goods in the consolidated financial statements comprise completed construction project, i.e. Koszykowa (Poland). Goods for resale comprise a construction project Alsonemedi (Hungary), properties in Czosnów, Nowa Piasecznica, Lesznów and Jaktorów. Work in progress relates to properties under construction, i.e. tenement house in Łódź.

	31 December 2015	31 December 2014
At the beginning of the period	6 525	7 773
Capital expenditure	70	19
Impairment loss	(1 312)	(1 172)
Foreign exchange differences	13	(95)
As at the balance sheet date	5 296	6 525

The inventory revaluation allowance concerns properties in Łódź, Czosnów, Jaktorów, Magdalenka and Nowa Piasecznica. The allowance for the Łódź property (PLN 1 220,000) is the biggest one.

9 Cash and cash equivalents

	31 December 2015	31 December 2014
Cash in hand and at bank	19 209	16 366
Restricted cash	3 204	774
Short-term bank deposits	3 660	1 630
	26 073	18 770

Restricted cash means the funds transferred as a result of the implementation of the credit agreement with BZ WBK.

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.

10 Joint venture

Celtic Property Developments S.A.

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Additional notes and explanations to the consolidated financial statements

On 10 September 2014 CPD SA and its subsidiaries Smart City spółka z ograniczoną odpowiedzialnością sp.k., Lakia Enterprises Ltd concluded joint venture agreement with Unibep S.A. and Unidevelopment S.A. aimed at construction of residential complex with services and accompanying infrastructure. Smart City spółka z ograniczoną odpowiedzialnością sp.k. contributed land to the joint venture. Part of the land is to be transferred to the City of Warsaw or other entity for public roads and educational infrastructure.

On 9 March 2015 Unidevelopment SA joined Smart City spółka z ograniczoną odpowiedzialnością sp.k. as a limited partner (komandytariusz).

The below table summarizes the carrying amounts of the Group major investments in joint ventures:

	31 December 2015	31 December 2014
Smart City Spółka z ograniczoną odpowiedzialnością sp.k.	14 512	0
Opening balance as at 1 January 2015	0	
Group's share in net assets as at the date of starting joint venture	15 472	
Group's share of the net profit or loss of the joint ventures presented in theses interim condensed consolidated financial statements	(911)	
Other adjustments	(49)	
Closing balance as at 31 December 2015	14 512	

Condensed financial information of individually material joint ventures of the Group as at and for the period from 1 January 2015 to is presented in the below table:

	Smart City Spółka z ograniczoną odpowiedzialnością Sp.k.
<i>Financial information coming from statement of financial position</i>	
Total non-current assets, including	27
<i>Fixed assets</i>	<i>27</i>
Total current assets, including:	30 876
<i>Inventory</i>	<i>21 091</i>
<i>Trade receivables and other receivables</i>	<i>8 648</i>
<i>Cash and cash equivalents</i>	<i>1 137</i>
Total assets	30 903
Total current liabilities, including:	1 874
<i>Trade payables and other liabilities</i>	<i>1 874</i>
Total non-current liabilities	0
Total liabilities	1 874
Net assets	29 029
% held by the Group	50%
Group share of net assets of the joint venture	14 515
Purchase price allocation adjustments	22
Consolidated adjustments	(25)
Carrying amount of investment in joint venture presented in the interim condensed consolidated financial statements	14 512

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Additional notes and explanations to the consolidated financial statements

In connection with the fact that the new investment agreement entered into force, the Group recognized a loss on the joint venture in Smart City Spółka z ograniczoną odpowiedzialnością Sp.k. in the amount of PLN 972 thousand, which was included in note 22.

11 Acquisition of shares in related party

On 30 January 2015 the Group's companies Buffy Holdings No. 1 Limited and Challenge Eighteen Sp. z o.o. concluded a share purchase agreement with I.M.E.S. – INDUSTRIA MECCANICA E STAMPAGGIO S.P.A., on the basis of which Buffy acquired 100% of the shares of IMES POLAND Sp. z o.o. with its registered office in Warsaw. IMES possesses the right of perpetual usufruct, consisting of plot No. 98, No. rpm. Reg. No. 2-09-09, with an area of 69 457 m² and situated near Gierdziejewskiego str. in Warsaw (Warsaw district - Ursus). In accordance with the provisions of the Local Master Plan, the property allows you to build about 80 000 m² residential and service.

As a result of the acquisition of the shares CPD Group acquired the group of assets which does not constitute a business combination within the meaning of IFRS 3. Due to this fact, the individual identifiable assets belonging to the subsidiary were recognised and measured based on an allocation of the overall cost of the transaction with reference to their relative fair values at the time of the acquisition:

in thousand PLN	Carrying amount as at the date of acquisition	Allocation of the overall cost of transation of acquisition
Investment property	1 939	23 990
Trade and other receivables	836	836
Cash and cash equivalents	939	939
Trade and other payables	-3 177	-2 706
Net assets	537	23 059
Cost of acquisition of shares in subsidiary		23 059

12 Share capital

	Number of shares		Value of shares	
	31 December 2015	31 December 2014	31 December 2015	31 December 2014
Ordinary shares (in thousands)	32 863	32 863	3 286	3 286
Total	32 863	32 863	3 286	3 286

As of the date of theses financial statements share capital amounts to PLN 3.286 thousand. There have been no changes in share capital since the end of the year until the date of these financial statements.

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Additional notes and explanations to the consolidated financial statements**13 Trade payables and other payables****Long-term trade payables and other payables**

	31 December 2015	31 December 2014
Deposits of tenants	2 070	1 494

Short-term trade payables and other payables

	31 December 2015	31 December 2014
Trade payables	1 279	827
Other liabilities	322	504
Output VAT and other tax liabilities	372	284
Deposits of tenants	120	138
Accruals and deferred income	14 619	14 077
Total	16 712	15 830

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.

The provision for potential tax risks amounting to PLN 13.9 million was the biggest part of prepayments and accruals as at 31 December 2015.

14 Loans and borrowings (including finance lease)

	31 December 2015	31 December 2014
Long-term		
Bank loans	112 364	42 221
Finance lease liabilities	32 110	29 263
	144 474	71 484
Short-term		
Bank loans	7 529	71 493
Loans from unrelated entities	0	0
	7 529	71 493
Total loans and borrowings	152 003	142 977

As of 31 December 2015 bank credits consist of:

- payable of PLN 42 292 thousand to mBank Hipoteczny S.A. (PLN 4 089 thousand being short-term and PLN 38 203 thousand long-term),
- payable of PLN 77 601 thousand to Bank Zachodni BZ WBK (PLN 74 161 thousand being long-term and PLN 3 440 thousand as short-term).

(All amounts in PLN thousands unless otherwise stated)

Additional notes and explanations to the consolidated financial statements

14 Borrowings (including finance lease) (cont.)

Regarding the loan granted by HSBC Bank on 18 June 2014 to finance two investment properties, the subsidiaries Robin Investments Sp. z o.o. and Lakia Investments Sp. z o.o. (owners of these properties) signed an agreement with mBank Hipoteczny S.A. to refinance the loan. Earlier, i.e. on 29 May 2014, an annex to the loan agreement with HSBC was signed, pursuant to which the final loan repayment date was 27 June 2014. The actual refinancing (incurring the liability in mBank Hipoteczny and repaying the debt owed to HSBC took place on 1 July 2014).

The loan agreements with mBank Hipoteczny S.A. signed on 18 June 2014 amount to the maximum total loan amount of EUR 10.3 million. The final loan repayment period is June 2029.

The loan was granted in accordance with market terms and is secured, among others, by a mortgage on investment properties belonging to Robin Investments Sp. z o.o. and Lakia Investments Sp. z o.o. and a registered pledge established on the shares of these companies.

In accordance with the terms and conditions of the loan agreement concluded with Bank Zachodni WBK on 12 August 2012 (including annexes), the final repayment period of the investment loan granted to the subsidiary Belise Investments Sp. z o.o. falls on one of the following dates:

- in the case of obtaining the consent to convert the construction loan into the investment loan, the final repayment of the loan will take place on 12 August 2019 on the latest; otherwise,
- the final repayment date is 31 December 2014.

Regarding the VAT Loan (credit facility within the agreement with BZ WBK), its final repayment date was 31 December 2014.

As at 31 December 2014, the balance of the liability due to the loan granted by BZ WBK S.A. in the amount of PLN 70 608 thousand was presented in short-term liabilities, because in accordance with valid agreements, its repayment falls within the period of 12 months from the balance sheet date for which the consolidated financial statements were made.

In connection with the fulfillment of the conditions for the loan conversion and change the date of the final repayment of the loan, an annex to the credit agreement dated August 12, 2011 was signed on May 29, 2015. Under the Annex, the following changes have been introduced:

- investment loan up to the value of EUR 18,500,000.00 was granted to refinance the debt by conversion and/or refinancing or to finance the costs of finishing the rental space and/or to pay the Dividend;
- the parties agreed that the date of the final repayment of the Loan with interest and other costs would be May 31, 2021;
- conversion means using the funds made available within Advance B by converting the Debt Amount within Advance A to the Debt Amount within Advance B and activating an additional advance up to the maximum amount of EUR 1.500.000.

The remaining significant provisions of the agreement remain unchanged.

At the same time, in order to secure the repayment of the Loan under the concluded annex, CPD S.A. and Lakia Enterprises Limited, situated in Nicosia, Cyprus, submitted themselves to the enforcement procedure. Moreover, the Company signed an annex to the guarantee agreement.

According to the above loan agreements, the Company reports to financing institutions financial indicators - covenants, based on the coverage of debt service, expected to cover debt service, debt service. A key indicator that is commonly used is the ratio of debt service coverage (DSCR), which tells the recipient how many times the cash flows generated by the project defray the expenses related to the debt service schedules. It is worth noting that this indicator, the calculation is based on standard regimens market does not include the balance of funds in the project. As at 31.12.2015 and the date of approval of the report for publication, none of the reported indicators has not been tampered with.

The interest rate on loans taken by the subsidiaries is variable and is as follows:

- loan from BZ WBK SA margin 2.15% + EURIBOR 1M
- loans from mBank Hipoteczny SA margin 2,80% + EURIBOR 6M.

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Additional notes and explanations to the consolidated financial statements**14 Borrowings (including finance lease) (cont.)**

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 5).

	31 December 2015	31 December 2014
Repayment of the principal amount of lease liabilities based on the effective interest rate due within:		
1 year	261	7
from 1 to 5 years	318	33
after more than 5 years	31 531	29 223
	32 110	29 263
Par value of minimum lease payments due:		
within 1 year	2 570	2 470
from 1 to 5 years	9 120	9 880
after more than 5 years	177 316	175 370
	189 006	187 720
Future financial costs	(156 896)	(158 457)
	32 110	29 263

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 2015	31 December 2014
up to 6 months	2 383	70 608
from 6 months to 1 year	5 146	885
from 1 to 5 years	18 185	9 245
more than 5 years	94 179	32 976
	119 893	113 714

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 2015	31 December 2014
<u>Currency</u>		
EUR	119 893	113 714
	119 893	113 714

Lakia Enterprises Ltd established a registered pledge on all shares in the capital of Lakia Investments and Robin Investments amounting to up to EUR 5.85 million (Lakia) and EUR 4.45 million (Robin) for the benefit of mBank in connection with the credit taken from mBank Hipoteczny in 2014.

Lakia Enterprises Ltd established a registered pledge on all shares in the capital of Belise Investments amounting to up to EUR 40.3 million and EUR 4.2 million for the benefit of BZ WBK in connection with the credit taken from BZ WBK in 2011.

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Additional notes and explanations to the consolidated financial statements**15 Bonds issued**

	31 December 2015	31 December 2014
<i>a/ Bonds serie A</i>		
Nominal value of the convertible bonds issued on Sept 26, 2014	22 966	22 966
Capital part	27 909	27 909
Debt part on the initial recognition date of Sept 26, 2014	50 875	50 875
Accrued interest	2 967	623
Valuation as at 31 December 2015	472	476
Valuation of the embedded derivative	(16 274)	(9 094)
Bonds value as at 31 December 2015	38 040	42 880
<i>b/ Bonds serie B</i>		
Nominal value of bonds issued on Jan 13, 2015 r. (*)	29 552	0
Accrued interest	2 633	0
Paid interest	(1 354)	0
Valuation using the effective interest rate method	84	0
Bonds value as at 31 December 2015	30 915	0
Long-term		
Bonds issued	56 041	24 065
Derivatives	11 635	18 815
Short-term		
Bonds issued - interest	1 279	0
	68 955	42 880

(*) The nominal value of bonds issued on 13 January 2015 (PLN 30,000,000) was decreased by the costs of the issue of bonds, which amount to PLN 448,000. The costs of the issue of bonds included the cost of handling the issue of bonds by an investment house, which amounted to PLN 425,000, and the costs of legal services.

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Additional notes and explanations to the consolidated financial statements**15 Bonds issued (cont.)**

Bondholder	Number of shares	
	Year ended	Year ended
	31 December 2015	31 December 2014
Laxey Investors Limited	1	1
LP Alternative LP by Laxey Partners (GP3) as General Partner	7	7
Laxey Partners Ltd	1	1
LP Value Ltd	7	7
Laxey Universal Value LP By Laxey Partners (GP2) as General Partner	1	1
The Value Catalyst Fund Limited	13	13
QVT Fund LP	17	17
Quintessence Fund LP	3	3
Lars E. Bader	7	7
Co-op	33	33
Furseka	17	17
Broadmeadow	3	3

On 26 September 2014, the Management Board of the Company passed a resolution on the allocation of Advance I of series A convertible bonds and the Company issued convertible bonds within Advance I. The redemption of bonds within Advance I falls on 26 September 2017. The issue of bonds within Advance I was carried out in the form of a private placement, in accordance with the provisions of Section 9(3) of the Bonds Act, pursuant to Resolution No. 3/IX/2014 of the Issuer's Management Board on the issue of series D bearer bonds within a bond issue program.

The nominal value of one bond is EUR 50,000 (fifty thousand euros). The issuing price of one bond is EUR 50,000. The bonds bear interest according to the fixed interest rate of 10% (ten percent) per year from the Bond Issue Date. The bonds will be purchased by the Company on a day falling 3 years after the Issue Date, i.e. on 27 September 2017 – except in the event of early repurchase in Case of Breach of the terms and conditions of the issue of Bonds by the Issuer.

Embedded derivative instrument results from:

- the right to convert bonds to shares by bond holder at a fixed rate in the period from 26 September 2015 until 5 days before the redemption date, i.e. 22 September 2017;
- cap currency option concerning the translation of the liability into shares as at the conversion date at the EUR/PLN rate from that day, however not higher than EUR 1 = PLN 4.1272.

The method of valuation of the embedded derivative instrument is described in note 4.

On 13 January 2015, the Company issued 30,000 series B covered bonds ("Bonds") in total. Bonds were issued in accordance with the provisions of Section 9(3) of the Bonds Act, i.e. in the form of a private offer.

The Bonds were issued in accordance with the following terms and conditions:

The issuer did not specify the purpose of the issue within the meaning of the Bonds Act or the undertaking to be financed from the issue of the Bonds.

The issued Bonds are series B covered, bearer bonds with the nominal value of PLN 1,000 each and do not have the form of an instrument.

The total nominal value of all issued bonds is maximum PLN 30,000,000.

The nominal value of one Bond is PLN 1,000. The issuing price of one Bond corresponds to its nominal value, i.e. PLN 1,000.

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Additional notes and explanations to the consolidated financial statements**15 Bonds issued (cont.)**

The Bonds will be repurchased by the Company on the day falling 4 years after the Bonds issue date, i.e. on 13 January 2019 ("Redemption Date") – except in the event of an early repurchase of Bonds in case of a breach of the terms and conditions of the issue of Bonds by the Issuer or on the Issuer's request.

The Bonds bear interest in accordance with the fixed interest rate of 9.1% per year.

If the Issuer does not repurchase the Bonds earlier in case of a breach at the request of the Bond Holder or at the request of the Issuer, the Bonds will be repurchased on the Redemption Date by paying the amount equal to the nominal value of Bonds plus due and unpaid interest on the Bonds.

On 9 February 2015, an agreement on the establishment of a registered pledge on Blaise Investments sp. z o.o.'s shares was concluded by Lakia Enterprises Limited and Matczuk Wieczorek i Wspólnicy Kancelarii Adwokatów i Radców Prawnych sp. j., acting on their own behalf, but for the account of bond holders holding series B bonds.

The registered pledge was established on 100 shares in the share capital of Blaise Investmetns sp. z o.o. with the nominal value of PLN 50 each, constituting 100% of the share capital of this company. The nominal value of the package of 1,000 shares is PLN 50,000.

The registered pledge was established up to the amount of PLN 45,000,000.

16 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 2015	31 December 2014
Deferred tax assets before offset	20 161	19 500
Set off	(19 609)	(19 415)
Deferred tax assets	552	85
- to be utilized after more than 12 months	0	0
- to be utilized within 12 months	552	85
	552	85
Deferred income tax liabilities before offset	40 515	32 797
set off	(19 609)	(19 415)
Deferred income tax liabilities after offset	20 906	13 382
- to be paid after more than 12 months	20 906	13 382
- to be paid within 12 months	0	0
	12 months ended	
	31 December 2015	
Change in deferred tax assets	661	
Change in deferred tax liabilities	7 718	
Amount charged/(credited) to profit or loss	(7 057)	

Celtic Property Developments S.A.

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Additional notes and explanations to the consolidated financial statements**16 Deferred income tax (cont.)**

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

Deferred income tax liabilities (before offset)

	2013	Charged to profit/(loss)	Charged to capital on translation	2014
Property valuation at fair value	12 353	4 111	0	16 464
Accrued interest on loans	15 381	499	0	15 880
Provision for income	61	330	0	391
Foreign exchange	3	59	0	62
Currency translation adjustment	0	0	0	0
Other	(341)	341	0	0
Total	27 457	5 340	0	32 797

	2014	Charged to profit/(loss)	Charged to capital on translation	2015
Property valuation at fair value	16 464	7 363	0	23 827
Accrued interest on loans	15 880	267	0	16 147
Provision for income	391	122	0	513
Foreign exchange	62	(34)	0	28
Currency translation adjustment	0	0	0	0
Other	0	0	0	0
Total	32 797	7 718	0	40 515

Deferred income tax assets (before offset)

	2013	Charged to profit/(loss)	Charged to capital on translation	2014
Accrued, interest unpaid	341	251	0	592
Foreign exchange gains/(losses)	825	-192	0	633
Provisions	301	-286	0	15
Property measurement at fair value	1 504	-1 088	0	416
Other	9 537	5 998	0	15 535
Tax losses	2 003	306	0	2 310
	14 511	4 989	0	19 501

	2014	Charged to profit/(loss)	Charged to capital on translation	2015
Accrued, interest unpaid	592	698	0	1 289
Foreign exchange gains/(losses)	633	-17	0	616
Provisions	15	27	0	42
Property measurement at fair value	416	-416	0	0
Other	15 535	73	0	15 608
Tax losses	2 310	296	0	2 606
	19 501	661	0	20 161

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Additional notes and explanations to the consolidated financial statements**16 Deferred income tax (cont.)**

	31 December 2015	31 December 2014
Tax losses	13 716	12 156
Deductible temporary differences on loans and borrowings (foreign exchange differences and accrued interest)	6 784	3 113
Other deductible temporary differences	85 611	87 363
Total	106 111	102 632
Deferred tax assets before offset	20 161	19 500
Offset of deferred tax assets against liabilities within individual companies	(19 609)	(19 415)
Net deferred tax assets	552	85

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

Expiry of tax losses as at 31.12.2015

	2016	2017-2018	2019-2020	Total
- Losses on which deferred tax was recognized	3 159	6 771	3 786	13 716
- Losses on which deferred tax was not recognized	81 374	90 297	11 179	182 850

Expiry of tax losses as at 31.12.2013

	2015	2016-2017	2018-2019	Total
- Losses on which deferred tax was recognized	1 229	5 127	5 800	12 156
- Losses on which deferred tax was not recognized	9 105	117 334	28 011	154 450

17 Revenues

Revenues by category:	12 months ended 31 December 2015	12 months ended 31 December 2014
Rental income	12 666	9 930
Sales of inventories	0	16
Real estate advisory services	185	7
Services relating to rental	5 884	5 114
	18 735	15 067

In 2015 rental income was predominant in sales. Revenues from services relating to rental were another major item of revenues (PLN 5 884 thousand).

In 2014 rental income was predominant in sales. Revenues from services relating to rental were another major item of revenues (PLN 5 114 thousand).

The Group leases properties under operating lease.

The Group adopted the below described model of standard rental contracts:

- 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.

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Additional notes and explanations to the consolidated financial statements**17 Revenues (cont.)**

	12 months ended 31 December 2015	12 months ended 31 December 2014
up to 1 year	10 538	11 297
from 1 to 5 years	27 710	38 389
more than 5 years	3 044	4 554
	41 292	54 240

18 Cost of sales

	12 months ended 31 December 2010	12 months ended 31 December 2009
Cost of inventories sold	0	14
Changes in impairment write-downs of inventories	1 312	1 172
Cost of services provided	2 187	2 462
	3 499	3 648

In the current year the change in impairment inventory write-downs was due to an increase in the value of the Koszykowa property (by PLN 190 thousand) and decrease in the value of the properties in Łódź (PLN 1 220 thousand), Czosnów (PLN 160 thousand), Nowa Piasecznica (PLN 30 thousand), Jaktorów (PLN 90 thousand) and Magdalenka (PLN 2 thousand).

In 2014 the change in impairment inventory write-downs resulted from the increase in value of real properties in Nowa Piasecznica (PLN 10 thousand) and Jaktorów (PLN 30 thousand) and from the decline in value of real properties in Łódź (PLN 900 thousand) and Czosnów (PLN 312 thousand). The value of the Koszykowa property has not changed.

19 Administrative expenses – relating to properties

	12 months ended 31 December 2015	12 months ended 31 December 2014
Employee expenses	1 255	1 343
Property maintenance	4 042	4 134
Real estate tax	2 953	2 974
Perpetual usufruct	1 039	1 100
Depreciation and amortization	219	181
	9 508	9 732

20 Other income

	12 months ended 31 December 2015	12 months ended 31 December 2014
Provision released	1 609	0
Waived or expired liabilities	101	10
Sale of PPE	0	47
Contractual penalties received	5	0
Other	3 799	363
	5 514	420

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Additional notes and explanations to the consolidated financial statements**21 Administrative expenses - other**

	12 months ended 31 December 2015	12 months ended 31 December 2014
Advisory services	7 932	5 817
Audit fee	207	331
Transport	85	45
Taxes	364	159
Office maintenance	1 593	1 953
Other services	328	321
Costs of not deductible VAT	285	357
Impairment write-down in respect of receivables	235	29
Other costs	184	1 633
	11 213	10 645

In 2015 the change in the amount of administrative expenses was due to an increase in Advisory services costs by PLN 2.1 m.

22 Financial income and costs

	12 months ended 31 December 2015	12 months ended 31 December 2014
Interest expenses:		
- bank loans	(3 604)	(4 068)
- interest on finance lease	(2 429)	(2 214)
- interest on bonds	(4 932)	(620)
- other interest expenses	(437)	(694)
Net foreign exchange loss	(457)	(2 574)
Loss on bonds revaluation	(84)	0
Result of changing subsidiary into joint venture	(972)	0
Other	(465)	(376)
Financial costs	(13 380)	(10 546)
Interest income:		
- bank interest	1 206	49
- interest from unrelated entities	240	591
Financial revenues from valuation of the embedded derivative instrument	7 180	9 094
Financial income	8 626	9 734
Financing activities, net	(4 754)	(812)

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Additional notes and explanations to the consolidated financial statements**23 Income tax expense**

	12 months ended 31 December 2015	12 months ended 31 December 2014
Current tax	13	0
Prior years tax	0	0
Deferred tax (Note 14)	7 057	364
	7 070	364

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 12,5%. 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%.

	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:				
Cyprus	12,5%	(6 479)	810	(421)
Hungary	19%	(127)	13	(11)
				(432)

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.

	12 months ended 31 December 2015	12 months ended 31 December 2014
Profit before tax	53 418	104 858
Estimated tax liability at the 19% tax rate	(10 149)	(19 923)
Impact on tax:		
- various tax rates applicable to Group companies and the tax on consolidation adjustments	432	153
- loss of companies where the asset was not recognized	(984)	(3 935)
- use of prior years losses, where the assets was not recognised	340	0
- temporary differences in foreign companies	(1 238)	(1 068)
- valuation of real properties	4 969	21 814
- valuation of the embedded instrument	1 364	1 728
- other	(1 804)	867
Income tax expense	(7 070)	(364)

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Additional notes and explanations to the consolidated financial statements**24 Cash generated from operations**

	12 months ended 31 December 2015	12 months ended 31 December 2014
Profit before income tax	53 418	104 858
Adjustments for:		
- depreciation of tangible fixed assets	188	203
- amortisation of intangible assets	32	0
- currency translation adjustments	(23)	0
- foreign exchange differences	202	(5 858)
- gains (losses) on revaluation to fair value of investment property	(59 382)	(114 810)
- share of the profit or loss of the joint venture	911	0
- loss on change the subsidiary into joint venture	972	0
- result on embedded derivatives	(7 180)	0
- waiver of loan	0	143
- waiver of interest on the loan	0	29
- interest expenses	8 212	4 382
- foreign exchange differences	(240)	(289)
- impairment of inventories	1 312	1 172
- result on bonds revaluation using effective rate method	84	0
- result of sale of tangible non-current assets	0	39
- other adjustments	(59)	3
Movements in working capital:		
- change in receivables	187	(1 886)
- change in inventories	(70)	(19)
- change in trade payables and other payables	(952)	1 212
	(2 388)	(10 821)

25 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 – Celtic Asset Management (previously: Liliane Investments), Gaetan Investments and Elara Investments – in connection with the sale of houses, apartments and plots granted guarantees and warranties to clients in respect of the legal status and technical conditions of the goods sold. The liability periods are one year from the date of sale for plots and three years for houses and apartments.

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

- Amounts that are required (or may be required) to cover any cost overruns of the project outside of costs defined in the credit agreement, up to a maximum of EUR 20.666.000;
- Amounts that are required (or may be required) to cover the debts or any other outstanding payments due to pay, up to a maximum amount of EUR 20.666.000,

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Additional notes and explanations to the consolidated financial statements

25 Contingencies (cont.)

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 connection with the issuance of bonds by CPD S.A. in January 2015 its subsidiaries: 7/120 Gaston Investments Spółka z ograniczoną odpowiedzialnością Sp.k. and Blaise Gaston Investments Spółka z ograniczoną odpowiedzialnością Sp.k. granted guarantees, each to the amount of PLN 45 million.

In December 2015, a company forming part of a joint venture, Smart City Spółka z ograniczoną odpowiedzialnością sp.k. entered into a credit agreement with Bank Zachodni WBK SA, on the basis of which the bank will grant a credit in the maximum amount of PLN 65 million, designated to finance the Construction of a multi-family housing project Ursa Smart City Stage I.

Repayment security for the debts to the Bank's claims arising from the Agreement are mortgages on property and registered pledges on the rights of corporate shareholders and shares in the share capital of the general partner of the Borrower (Smart City sp. z o.o.)

In connection with the above mentioned Loan Agreement on 21 December 2015 it has been established by the Company's subsidiary, Smart City Spółka z ograniczoną odpowiedzialnością Sp.k. a mortgage security.

Contractual mortgage is a collateral receivables of Bank Zachodni WBK SA the Loan up to the amount of 101.469.432 PLN and will be entered in first place in the land register of land located on the street T. Hennela in Warsaw district Ursus, now covering a plot of land marked with numbers 95/1, 95/2, 95/3, 95/4 and 95/5 on the area of 3.6811ha for which the District Court for Warsaw-Mokotów in Warsaw, XIII Department of Land Registry maintained perpetual paper No. WA1M / 00283122/2. Mortgage will ultimately burden the plot No. 95/4.

26 Transactions with related entities and transactions with employees

CPD 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 2015	12 months ended 31 December 2014
a) Transactions with key managers		
Remuneration of the Management Board members	218	240
Cost of work and services provided by members of the Management Board	1 313	4 006
Cost of remuneration of members of the Supervisory Board	307	239
Cost of services provided by members of the Supervisory Board	2	0

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Additional notes and explanations to the consolidated financial statements**26 Transactions with related entities and transactions with employees (cont.)**

		12 months ended 31 December 2015	12 months ended 31 December 2014
b) Transactions with other related parties			
<u>Revenues</u>			
Smart City Spółka z ograniczoną odpowiedzialnością Sp.k.	- services	192	0
Laxey Cooperative	- rental and accounting services	6	0
<u>Costs</u>			
Kancelaria Radców Prawnych Oleś i Rodzynkiewicz	- costs of legal services	22	130
Smart City Spółka z ograniczoną odpowiedzialnością Sp.k.		5	0
<u>Liabilities</u>			
Smart City Spółka z ograniczoną odpowiedzialnością Sp.k.	- trade payables	19	0
<u>Receivables</u>			
Smart City Spółka z ograniczoną odpowiedzialnością Sp.k.	- trade payables	18	0
Laxey Cooperative	- loan	325	325
Laxey Cooperative	Loan write-down	(325)	(325)

27 Seasons of activity and unusual events

The activity of the Group of the CPD is not seasonal or cyclical.

28 Sale of subsidiaries

In 2015, the Group completed started the 2014 sale of shares in a subsidiary GAETAN, realizing a loss on the transaction in the amount of PLN 6 thousand.

29 Events after the balance sheet date

In February 2016, in connection with the credit agreement, concluded in 2015 by the company being a part of a joint venture Smart City Spółka z ograniczoną odpowiedzialnością sp.k. the following pledges agreements were signed: pledges on bank accounts of the company's Smart City (including an escrow account), pledge agreements on the rights of a limited partner, general partner, pledge on shares in Smart City Sp. z o.o. (up to PLN 101.4 thousand).

In addition, in connection with the above-mentioned agreement in February 2016 CPD S.A. concluded with Bank Zachodni WBK SA (Lender) an agreement under which provided a guarantee to cover part of the costs and expenses of Phase I and II, not included in the Budget for Phase I and II, up to 10% of project cost net of Phase I and II, in total amount of PLN 10 857 thousand. The guarantee also includes the obligation to ensure the company Smart City Spółka z ograniczoną odpowiedzialnością sp.k. cash in order to cover the increased fees for perpetual use, up to PLN 1 452 thousand.

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Additional notes and explanations to the consolidated financial statements
29 Events after the balance sheet date (cont.)

On March 18, 2013, the Company purchased bonds issued by Bolzanus Limited (bonds nominal value - PLN 3 million, interest as at December 31, 2015 - PLN 670 thousand). The bond interest rate is 8% per annum. Redemption date falls on February 17, 2016. The parties agree that the debt will be settled by the transfer of part of the plot No. 119, which is designed for residential purposes.

Apart from the above, there were no significant events after the balance sheet date.

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

Remuneration paid or payable to the Group authorized to audit financial statements for the years 2015 and 2014 is as follows:

	12 miesięcy zakończone 31 grudnia 2015	12 miesięcy zakończone 31 grudnia 2014
Auditor's fee	207	255

31 Dividend distribution

In 2015, the Group did not pay any dividends or interim dividend. No dividends or interim dividends were paid in 2014.

32 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.

Diluted earnings per share are calculated based on profit or loss attributable to the ordinary shareholders in the parent company and on the profit or loss from the continued business attributable to them, if such data are disclosed.

For the purposes of calculation of diluted earnings per share the profit or loss attributable to the ordinary shareholders in the parent company and the weighted average number of outstanding shares are adjusted by the effect of all diluting potential ordinary shares.

	12 months ended 31 December 2015	12 months ended 31 December 2014
Profit attributable to the shareholders in the parent company	46 348	104 494
Weighted average number of ordinary shares (in '000)	32 863	34 330
Earnings per share	1,41	3,04
Diluted profit attributable to shareholders	42 427	98 018
Weighted average number of ordinary shares (in '000)	42 654	36 906
Diluted earnings per share	0,99	2,66

Celtic Property Developments S.A.

Consolidated financial statements for the period from 1 January 2015 to 31 December 2015

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Additional notes and explanations to the consolidated financial statements**32 Earnings per share – basic and diluted (cont.)**

The weighted average number of shares in 2014 was determined taking into account the following changes in number of shares:

a) registration of the decrease in capital from 34 595 926 to 32 863 203 of 25 November 2014.

The issuance of bonds convertible into shares by CPD contributed to the dilution of profit. The amount of adjustment of the result was affected by the amount of interest (PLN 2 344 thousanda), valuation of bonds as at the balance sheet date (PLN -4 thousand) and the valuation of the embedded derivative instrument (PLN -7 180 thousand). These amounts will be reduced by the income tax to be paid in the future.

The weighted average number of shares was adjusted due to the possible exercise of right to convert bonds convertible into shares (not more than 9,791,360 shares). The weighted average number of shares amounted to 42,654,000.

33 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 17.

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

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

	12 months ended	12 months ended
	31 December 2015	31 December 2014
Poland	18 735	15 067
Cyprus	0	0
	18 735	15 067
	31 December 2015	31 December 2014
Poland	652 116	585 819
Cyprus	0	0
Hungary	2	3
	652 118	585 823

These consolidated financial statements were prepared and approved by the Management Board of the Company on 09.03.2016 and signed on its behalf by:

Elżbieta Donata Wiczowska
Chairman of the Board

John Purcell
Board Member

Colin Kingsnorth
Board Member

Iwona Makarewicz
Board Member