CPD S.A.

CONSOLIDATED ANNUAL REPORT 2016

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FOR THE YEAR ENDED 31 DECEMBER 2016

TRANSLATORS' EXPLANATORY NOTE

The following document is a free translation of the CPD S.A Consolidated Annual Report published on March 17, 2017.

In Poland statutory accounts must be prepared and presented in accordance with Polish legislation and in accordance with the accounting principles and practices generally used in Poland. The accompanying translated financial statements have not been reclassified or adjusted in any way to conform to accounting principles generally accepted in countries other than in Poland, but certain terminology current in Anglo-Saxon countries has been adopted to the extent practicable.

In the event of any discrepancy in interpreting the terminology, the Polish version is binding.

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SUPERVISORY BOARD

I. SUPERVISORY BOARD OF CPD S.A.

As at the day of December 31, 2016, the Supervisory Board of CPD S.A. included the following persons:

- **MR ANDREW PEGGE – PRESIDENT OF SUPERVISORY BOARD (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 CFA Institute.

- **MR MICHAEL HAXBY - VICEPRESIDENT OF SUPERVISORY BOARD (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.

- **MR WIESŁAW OLEŚ - SECRETARY OF SUPERVISORY BOARD (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 MIROSŁAW 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.

In comparison to the status at the end of 2015, the composition of Supervisory Board of CPD S.A. has not changed.

MANAGEMENT BOARD

II. MANAGEMENT BOARD OF CPD S.A.

As at the day of December 31, 2016, the Management Board of CPD S.A. included the following persons:

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

Ms Elżbieta Wiczkowska 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 Wiczkowska with the function of the President of the Company's Management Board. The term of office of Ms Elżbieta Wiczkowska expires on 17 June 2020. Ms Elżbieta Wiczkowska has a higher education degree in medicine. She completed medical studies at Physicians Faculty of the Medical Academy in Szczecin. Ms Elżbieta Wiczkowska 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 Wiczkowska 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.

- **MR. WALDEMAR MAJEWSKI - MEMBER OF THE MANAGEMENT BOARD**

Mr. Waldemar Majewski is a Member of the Board, was appointed to the Management Board of 29 June 2016 year. The term of office of Mr. Waldemar Majewski ends June 17, 2020 year.

Waldemar Majewski has a university degree is a master engineer, he graduated from the Poznan University of Technology at the Department of Construction / Building and Civil Engineering.

In comparison to the status at the end of 2015, the composition of the Management Board of CPD S.A. changed as follows:

- On 29 June 2016, Mr Waldemar Majewski was appointed to the Management Board;

III. 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 2015	1	4
31 December 2016	1	4

Board CPD S.A.

date	women	men
31 December 2015	2	2
31 December 2016	2	3

IV. 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 35 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

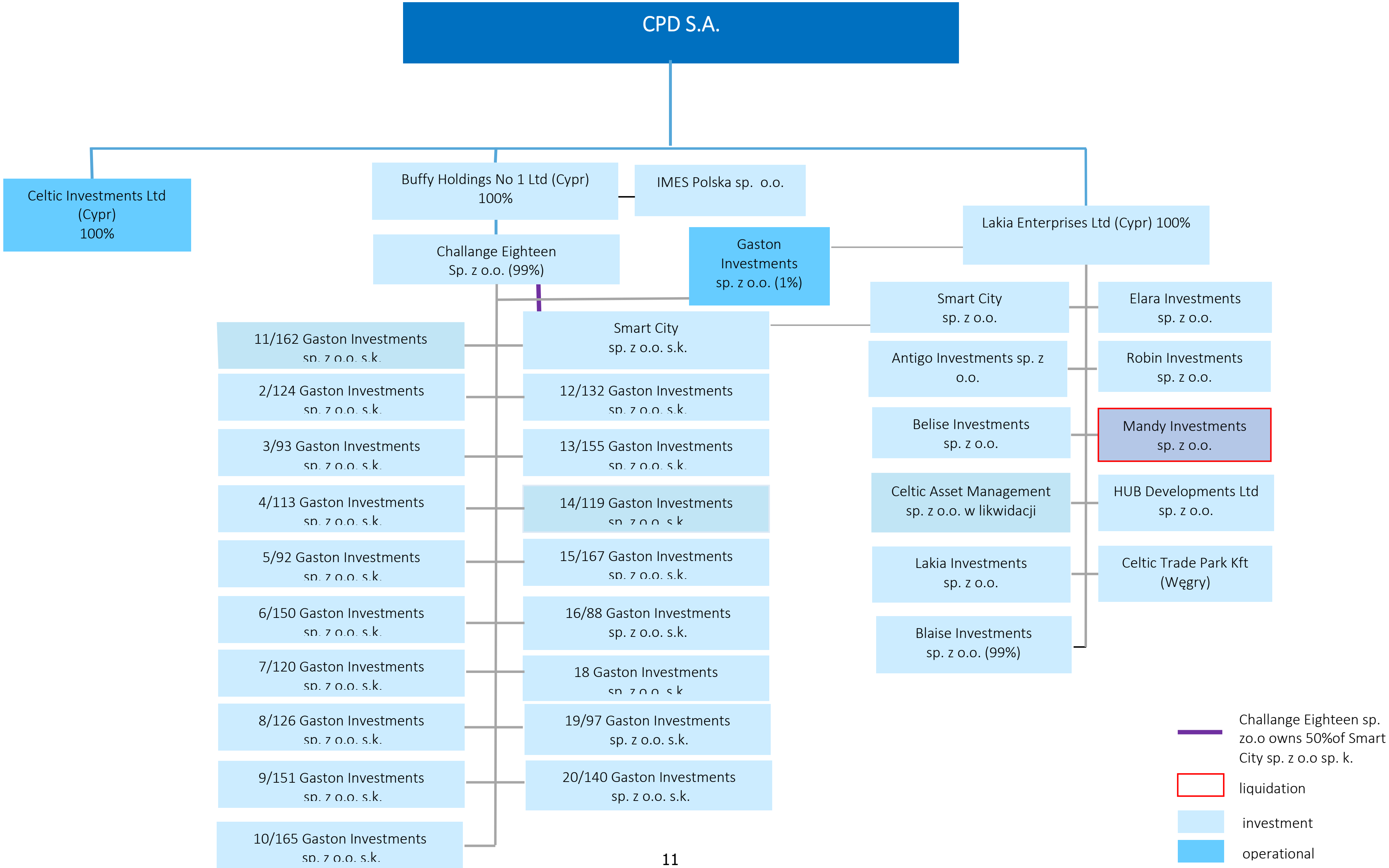
As of the day of publication hereof, the CPD Group (hereinafter referred to as "the Group", "CPD Group") was composed of a dominant entity – CPD S.A. (hereinafter referred to as "the Company") and 35 subsidiaries and one half controlled. Development activities of the Group are conducted via investment 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:

- On 19 August 2016 the resolution for closing the liquidation process of 14/119 Gaston Investments spółka z ograniczona odpowiedzialnością sp. k. was passed;
- On 27 August 2016 the resolution for closing the liquidation process of Celtic Asset Management sp. z o.o. was passed;
- On 15 December 2016 the agreement for sale of rights and obligations of complementart and comanditary for Blaise Gaston Investments spółka z ograniczoną odpowiedzialnością spółka komandytowa was concluded

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.

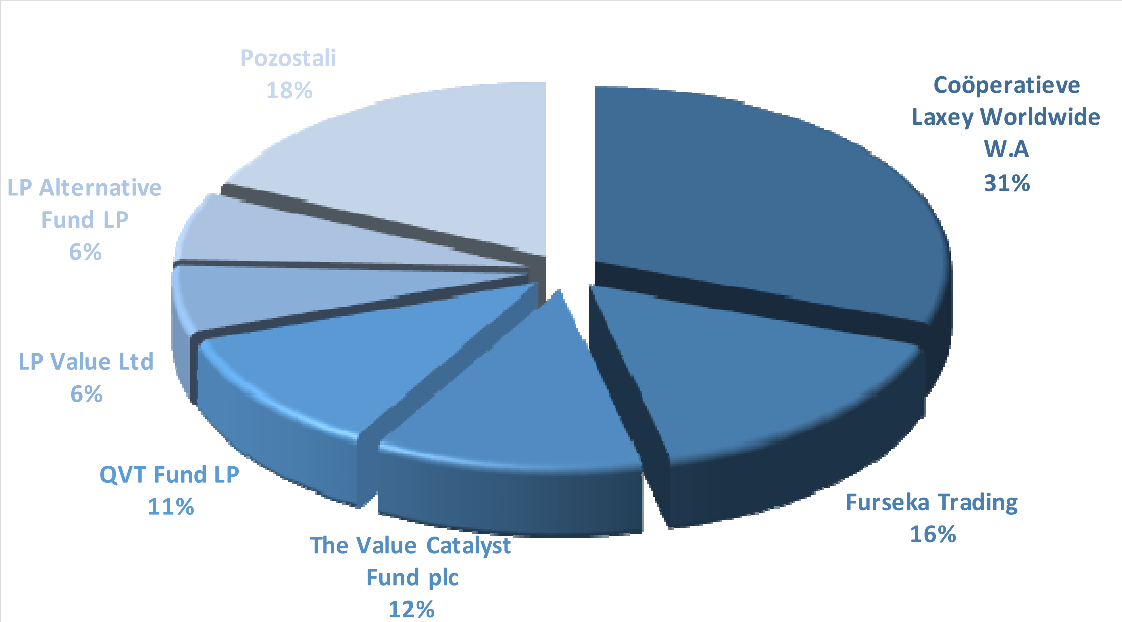
CPD Group structure on the December 31, 2016.



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 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 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

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 Andrew Pegge – President of Supervisory Board
- Mr Michael Haxby – Vicepresident of Supervisory Board
- Mr Wiesław Oleś – Secretary of Supervisory Board
- Mr Mirosław Gronicki – Member of Supervisory Board
- Ms Gabriela Gryger - Member of Supervisory Board

The composition of Supervisory Board of CPD S.A. has not changed.

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 Wiczkowska – 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
- Mr Waldemar Majewski - Member of the Management Board

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

- On 29 June 2016, Mr Waldemar Majewski 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 it's 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.cpdsa.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 2016, the Group along with the City District of Ursus Office co-organised a cycle of cultural event Farewell to Summer with Ursus".

In 2017, 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. In addition, to accelerate the appreciation of the assets of the Group, Management Board decided that the most effective strategy is to accelerate the development of investment areas owned by the Group. Sale of carefully selected major areas of investment would be an important element influencing the acceleration of the development of investment areas. Simultaneous implementation of several smaller developer undertaking 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.

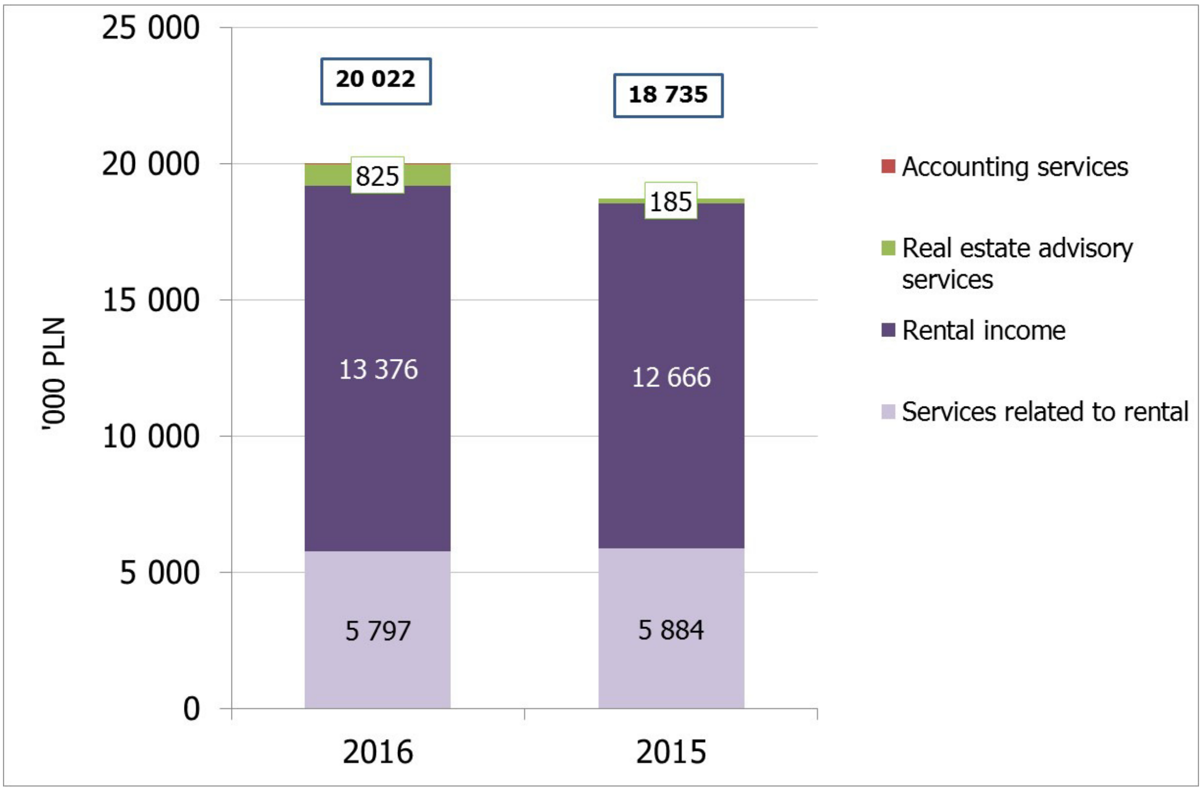
The overall strategy, as defined above, executed in very demanding market conditions, determined by the overall economic slowdown, the decrease in demand for real estate and more difficult access to the capital, defines the guidelines for each of the areas of Group's activity during next few years and 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 2016, 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 2016 amounted to PLN 20 million and almost entirely (96%) related to the lease and lease-related services. Rental income was generated primarily by three office buildings in Warsaw - IRIS building at Cybernetyki 9, Solar building at Cybernetyki 7B and Aquarius building at 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 2016 reflects the Group adopted the strategy of focusing on the Polish market. In the year 2016 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.

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**

➢ ESTABLISHMENT OF SECURITY FOR THE LOAN AGREEMENT

1 of March 2016, the Company received the decision of the District Court for the Capital City Warsaw. XI Economic Department - Register of Pledges on the entry in the register of pledges a registered pledge on 100 shares of Smart City sp. z o.o.

1 February 2016 was concluded pledge agreement on shares of Smart City limited liability company with registered office in Warsaw, between Lakia Enterprises Limited, based in Nicosia, Cyprus ("Pledger") and Bank Zachodni WBK SA ("Pledger").

Registered pledge was established on 100 shares in the share capital of Smart City sp. o.o., with a nominal value of 50 PLN each, representing 100% of the share capital of the company. The nominal value of the shares is 50,000 PLN.

Registered pledge was established to the amount of 101 469 432 PLN.

Establishing a registered pledge on the shares in the share capital is Lakia Enterprises Limited, which is a direct subsidiary of the Company.

➢ ANNEX TO THE AGREEMENT ON THE EXECUTION OF WORKS

21 of March 2016 Smart City spółka z ograniczona odpowiedzialnością sp. k. signed an annex to the agreement on the construction works as a general contractor with UNIBEP SA.

Under this Annex, Smart City has commissioned UNIBEP SA implementation of the second stage of construction of residential estate URSA Smart City at Hennela Street in Warsaw - Ursus District (the "Investment").

As part of the investment there will be built four residential buildings with underground garages. These buildings with a height of 7 floors above ground, there will be 357 apartments and 20 commercial units.

Deadline for completion of the second stage has been specified for the second quarter of 2017.

At the same time, under Annex was updated scope of work covering the performance of individual stages in the work schedule for the first phase of investment and the current completion date for the implementation of this phase of investment has been set for the fourth quarter of 2016. In addition, due to changes in the scope of work under Annex, updated value of net remuneration for the execution of works for various work stages. Currently, wages for the implementation of the first stage of investment is 35.7 million PLN as compensation for the implementation of the second stage of investment was set at 31.9 million PLN.

The remainder of the provisions of the Agreement did not change significantly.

➢ CHOICE OF AUDITOR

1 April 2016 the Supervisory Board adopted a resolution on the election of PricewaterhouseCoopers Sp. o.o. with its registered office in Warsaw, Al. 14 People's Army, entered the list of entities authorized to audit financial statements under number 144, on the auditor authorized to:

1. examine the consolidated financial statements of CPD SA for the financial year ended December 31, 2016
2. examine the separate financial statements of CPD SA for the financial year ended December 31, 2016
3. The review of the interim consolidated financial statements of CPD SA at June 30, 2016
4. The review of the interim financial statements CPD SA on June 30, 2016.

The agreement with PricewaterhouseCoopers Sp. o.o. it will be concluded for the period necessary to carry out the work indicated therein.

➢ REPEAL THE LIQUIDATION OF THE SUBSIDIARY

19 April 2016, the Extraordinary General Meeting of Shareholders 14/119 Gaston Investments limited liability company in liquidation adopted a resolution on the repeal of liquidation and continued existence of 14/119 Gaston Investments sp. zo.o sp.k..

➢ REPEAL THE LIQUIDATION OF THE SUBSIDIARY

27 April 2016, the Extraordinary General Meeting of Shareholders Celtic Asset Management, a limited liability company in liquidation adopted a resolution on the repeal of liquidation and continued existence of the Celtic Asset Management Sp. o.o.

➢ PRELIMINARY AGREEMENT OF THE COMPANY

In June 2016 CPD Group entered into preliminary purchase agreement. Based on that agreement 14/119 Gaston Investments (one of the CPD Group company) was expected to acquire plot no 146 in Ursus for PLN 14 ml. 8 March 2017, CPD Group entered into conditional agreement with Integra Sp. z o.o. based on which it sold shares in its wholy- owned subsidiary, 14/119 Gaston Investments. 14/119 Gaston Investments did not have material assets or liabilities and did not run operating activity as of

31/12/2016. In line with the agreement sale price was determined at the level of PLN 5 ml and represents the compensation for CPD for transfer of the right to purchase plot no 146 in Ursus.

CHANGES IN THE COMPOSITION OF THE COMPANY'S MANAGEMENT BOARD

In 2016 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 Wiczkowska – 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
- Mr Waldemar Majewski - Member of the Management Board

CHANGES TO THE BOND ISSUE

10 of October 2016 conversion agreement was concluded on the changing conditions of the issue of series B bonds (the "Bonds"), entered into between the Company as issuer and Open Finance Bonds Enterprises Investment Fund Closed Non-Public Assets based in Warsaw as the sole Bondholder (the "Noteholders").

Under the Agreement, the conversion terms of the bond issue have changed in the following areas:

1. abolished guarantee the Issuer's subsidiary, ie. Blaise Gaston Investments, a limited liability limited partnership with its registered office in Warsaw (hereinafter "Agreement Surety Blaise Gaston Investments") for the obligations of the Issuer under the Notes;

2. guarantee was introduced with the following subsidiaries of the Issuer: (i) 12/132 Gaston Investments, a limited liability limited partnership with its registered office in Warsaw, and (ii) 13/155 Gaston Investments, a limited liability limited partnership with its registered office in Warsaw, with whom Bondholder entered into appropriate agreements;

3. fired real estate situated in Warsaw, constituting plot of land with the registration number 111/2 of the total area of 6.0074 ha, for which the District Court for Warsaw - Mokotów in Warsaw, XIII Land Registry Division, maintains the Register no WA1M / 00212689 / 6 from under the burden mortgage on perpetual usufruct vested in the company Blaise Gaston Investments limited liability limited partnership;

4. Bonds as collateral for the mortgage was established for a total contractual amount of 45,000,000 PLN entered on the first mortgage, established by the Issuer's subsidiaries, ie. (i) 12/132 Gaston Investments, a limited liability limited partnership based in Warsaw, and (ii) 13/155 Gaston Investments, a limited liability limited partnership with its registered office in Warsaw at:

   a) the real property located in Warsaw's Ursus district, which includes cadastral parcel number 132/2, precinct 2-09-09, with a total area of 3.2544 ha, for which the District Court for Warsaw-Mokotów in Warsaw, XIII Commercial Division Land Registry, runs a perpetual book KW No. WA5M / 00477860/2, 12/132 exercise Gaston Investments, a limited liability limited partnership with its registered office in Warsaw,

   b) the real property located in Warsaw's Ursus district, which includes plot of land No. 155/2, precinct 2-09-09, with an area of 1.0998 ha and property law which are separate from the land objects of ownership of buildings, for which the District Court Warsaw-Mokotów in Warsaw, XIII

Land Registry Division, maintains the Register no WA5M / 00477861 / 9 exercise 13/155 Gaston Investments, a limited liability limited partnership with its registered office in Warsaw,

c) the real property located in Warsaw's Ursus district, covering an undeveloped plot of land No. 158/2, precinct 2-09-09, with an area of 0.2949 ha, for which the District Court for Warsaw-Mokotów in Warsaw, XIII Commercial Division Land Registry leads perpetual Paper No. WA5M / 00477864 / 0, exercising 13/155 Gaston Investments, a limited liability limited partnership with its registered office in Warsaw,

d) the real property located in Warsaw's Ursus district, which includes a built plot of land No. 147 precinct 2-09-09, with an area of 0.5190 ha and property law which are separate from the land objects of ownership of buildings, for which the District Court for Warsaw-Mokotów in Warsaw, XIII Land Registry Division, maintains the Register no WA1M / 00338198 / 6, exercise 13/155 Gaston Investments, a limited liability limited partnership with its registered office in Warsaw,

e) the real property located in Warsaw's Ursus district, which includes a built plot of land No. 134 precinct 2-09-09, with an area of 0.4722 ha and property law which are separate from the land buildings for which the District Court for Warsaw-Mokotów in Warsaw, XIII Land Registry Division, maintains the Register no WA1M / 00233102 / 1, entitlement 13/155 Gaston Investments, a limited liability limited partnership with its registered office in Warsaw;

5. as collateral for Bonds, the Issuer's subsidiaries, ie. 12/132 Gaston Investments limited liability limited partnership with its registered office in Warsaw and 13/155 Gaston Investments limited liability limited partnership with its registered office in Warsaw surrendered to the enforcement under Article . 777 § 1 point 5 of the Code of Civil Procedure, as to the obligation to pay a sum of money to the total amount of 45,000,000 PLN

- **GUARANTEE AGREEMENT, STATEMENT OF EXECUTION AND STATEMENT OF APPOINTMENT OF MORTGAGES**

6 of December 2016 subsidiary companies of the Issuer or Gaston Investments, a limited liability company with its registered office in Warsaw and Challange Eighteen limited liability company with its registered office in Warsaw, entered into a conditional preliminary agreement to sell the rights and obligations of the general partner and a limited partner in the company 11/162 Gaston Investments Company Limited liability limited partnership with its registered office in Warsaw. Conditional Preliminary Agreement obliges the parties to conclude the Final Agreement within 7 July 2017. On the basis of the aforementioned agreement, the Issuer's subsidiaries, ie. 16/88 Gaston Investments, a limited liability limited partnership and 19/97 Gaston Investments limited liability limited partnership (the "Sponsors") entered into an Agreement guarantees in the form of a notarial act, under which, granted a guarantee in connection with security Creditor claims for reimbursement of deposit, under the Conditional Preliminary Agreement concerning the sale of rights and obligations of the general partner and a limited partner in the company 11/162 Gaston Investments company limited liability limited partnership with its registered office in Warsaw.

The obligation to repay the deposit will be made in case of failure to maturity of and costs associated with the possible redress the above title in court proceedings and enforcement.

Sponsors also surrendered enforcement under Art. 777 § 1 point 5 of the Code of Civil Procedure, as to the obligation to pay a sum of money to the amount of 12,000,000 PLN.

The guarantee is a term to 30 June 2020.

On signing the Guarantee Agreement with the court of the Land Register has been submitted for entry into the mortgage on real estate, on the property in perpetual usufruct 19/97 Gaston Investments limited liability limited partnership to the sum of the mortgage 8 000 000 PLN, a real estate located in perpetual usufruct 16/88 Gaston Investments limited liability limited partnership to the sum of the mortgage 4 000 000 PLN, the receivable secured by mortgages is under the Guarantee Agreement Guarantors obligation to repay the amount of the deposit.

The value of the collateral does not exceed 10% of the equity of the Company according to § 2. 1 of the Minister of Finance dated 19 February 2009. 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.

➢ AGREEMENT FOR SALE OF RIGHTS AND OBLIGATIONS

15 December 2016, the company NP 7 SA with its seat in Warsaw and the company NP 11 limited liability company with registered office in Warsaw (hereinafter referred to as the "Buyer") and the Issuer's subsidiaries, ie.: Gaston Investments a limited liability company with registered office in Warsaw and Blaise Investments limited liability company with registered office in Warsaw, entered into a Purchase Agreement the rights and obligations of the general partner and a limited partner in the company Blaise Gaston Investments limited liability limited partnership (the "Company") with its seat in Warsaw (the "Agreement"). The transaction value is 70 000 000 PLN.

99% of all the rights and obligations of the Company, owned the company Blaise Investments limited liability company with registered office in Warsaw, a subsidiary of CPD SA while 1% of all the rights and obligations of the Company held company Gaston Investments limited liability company with registered office in Warsaw, a subsidiary of CPD SA Company had property covered by the Local Master Plan, situated in the Ursus district of Warsaw, on the prepared project allows to build about 1 000 flats.

Following the transaction, CPD SA and its subsidiaries do not hold shares in Blaise Gaston Investments limited liability limited partnership.

➢ REDUCE PROPERTY VALUES AT THE END OF THE YEAR 2016

According to the valuation made by the company Savills sp. o.o. at the end of 2016 the total fair value of real estate held by the Group, including its investment properties, investment properties held for sale and inventories amounted to 578 million PLN and was lower by 78.5 million PLN from the value reported at the end of 2015. The decrease the value of the property portfolio of the Group the greatest impact was the sale of a subsidiary.

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

The value of real estate owned by the Group, including investment properties and inventories amounted at the end of 2016 was 578 million PLN to 656.4 million PLN at the end of 2015. Property valuation at the end of 2016, like previous year, were carried out by an independent expert - the company Savills Poland Sp. o.o.

The following table summarizes the properties belonging to the Group as at 31 December 2016.

		Type	Site Area	Building Area – leasing, sale (sqm)	Valuation as at 31.12.2016 (mln PLN)	Valuatin as at 31.12.2015 (mln PLN)
Investment properties				**532 800**	**558,71**	**651,09**
1	**URSUS**	Residential / office / retail	38,4 ha	507 646	368,65	457,12
2	**SOLAR**	Office	3 908 m kw	5 749	31,68	31,58
3	**IRIS**	Office	7 449 m kw	14 200	104,85	101,85
4	**AQUARIUS**	Office	15 480 m kw	5 205	25,39	26,34
5	**WOLBÓRZ**	Logistic park	10 ha	-	2,00	2,10
	Capitalised rights of perpetual usufruct of land			-	26,14	32,11
Properties held for sale		Residential/retail	0,97 ha	**17 750**	**13,74**	**NA**
Inventories (fair value)				**18 567**	**5,47**	**5,30**
6	**ŁÓDŹ**	Residential / office / retail	1 457 m kw	3 506	2,81	2,95
7	**KOSZYKOWA**	Residential	744 m kw	454	0,82	0,56
8	**CZOSNÓW**	Land	15,2 ha	nd	0,50	0,64
9	**JAKTORÓW**	Land	2,0 ha	nd	0,24	0,24
10	**NOWA PIASECZNICA**	Land	5 639 m kw	nd	0,17	0,12
11	**ALSONEMEDI (Węgry)**	Warehouse / office	42 495 m kw	14 607	0,91	0,77
TOTAL					577,92	656,39

- **URSUS**

In 2006 - 2015 CPD Group acquired with it's own funds and with debt securities more than 60 hectares of land at the former Ursus Tractor Plant, with an intention of implementing a multifunctional urban project.

These areas are located in the area covered by the local zoning plan, adopted in July 2014 which covers an area of approx. 220 hectares, including industrial sites located in the area of Orłów Piastowskich Street in Ursus.

According to the local zoning plan, purchased property along with the adjacent area, is under the process of transformation into a unique and modern residential complex - recreational – educational on area of over 200 ha. Because of its location, modern communication and unique residential complex functions - education – recreation, it will offer its residents a high quality of life.

In September 2014, the process of investment for the first phase of the first stage of residential service was started, covering an area of 1.1 hectare into residential project with services with a usable area of 21 thousand square meters offering 181 flats. The project was completed in two phases, in cooperation with the group of companies Unibep SA with the active participation of its subsidiary Unidevelopment SA.

The project is located at the intersection of Hennela and Dyrekcyjna, in close proximity of Office Ursus District, shopping Factory outlet, railway stop Ursus, Culture Center Arsus and School of Social and Educational Society in Warsaw.

Implemented first phase of the complex consists of 4 multi-family residential buildings, offering mostly apartments with areas between 40 - 80 m2. Along with residential buildings the office and education part will be created. The offer of flats is aimed primarily at young working people and families seeking their first flat in the Warsaw agglomeration.

Sale of Phase I of the project was launched in December 2015, at the date of this document have been sold in more than 98% of the investment. Contracted debt financing for the first phase of a bank BZ WBK has been fully repaid. February 22, 2017 WSiP Group CPD was returned in kind contribution associated with land amounting to 9 551 801.60 PLN A company Unidevelopment SA was returned own contribution to the company Smart City Sp. o.o. Sp.k. in the amount of 5,660,000 PLN. Reducing the contribution and the contribution related to the first stage of a joint venture Ursa Smart City.

Sale of Phase II of the project was launched in April 2016 of the year and at the date of this document have been sold to more than 60% of the investment. They were collected funds for the repayment of debt financing for the second phase provided by BZ WBK.

The completion of the project, ie the payment of income from the investment is planned for the end of 2017

In February 2017, on the investments areas neighbouring directly to the Stage I of Ursa Smart City was launched the next stage of the project. Five hectares investment land has been divided into 3 phases. I Phase of II Stage Smart City is an area covering 1.3 hectares, in to residential project with services with a usable area of 22 thousand square meters. The project is a continuation of existing cooperation with the Group Unibep SA with the active participation of its subsidiary Unidevelopment SA.

The investment is located at Dyrekcyjna Street, in close proximity to the park, Culture Center Arsus, School of Social Educational Society and the Office Ursus District, shopping Factory outlet, railway stop Ursus.

Implemented complex in I Phase of II Eatpu is a complex of three multi-family residential buildings with services located on the ground floors. Project will offer mostly flat with areas between 40 - 80 m2. The offer of flats is aimed primarily at young working people and families seeking their first flat in the Warsaw agglomeration.

Along with residential buildings, city park will be occurred offering a place to relax and spend time together. Park will connect recreational part of area to adjacent area to Culture Center Arsus and School of Social and Educational Society. It will create unique space offering comprehensive solutions for residents who will decide to reside II Stage of Smart City. The creation of urban fabric consists of residential, service park and education function.

Beginning of following investment allows to keep a smooth supply of apartments and commercial space throughout the realization of project Smart City. Current market trends indicate a strong demand for small living areas at relatively low prices. Smart City project fits in perfectly with the needs of the market, which is why the Group expects strong demand for flats offered in the project.

In January of 2016 the local government announced the construction of Ekopark started to be built along the Gierdziejewskiego street to Leszczynskiego street. These areas are directly adjacent to the investment areas of CPD Group. The intention of local government is to create a space full of nature and communing with living organisms becoming less frequent in the urban landscape, which is why the area at Gierdziejewskiego street was tested for the presence of plant species, fauna and the direction of its migration. Park will include picnic space, playgrounds and street workout and playground for dogs. It will be ready in 2017.

In October of 2016 local government announced start of investment of educational complx consisting with the nursery school and a sports hall. The project will be launched from the construction of nursery for 150 children. Completion of facility is planned for 2019. The educational project will be realized at Hennela street on areas owned by CPD SA. As continuation of social responsibility and perceive the need of active participation in the creation of public urban space, on 10 September 2014, CPD Group will commit free transfer of land for public education investment (schools, kindergartens and nurseries.) to the Ursus district. Transfer of land will have a positive impact on the synchronized and balanced multi-investment of a city and at the same time will be an extremely important impetus for the economic development of the whole district.

Additionally, CPD Group has transferred to the Treasury sites, which according to the zoning plan were allocated for the construction of roads, and it will connect revitalized areas with Al. Jerozolimskie by June 4, 1989 street and with Polczynska street by building Nowomory street. Road Investments Management in 2013 graduated with success and put into operation two traffic arteries. Construction of June 4, 1989 street and Nowomory street is one of the most important elements of the revitalization of investment by including revitalized areas into a single network of urban roads through fast and collision-free road connections.

Another element of revitalization was selling of Energetyka Ursus sp. o.o. and its infrastructure respectively to Innogy Warszwa, Veolia Warszawa and Woda Polska. This sale contributed in May 2016 the inactivation of the local heating plant, which was run by Energetyka Ursus sp. o.o. and the settlement rules for use of the heating infrastructure, energy and water on land owned by the Group CPD, previously utilized by the Energetyka Ursus sp. o.o. As a result of these actions has been defined harmnonogram of areas release belonging to the Group CPD and previously been used by Energetyka Ursus sp. z o.o.

At the same time these actions resulted in connecting this network to main Warsaw public heating network and main Warsaw public electroenergy network and ensure the modernization of the above technical infrastruktiry by new owners at their expense.

Provider of thermal energy in the district of Ursus, including investment areas belonging to the Group CPD SA, is Veolia Energy Warszawa SA and Innogy Warszawa SA..

As Energetyka Ursus was in close proximity to the investment areas belonging to the group CPD SA its inactivation and demolition works are one of the last elements definitely change investment areas into a modern and multi-functional urban fabric.

- **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 2016, the building is fully let. 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 renowned companies. On 31 December 2016, the building was leased in 75 %.

- **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 2016, the building was leased in 93 %.

- **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 2016 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 m^2 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 m^2 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 2016 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 2016, Polish GDP growth was 2.8%, and so much less than in 2015 (an increase of 3.39%). According to government forecasts the growth rate of the Polish economy in 2017 should be at the level of 3.6%. 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 2017. 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 2016, the reference rate of the National Bank of Polish remained at 1.50%. Maintaining the current level of interest rates in 2017 should have a positive impact on the attractiveness of mortgage loans as well as 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 limit of the loan amount.

- **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 be continued only to the end of 2018, 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.

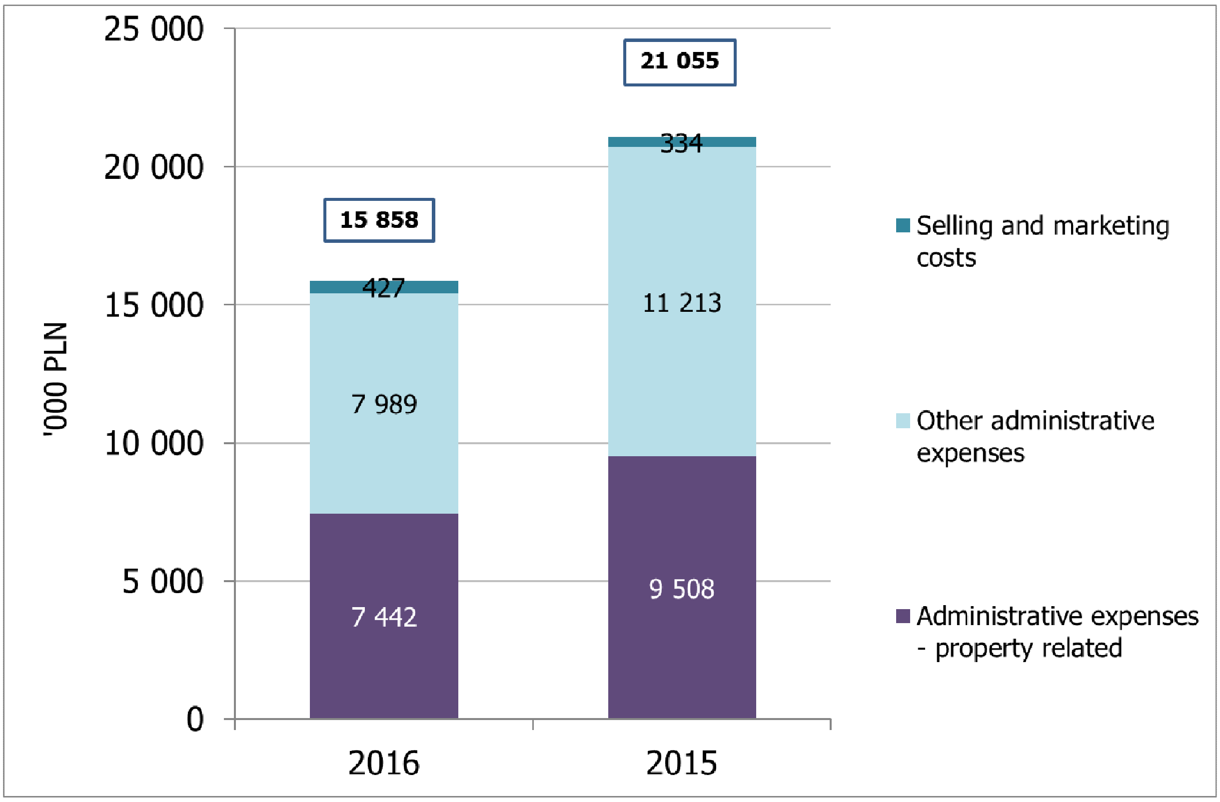
	12 months period		
	From 01.01.2016 to 31.12.2016 (PLN ths.)	**From 01.01.2015 to 31.12.2015** (PLN ths.)	***Change*** *(%)*
Revenue	20 022	18 735	*6,9%*
Cost of sales	-2 051	-3 499	*-41,4%*
Gross profit	**17 971**	**15 236**	***18,0%***
Administrative expenses - property related	*-7 442*	*-9 508*	*-21,7%*
Other administrative expenses	*-7 989*	*-11 213*	*-28,8%*
Selling and marketing costs	*-427*	*-334*	*27,8%*
Gain (loss) on disposal of investment properties	*-2 475*	*0*	*-*
Other income	*3 010*	*5 514*	*-45,4%*
Gain (loss) on revaluation of investment properties	*4 722*	*59 382*	*-92,0%*
Gain (loss) on disposal of subsidiaries	*-148*	*6*	*-2566,7%*
Post-tax share of the profit or loss of the joint-venture accounted for using the equity method	*3 680*	*-911*	*-504,0%*
Profit/loss from operations	**10 902**	**58 172**	***-81,3%***
Finance income	8 146	8 626	*-5,6%*
Finance costs	-16 575	-13 380	*23,9%*
Profit/loss before tax	**2 473**	**53 418**	***-95,4%***
Income tax	-6 329	-7 070	*-10,5%*
Profit/loss for the period	**-3 856**	**46 348**	***-108,3%***

Earnings per share (PLN)	-0,12	1,41	*-108,3%*
Diluted earnings per share (PLN)	-0,17	0,99	*-117,0%*

In 2016, CPD Group SA recorded a net loss of 3.9 million PLN.

The main factor having a positive impact on the Group's result was primarily a decrease in administrative expenses in the amount of 5.3 million PLN. This decrease resulted from a reduction in the cost of property tax, fees for perpetual use and the cost of consultancy services.

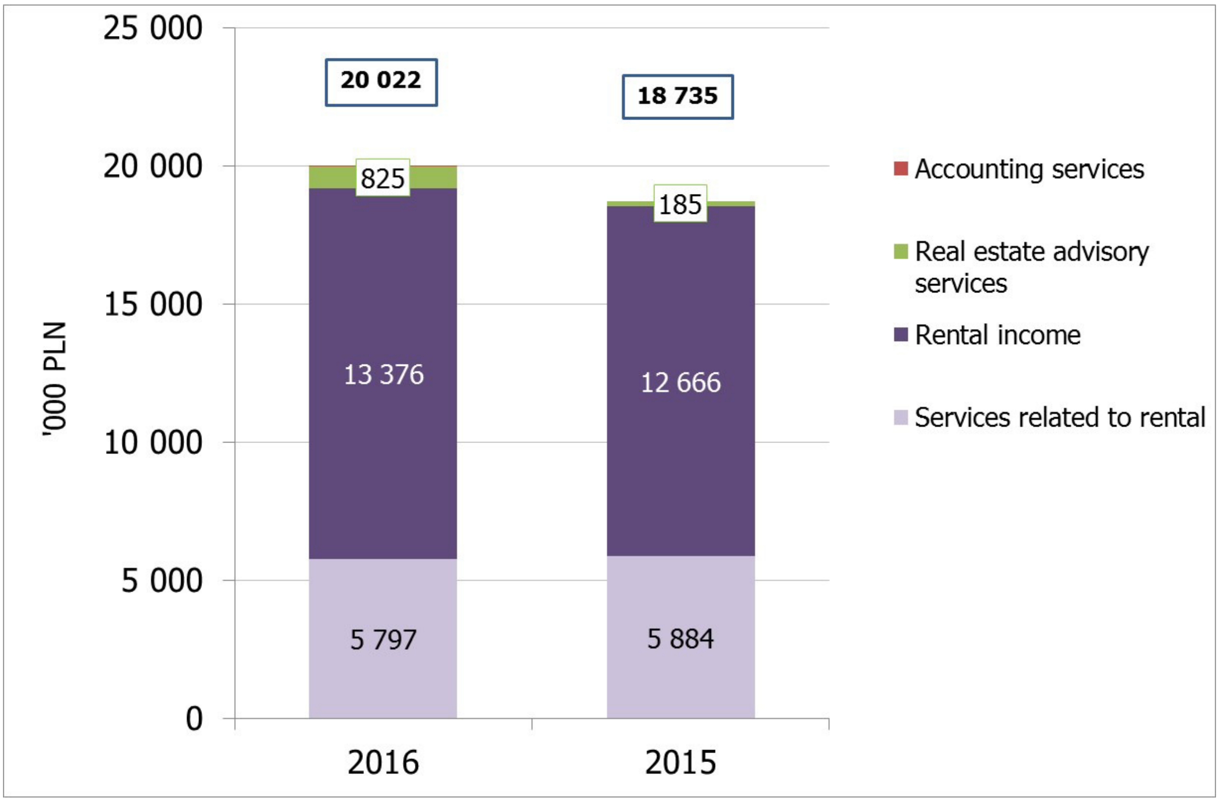
The chart below shows the structure of the Group's operating expenses in the years 2016 and 2015.



The increase in profit on sales of PLN 2.7 million also contributed to the improvement of the Group's result. With respect to the value for 12 months of 2016 rental income amounted to PLN 13.4 million to PLN 12.7 million in the same period of the previous year (an increase of 6%). Rental income was generated by 3 office buildings in Warsaw - building Aquarius Street Połczyńska 31A, building Solar Street Cybernetics 7B and the building of Iris Street Cybernetics 9.

In 2016 the Group has not recorded any income from the sale of stocks.

The chart below shows the structure of sales revenue for the 12 months in 2016 and 2015.



Another factor that had a significant positive impact on the Group's financial results was the participation in the profits of joint ventures in the amount of 3.7 million PLN. A joint venture related to the housing project Ursa Smart City in Warsaw's Ursus district. This project will significantly increase the Group's results in the coming years.

On the other hand, the main negative factor for the Group's net results in 2016 compared to 2015 was an increase in financial expenses by PLN 3.2m due mainly to foreign exchange losses.

Also, loss on disposal of investment property in the amount of PLN 2.5 million had a negative impact on the Group's CPD SA, compared with the same period last year. The Group sold in 2016 to RWE several small plots of land designated for power infrastructure located in the district of Ursus.

Selected items of the consolidated statement of financial position.

	As at:		Change
	31.12.2016	31.12.2015	
	(PLN ths.)	(PLN ths.)	(%)
TOTAL ASSETS	**715 975**	**711 477**	***0,6%***
Non-current assets, including:	**592 502**	**667 182**	***-11,2%***
Investment properties	*558 706*	*651 094*	*-14,2%*
Investments in joint ventures accounted for using the equity method	*32 572*	*14 512*	*124,4%*
Current assets, including:	**123 473**	**44 295**	***178,8%***
Assets held for sale	*14 075*	*0*	*-*
Inventory	*5 468*	*5 296*	*3,2%*
Trade and other receivables	*10 229*	*9 256*	*10,5%*
Cash and cash equivalents	*89 999*	*26 073*	*245,2%*
TOTAL EQUITY AND LIABILITIES	**715 975**	**711 477**	***0,6%***
Equity, including:	**446 903**	**450 831**	***-0,9%***
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*	*0,0%*
Translation reserve	*-5 383*	*-5 311*	*1,4%*
Retained earnings	*475 922*	*479 778*	*-0,8%*
Total liabilities, including:	**269 072**	**260 646**	***3,2%***
Non-current liabilities	*190 959*	*235 126*	*-18,8%*
Current liabilities	*78 113*	*25 520*	*206,1%*

At the end of December 2016. Value of total assets of the Group increased slightly compared to the end of 2015 (an increase of 4.5 million PLN). First of all, it increased the value of assets (an increase of 79.2 million PLN), which was the result of the sale of the subsidiary.

At the end of December 2016. Value of the equity amounted to 446.9 million PLN, which accounted for 62.4% of the total assets of the Group, while liabilities accounted for 37.6% of total assets.

These indicators have changed slightly compared to the end of 2015 years (respectively 63.4% and 36.6%). In 2016, it increased the value of liabilities (3,2%). This was mainly due to an increase in the value of trade payables and taxes.

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

	31.12.2016	31.12.2015
Liabilities to total assets	**37,6%**	**36,6%**
Non-current liabilities to total assets	**26,7%**	**33,0%**
Borrowings including finance leases	19,4%	20,3%
Bonds	4,2%	7,9%
Embedded derivative	0,0%	1,6%
Deferred income tax liabilities	2,8%	2,9%
Trade and other payables	0,3%	0,3%
Current liabilities to total assets	**10,9%**	**3,6%**
Borrowings including finance leases	1,0%	1,1%
Trade and other payables	4,9%	2,3%
Payables related to assets held for sale	0,1%	0,0%
Bonds	4,3%	0,2%
Embedded derivative	0,6%	0,0%

Changed compared to the end of 2015. The structure of liabilities. The share of long-term debt in total assets decreased from 33% at the end of December 2015. 26.7% at the end of December 2016. This change is related to the fact that for 2,017 years due for repayment or conversion of convertible bonds and were presented as current liabilities.

The share of short-term debt, however, grew from 3.6% at December 31, 2015. To 10.9% on 31 December 2016.

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 2016 was 2.8% and was significantly slower than in 2015, when it stood at 3.9%. Government forecasts for 2017 predict Polish GDP growth at 3.6%, 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 2016 equivalent of PLN 152.9 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 2016, 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 31 Dec 2016, the Company and its subsidiaries have been parties to the following agreements considered material according to the above-mentioned Regulation:

- The loan agreement Belise Investments Sp. o.o. and Bank Zachodni WBK SA. The agreement is a significant agreement due to its value at 31.12.2016 of 76 813 265 PLN (according to the average EUR exchange rate published by the NBP on 31 December 2016 amounting to 4.4240 PLN / EUR), which exceeds the 10% of the equity of CPD SA 31 December 2016 .;
- The loan agreement Lakia Investments sp. o.o. and mBank. The agreement is a significant agreement due to its value at 31.12.2016 of 23 764 246 PLN (according to the average EUR exchange rate published by the NBP on 31 December 2016 amounting to 4.4240 PLN / EUR);
- Credit Agreement Robin Investments sp. o.o. and mBank. The agreement is a significant agreement due to its value at 31.12.2016 of 18 402 693 PLN (according to the average EUR exchange rate published by the NBP on 31 December 2016 amounting to 4.4240 PLN / EUR);
- The loan agreement for the Smart City limited liability limited partnership with BZ WBK SA The agreement is a significant agreement due to its value at 31.12.2016 of 12 229 792 PLN;

These agreements are described in section 17. CONTRACT LOANS, LOANS, GUARANTEES AND this report.

- The contract of sale entered into a Purchase Agreement the rights and obligations of the general partner and a limited partner in the company Blaise Gaston Investments limited liability limited partnership. The agreement is an agreement significant due to its value at the date of signature, i.e. 15 December 2016 r. Of 70 000 000 PLN, which exceeds 10% of the equity CPD SA 31 December 2016; 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.

16. SIGNIFICANT TRANSACTIONS WITH RELATED PARTIES

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

17. LOAN AND BORROWING AGREEMENTS, SURETIES AND GUARANTEES

In 2016, the liabilities under the following agreements of the Group were being performed in a timely manner:

- **EXECUTION OF GUARANTEE AGREEMENT BY THE COMPANY SUBSIDIARIES, A STATEMENT OF SUBMISSION TO ENFORCEMENT AND THE ESTABLISHMENT OF MORTGAGES**

6 December 2016 the subsidiary companies of the Issuer i.e. Gaston Investments spółka z ograniczoną odpowiedzialnością with its registered office in Warsaw and Challange Eighteen spółka z ograniczona odpowiedzialnością with its registered office in Warsaw entered into the Conditional Preliminary Agreement for the Sale of rights and obligations of the general partner and limited partner in the limited partnership 11/162 Gaston Investments spółka z ograniczoną odpowiedzialnością spółka komandytowa with its registered office in Warsaw. Conditional Preliminary Agreement obligates the parties to enter into the Final Agreement by 7 July 2017. On the basis of the aforementioned agreement, the subsidiaries of the Issuer i.e. 16/88 Gaston Investments spółka z ograniczoną odpowiedzialnością spółka komandytowa and 19/97 Gaston Investments spółka z ograniczoną odpowiedzialnością spółka komandytowa (hereinafter the "Guarantors") entered into the Surety Agreement in the form of a notarial deed under which they granted surety in connection with the security for the claims of the Creditor concerning the repayment of the earnest money [zadatek], following from the Conditional Preliminary Agreement for the sale of rights and obligations of the general partner and limited partner in the limited partnership 11/162 Gaston Investments spółka z ograniczoną odpowiedzialnością spółka komandytowa with its registered office in Warsaw.

Obligation to return the earnest money shall be effected in the case where there is a delay in payment and costs in relation to vindication of any possible claims in this respect in the course of court or enforcement proceedings.

Moreover Guarantors submitted themselves to enforcement pursuant to art. 777 § 1 subpar. 5 of the Code of Civil Procedure as regards their obligation to pay the monies up to the amount of 12,000,000 zlotys.

Surety shall be valid until 30 June 2020.

At the date of signing of the Surety Agreement an application was submitted to the land and mortgage register court to enter the Mortgages over the Real Properties to the register, and the mortgage over the real property in perpetual usufruct of 19/97 Gaston Investments spółka z ograniczoną odpowiedzialnością spółka komandytowa shall be up to the mortgage sum of 8 000 000 zlotys, and the mortgage over the real property in perpetual usufruct of 16/88 Gaston Investments spółka z ograniczoną odpowiedzialnością spółka komandytowa shall be up to the mortgage sum of 4 000 000 zlotys, and the claim secured by the mortgage shall be the obligation of Guarantors following from the Surety Agreement to repay the earnest money.

- **CHANGES TO THE BOND ISSUE**

10 of October 2016 conversion agreement was concluded on the changing conditions of the issue of series B bonds (the "Bonds"), entered into between the Company as issuer and Open Finance Bonds Enterprises Investment Fund Closed Non-Public Assets based in Warsaw as the sole Bondholder (the "Noteholders").

Under the Agreement, the conversion terms of the bond issue have changed in the following areas:

1. abolished guarantee the Issuer's subsidiary, ie. Blaise Gaston Investments, a limited liability limited partnership with its registered office in Warsaw (hereinafter "Agreement Surety Blaise Gaston Investments") for the obligations of the Issuer under the Notes;

2. guarantee was introduced with the following subsidiaries of the Issuer: (i) 12/132 Gaston Investments, a limited liability limited partnership with its registered office in Warsaw, and (ii)

13/155 Gaston Investments, a limited liability limited partnership with its registered office in Warsaw, with whom Bondholder entered into appropriate agreements;

3. fired real estate situated in Warsaw, constituting plot of land with the registration number 111/2 of the total area of 6.0074 ha, for which the District Court for Warsaw - Mokotów in Warsaw, XIII Land Registry Division, maintains the Register no WA1M / 00212689 / 6 from under the burden mortgage on perpetual usufruct vested in the company Blaise Gaston Investments limited liability limited partnership;

4. Bonds as collateral for the mortgage was established for a total contractual amount of 45,000,000 PLN entered on the first mortgage, established by the Issuer's subsidiaries, ie. (i) 12/132 Gaston Investments, a limited liability limited partnership based in Warsaw, and (ii) 13/155 Gaston Investments, a limited liability limited partnership with its registered office in Warsaw at:

   a) the real property located in Warsaw's Ursus district, which includes cadastral parcel number 132/2, precinct 2-09-09, with a total area of 3.2544 ha, for which the District Court for Warsaw-Mokotów in Warsaw, XIII Commercial Division Land Registry, runs a perpetual book KW No. WA5M / 00477860/2, 12/132 exercise Gaston Investments, a limited liability limited partnership with its registered office in Warsaw,

   b) the real property located in Warsaw's Ursus district, which includes plot of land No. 155/2, precinct 2-09-09, with an area of 1.0998 ha and property law which are separate from the land objects of ownership of buildings, for which the District Court Warsaw-Mokotów in Warsaw, XIII Land Registry Division, maintains the Register no WA5M / 00477861 / 9 exercise 13/155 Gaston Investments, a limited liability limited partnership with its registered office in Warsaw,

   c) the real property located in Warsaw's Ursus district, covering an undeveloped plot of land No. 158/2, precinct 2-09-09, with an area of 0.2949 ha, for which the District Court for Warsaw-Mokotów in Warsaw, XIII Commercial Division Land Registry leads perpetual Paper No. WA5M / 00477864 / 0, exercising 13/155 Gaston Investments, a limited liability limited partnership with its registered office in Warsaw,

   d) the real property located in Warsaw's Ursus district, which includes a built plot of land No. 147 precinct 2-09-09, with an area of 0.5190 ha and property law which are separate from the land objects of ownership of buildings, for which the District Court for Warsaw-Mokotów in Warsaw, XIII Land Registry Division, maintains the Register no WA1M / 00338198 / 6, exercise 13/155 Gaston Investments, a limited liability limited partnership with its registered office in Warsaw,

   e) the real property located in Warsaw's Ursus district, which includes a built plot of land No. 134 precinct 2-09-09, with an area of 0.4722 ha and property law which are separate from the land buildings for which the District Court for Warsaw-Mokotów in Warsaw, XIII Land Registry Division, maintains the Register no WA1M / 00233102 / 1, entitlement 13/155 Gaston Investments, a limited liability limited partnership with its registered office in Warsaw;

5. as collateral for Bonds, the Issuer's subsidiaries, ie. 12/132 Gaston Investments limited liability limited partnership with its registered office in Warsaw and 13/155 Gaston Investments limited liability limited partnership with its registered office in Warsaw surrendered to the enforcement under Article . 777 § 1 point 5 of the Code of Civil Procedure, as to the obligation to pay a sum of money to the total amount of 45,000,000 PLN.

- **CREDIT AGREEMENT WITH BANK ZACHODNI WBK SA**

The agreement was signed on 12 August 2011 between Bank Zachodni WBK SA a subsidiary Belise Investments Sp. o.o. as the borrower and the guarantors, which are CPD SA, Lakia Enterprises Ltd., based in Nicosia (Cyprus) and East Europe Property Financing A.B. based in Stockholm (Sweden) and concerned funding for the construction and finish building office Iris, located at ul. Cybernetics 9 in Warsaw, which was completed in October 2012. Under the agreement, the credit granted:

1) Investment Loan, the amount of EUR 20,077,458 granted in order to finance or refinance part of the project costs or the cost of finishing the surface lease;

May 31, 2015, the Company signed an annex to the W.W. credit agreement

The Annex was signed in connection with the maturity of the existing loan.

By virtue of the above-mentioned Annex, the following changes:

1) Investment Loan for the amount of EUR 18,500,000.00 was granted to refinance debt by making the conversion;
2) The term of the total loan repayment including interest and other costs, the parties agreed on the day May 31, 2021;
3) The conversion meant the use of funds made available under Tranche B by Debt conversion amounts to EUR 17,000,000 Tranche A debt amount under tranche B and the launch of an additional tranche for a maximum amount of EUR 1,500,000.

Other significant provisions resulting from the Agreement remain unchanged.

At the same time, CPD SA and Lakia Enterprises Limited, with its registered office in Nicosia (Cyprus), in order to secure the repayment of the Loan, in relation to the Annex, surrendered to the execution. Furthermore, the Company signed an annex to the Agreement guarantees.

- **CREDIT AGREEMENT MBANK**

June 18, 2014 was signed loan agreement between Robin Investments sp. z o.o., a subsidiary of the Issuer and mBank Mortgage SA, under which the company Robin Investments sp. o.o. It was granted a loan in the amount of 4,450,000 EUR, intended for the refinancing of an office building "Aquarius", inter alia, by the total and irrevocable repayment of existing debt of the company resulting from the loan agreement with HSBC Bank Poland SA,

Securing Loan Mortgage are the following mortgages and pledges:

1) joint contractual mortgage to the amount of EUR 8,900,000,
2) registered pledge on all shares in the share capital of the Borrower with a total nominal value of PLN 50 000 together with a statement Laki ENTERPRISES LIMITED based in Nicosia ("Shareholder") of execution of the pledged shares, prepared in accordance with art. 97 of the Banking Law up to the amount of EUR 4,450,000,
3) a registered pledge on the Borrower's Bank Accounts;

Others - the standard for this type of agreement - security facility are transfer as security of receivables insurance contract Property and Building, the transfer of receivables under lease agreements, lock and power of attorney to the bank accounts of the Borrower, Reserve Service Debt in the amount equivalent to 3 installments of principal and interest.

The loan was made available to and used by the Borrower in the amount of EUR 4,450,000 and a refinancing of existing loans granted to HSBC Shareholder.

The final repayment Mortgage Loan no later than June 20, 2029. Amounts owed will be repaid in euros, according to the agreed repayment schedule. In respect of the loan, the Subsidiary will pay interest at a variable interest rate of 6M EURIBOR plus a margin of the Bank.

- **CREDIT AGREEMENT MBANK**

June 18, 2014 the Company signed a loan agreement between the subsidiary Lakia Investments sp. O.o. and mBank Mortgage SA, under which the company Lakia Investments Sp. o.o. was granted a loan in the amount of 5,850,000 EUR, intended for the refinancing of an office building, "Solar", inter alia, by the complete and irrevocable payment of existing debt of the company resulting from the loan agreement with HSBC Bank Poland SA,

Securing Loan Mortgage are the following mortgages and pledges:

1) joint contractual mortgage to the amount of EUR 11,700,000 to set up:
2) registered pledge on all shares in the share capital of the Borrower with a total nominal value of PLN 50 000 together with a statement Laki ENTERPRISES LIMITED based in Nicosia ("Shareholder") of execution of the pledged shares, prepared in accordance with art. 97 of the Banking Law up to the amount of EUR 5,850,000;
3) a registered pledge on the Borrower's Bank Accounts;

Others - the standard for this type of agreement - security facility are transfer as security of receivables insurance contract Property and Building, the transfer of receivables under lease agreements, lock and power of attorney to the bank accounts of the Borrower, Reserve Service Debt in the amount equivalent to 3 installments of principal and interest.

The loan was made available to and used by the Borrower in the amount of EUR 5.85 million and a refinancing of existing loans granted to HSBC Shareholder.

The final repayment Mortgage Loan no later than June 20, 2029. Amounts owed will be repaid in euros, according to the agreed repayment schedule. In respect of the loan, the Subsidiary will pay interest at a variable interest rate of 6M EURIBOR plus a margin of the Bank.

- **CREDIT AGREEMENT WITH BANK WEST WBK SA**

December 17, 2015 loan agreement was signed between the Smart City limited liability limited partnership, which is a subsidiary company of the Company, and Bank Zachodni WBK SA, pursuant to which Smart City limited liability company sp.k. It was granted a construction loan of up to 65,146,288 PLN to finance the construction project of residential, multifamily Ursa Smart City Phase I, at the intersection of ul. Hennela and ul. Dyrekcyjna in Warsaw's Ursus district.

Security of the receivables of the Bank arising from the Agreement in respect of loans are mortgages and liens registered on the rights of corporate shareholders and shares in the share capital of the general partner of the Borrower (Smart City sp. O.o.), which were established in 2016.

The loan was made available to the Borrower after the establishment of security and the fulfillment of other conditions common share.

18. ISSUES OF SECURITIES, ACQUISITION OF OWN SHARES

- **CHANGES TO THE BONDS ISSUE**

10 of October 2016 conversion agreement was concluded on the changing conditions of the issue of series B bonds (the "Bonds"), entered into between the Company as issuer and Open Finance Bonds Enterprises Investment Fund Closed Non-Public Assets based in Warsaw as the sole Bondholder (the "Noteholders”).

Under the Agreement, the conversion terms of the bond issue have changed in the following areas:

1. abolished guarantee the Issuer's subsidiary, ie. Blaise Gaston Investments, a limited liability limited partnership with its registered office in Warsaw (hereinafter "Agreement Surety Blaise Gaston Investments") for the obligations of the Issuer under the Notes;
2. guarantee was introduced with the following subsidiaries of the Issuer: (i) 12/132 Gaston Investments, a limited liability limited partnership with its registered office in Warsaw, and (ii) 13/155 Gaston Investments, a limited liability limited partnership with its registered office in Warsaw, with whom Bondholder entered into appropriate agreements;
3. fired real estate situated in Warsaw, constituting plot of land with the registration number 111/2 of the total area of 6.0074 ha, for which the District Court for Warsaw - Mokotów in Warsaw, XIII Land Registry Division, maintains the Register no WA1M / 00212689 / 6 from under the burden mortgage on perpetual usufruct vested in the company Blaise Gaston Investments limited liability limited partnership;
4. Bonds as collateral for the mortgage was established for a total contractual amount of 45,000,000 PLN entered on the first mortgage, established by the Issuer's subsidiaries, ie. (i) 12/132 Gaston Investments, a limited liability limited partnership based in Warsaw, and (ii) 13/155 Gaston Investments, a limited liability limited partnership with its registered office in Warsaw at:
   a) the real property located in Warsaw's Ursus district, which includes cadastral parcel number 132/2, precinct 2-09-09, with a total area of 3.2544 ha, for which the District Court for Warsaw-Mokotów in Warsaw, XIII Commercial Division Land Registry, runs a perpetual book KW No. WA5M / 00477860/2, 12/132 exercise Gaston Investments, a limited liability limited partnership with its registered office in Warsaw,
   b) the real property located in Warsaw's Ursus district, which includes plot of land No. 155/2, precinct 2-09-09, with an area of 1.0998 ha and property law which are separate from the land objects of ownership of buildings, for which the District Court Warsaw-Mokotów in Warsaw, XIII Land Registry Division, maintains the Register no WA5M / 00477861 / 9 exercise 13/155 Gaston Investments, a limited liability limited partnership with its registered office in Warsaw,
   c) the real property located in Warsaw's Ursus district, covering an undeveloped plot of land No. 158/2, precinct 2-09-09, with an area of 0.2949 ha, for which the District Court for Warsaw-Mokotów in Warsaw, XIII Commercial Division Land Registry leads perpetual Paper No. WA5M / 00477864 / 0, exercising 13/155 Gaston Investments, a limited liability limited partnership with its registered office in Warsaw,
   d) the real property located in Warsaw's Ursus district, which includes a built plot of land No. 147 precinct 2-09-09, with an area of 0.5190 ha and property law which are separate from the land

objects of ownership of buildings, for which the District Court for Warsaw-Mokotów in Warsaw, XIII Land Registry Division, maintains the Register no WA1M / 00338198 / 6, exercise 13/155 Gaston Investments, a limited liability limited partnership with its registered office in Warsaw,

e) the real property located in Warsaw's Ursus district, which includes a built plot of land No. 134 precinct 2-09-09, with an area of 0.4722 ha and property law which are separate from the land buildings for which the District Court for Warsaw-Mokotów in Warsaw, XIII Land Registry Division, maintains the Register no WA1M / 00233102 / 1, entitlement 13/155 Gaston Investments, a limited liability limited partnership with its registered office in Warsaw;

5. as collateral for Bonds, the Issuer's subsidiaries, ie. 12/132 Gaston Investments limited liability limited partnership with its registered office in Warsaw and 13/155 Gaston Investments limited liability limited partnership with its registered office in Warsaw surrendered to the enforcement under Article . 777 § 1 point 5 of the Code of Civil Procedure, as to the obligation to pay a sum of money to the total amount of 45,000,000 PLN.

19. DESCRIPTION OF DIFFERENCES IN FORECAST FINANCIAL RESULTS

CPD Group and its dominant entity did not publish financial result forecasts for the year 2016.

20. FINANCIAL RESOURCES MANAGEMENT ASSESSMENT

CPD Group finances its operations primarily with equity. In fiscal year 2016 the Group's financial resources are used in accordance with the plans, specifications and current needs. Group fulfilled its regularly with their obligations to counterparties, banks and mandatory charges to the State. Liabilities representing 37,6% of the total assets of the Group do not pose a threat to the financial condition of the Group.

Supplementary source of financing the Group's loans and bonds. At the end of 2016 the total value of liabilities from loans and borrowings, including finance lease amounted to PLN 147 million compared to 152 million PLN at the end of 2015. As part of the liabilities from loans and borrowings CPD Group shows liabilities from financial leasing, which obligation of perpetual usufruct of land. At the end of 2016 years these liabilities amounted to 26.7 million PLN, which accounted for 18% of the total amount of liabilities from loans and borrowings, including finance lease.

In September 2014, the Group issued bonds convertible into shares. At the end of 2016. Value of these liabilities amounted to 29.9 million PLN, and also taking into account the value of an embedded derivative in the amount of PLN 4 million, total liabilities on the balance sheet of the Group amounted to 33.9 million PLN.

In January 2015, the Group issued bonds SERIES B. At the end of 2016 value of these liabilities amounted to PLN 31 million.

21. CHANGES IN MANAGEMENT POLICIES

In 2016, continuing the strategy of focusing the Group on the Polish market, and in particular on the project in Ursus, underwent further changes in the structure of the Group. The procedure for the liquidation of an investment company Celtic Asset Management Sp. Z o.o., as well as 14/119 Gaston Investments sp. Partnership was repealed.

Continuation is subject to liquidation of the company not conducting investment activities or operations (Mandy Investments sp. Z o.o.) in connection with the sale of the property belonging to it and the ending of its operations. Reducing the number of subsidiaries from 44 at the end of 2011 to 36 at the end of the period, contributed to simplify the management of the Group. In addition to changes in the Group structure in 2016 (described in detail in Section VI.2 STRUCTURE OF THE GROUP this report) and further simplification of organizational procedures, there were no substantial changes in the Group management.

22. REMUNERATION OF THE SUPERVISORY BOARD AND THE MANAGEMENT BOARD

- **SUPERVISORY BOARD REMUNERATION**

In 2016, 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.:

Name	Function	Currency	PLN	Period	Comments
Wiesław Oleś	Secretary	PLN	66 000	01.2016 - 12.2016	-
Andrew Pegge	President	PLN	66 000	01.2016 - 12.2016	-
Mirosław Gronicki	Member	PLN	66 000	01.2016 - 12.2016	-
Gabriela Gryger	Member	PLN	66 000	01.2016 - 12.2016	-
Michael Haxbey	Vice President	PLN	66 000	01.2016 - 12.2016	-
TOTAL		**PLN**	**330 000**		

- **MANAGEMENT BOARD REMUNERATION**

In 2016 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	Remuneration of Board Member of CPD (PLN)	Remuneration of Board Member of the Group (PLN)	TOTAL (PLN)	Period	Comments
Elżbieta Wiczkowska	President	72 000	527 962	599 962	01.2016 - 12.2016	-
Iwona Makarewicz	Member	60 000	275 189	335 189	01.2016 - 12.2016	-
Colin Kingsnorth	Member	60 000	-	60 000	01.2016 - 12.2016	-
John Purcell	Member	60 000	-	60 000	01.2016 - 12.2016	-
Waldemar Majewski	Member	9 333	135 452	144 785	06.2016 - 12.2016	-
Total		**261 333**	**938 603**	**1 199 936**		

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 Wiczkowska	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 2015 and 2016 were reviewed and audited by an auditing firm PricewaterhouseCoopers sp. z o.o. with its registered office in Warsaw.

The total remuneration of the auditor for the audit, inspection Financial Statements for the year 2015, and other services provided by PricewaterhouseCoopers with net amounted to PLN 240.000 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).

The total remuneration of the auditor for the year 2016 amounted to PLN 258.700 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 2016 to June 30, 2016 (agreement of 14 June 2016.);
- PLN 125,000 constituted remuneration for the audit of the financial statements of CPD SA and the consolidated financial statements of the Group for the period from 1 January 2016 to 31 December 2016 (agreement of 14 June 2016.);
- PLN 15,000 constituted remuneration for the audit of financial statements of Belise Investments sp. o.o. (Agreement of 22 August 2016.);
- PLN 15,000 constituted remuneration for the audit of financial statements of Smart City sp. o.o. sp.k .;
- 38,700 PLN (9,000 EUR) constituted remuneration 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 2016 to 31 December 2016. (Based on the agreements between these companies and PwC in some countries).

28. STRUCTURE OF ASSETS AND LIABILITIES – BY LIQUIDITY

CPD Group assets structure on 31 December 2016 and changes compared with the status at the end of 2015:

	As at:				Change
	31.12.2016 (PLN ths.)	31.12.2015 (PLN ths.)	% in total assets 2016	% in total assets 2015	2016/2015 (%)
Investment properties	558 706	651 094	78,0%	91,5%	*-14,2%*
Property, plant and equipment	829	964	0,1%	0,1%	*-14,0%*
Intangible assets, excluding goodwill	30	60	0,00%	0,01%	*-50,0%*
Investments in joint ventures accounted for using the equity method	32 572	14 512	4,55%	2,04%	*124,4%*
Deferred income tax assets	0	552	0,00%	0,08%	*-100,0%*
Bonds	365	0	0,1%	0,0%	-
Non-current assets	**592 502**	**667 182**	**82,8%**	**93,8%**	***-11,2%***
Inventories	5 468	5 296	0,8%	0,7%	*3,2%*
Trade and other receivables	10 229	9 256	1,4%	1,3%	*10,5%*
Bonds	3 702	3 670	0,5%	0,5%	*0,9%*
Cash and cash equivalents	89 999	26 073	12,6%	3,7%	*245,2%*
Assets held for sale	14 075	0	2,0%	0,0%	-
Current assets	**123 473**	**44 295**	**17,2%**	**6,2%**	***178,8%***
TOTAL ASSETS	**715 975**	**711 477**	**100%**	**100%**	***0,6%***

CPD Group liabilities structure on 31 December 2016 and changes compared with the status at the end of 2015:

	As at: 31.12.2016 (PLN ths.)	31.12.2015 (PLN ths.)	% in total assets 2016	% in total assets 2015	Change 2016/2015 (%)
Share capital	3 286	3 286	0,5%	0,5%	*0,0%*
Other reserves	987	987	0,1%	0,1%	*0,0%*
Fair value of capital element at inception date	-27 909	-27 909	-3,9%	-3,9%	*0,0%*
Translation reserve	-5 383	-5 311	-0,8%	-0,7%	*1,4%*
Retained earnings	475 922	479 778	66,5%	67,4%	*-0,8%*
Equity	**446 903**	**450 831**	**62,4%**	**63,4%**	***-0,9%***
Trade and other payables	2 091	2 070	0,3%	0,3%	*1,0%*
Borrowings, including finance leases	138 878	144 474	19,4%	20,3%	*-3,9%*
Bonds	29 742	56 041	4,2%	7,9%	*-46,9%*
Embedded derivative	0	11 635	0,0%	1,6%	*-100,0%*
Defferred income tax liabilities	20 248	20 906	2,8%	2,9%	*-3,1%*
Non-current liabilities	**190 959**	**235 126**	**26,7%**	**33,0%**	***-18,8%***
Trade and other payables	35 171	16 712	*4,9%*	2,3%	*110,5%*
Bonds	31 131	1 279	*4,3%*	0,2%	*2334,0%*
Embedded derivative	4 023	0	*0,6%*	0,0%	-
Borrowings, including finance leases	7 206	7 529	*1,0%*	1,1%	*-4,3%*
Liabilities related to assets held for sale	582	0	*0,1%*	0,0%	-
Current liabilities	**78 113**	**25 520**	**10,9%**	**3,6%**	***206,1%***
Total liabilities	**269 072**	**260 646**	**37,6%**	**36,6%**	***3,2%***
TOTAL EQUITY AND LIABILITIES	**715 975**	**711 477**	**100,0%**	**100,0%**	***0,6%***

29. CONTINGENT LIABILITIES

- **EXECUTION OF GUARANTEE AGREEMENT BY THE COMPANY SUBSIDIARIES, A STATEMENT OF SUBMISSION TO ENFORCEMENT AND THE ESTABLISHMENT OF MORTGAGES**

6 December 2016 the subsidiary companies of the Issuer i.e. Gaston Investments spółka z ograniczoną odpowiedzialnością with its registered office in Warsaw and Challange Eighteen spółka z ograniczona odpowiedzialnością with its registered office in Warsaw entered into the Conditional Preliminary Agreement for the Sale of rights and obligations of the general partner and limited partner in the limited partnership 11/162 Gaston Investments spółka z ograniczoną odpowiedzialnością spółka komandytowa with its registered office in Warsaw. Conditional Preliminary Agreement obligates the parties to enter into the Final Agreement by 7 July 2017. On the basis of the aforementioned agreement, the subsidiaries of the Issuer i.e. 16/88 Gaston Investments spółka z ograniczoną odpowiedzialnością spółka komandytowa and 19/97 Gaston Investments spółka z ograniczoną odpowiedzialnością spółka komandytowa (hereinafter the "Guarantors") entered into the Surety Agreement in the form of a notarial deed under which they granted surety in connection with the security for the claims of the Creditor concerning the repayment of the earnest money [zadatek],

following from the Conditional Preliminary Agreement for the sale of rights and obligations of the general partner and limited partner in the limited partnership 11/162 Gaston Investments spółka z ograniczoną odpowiedzialnością spółka komandytowa with its registered office in Warsaw.

Obligation to return the earnest money shall be effected in the case where there is a delay in payment and costs in relation to vindication of any possible claims in this respect in the course of court or enforcement proceedings.

Moreover Guarantors submitted themselves to enforcement pursuant to art. 777 § 1 subpar. 5 of the Code of Civil Procedure as regards their obligation to pay the monies up to the amount of 12,000,000 zlotys.

Surety shall be valid until 30 June 2020.

At the date of signing of the Surety Agreement an application was submitted to the land and mortgage register court to enter the Mortgages over the Real Properties to the register, and the mortgage over the real property in perpetual usufruct of 19/97 Gaston Investments spółka z ograniczoną odpowiedzialnością spółka komandytowa shall be up to the mortgage sum of 8 000 000 zlotys, and the mortgage over the real property in perpetual usufruct of 16/88 Gaston Investments spółka z ograniczoną odpowiedzialnością spółka komandytowa shall be up to the mortgage sum of 4 000 000 zlotys, and the claim secured by the mortgage shall be the obligation of Guarantors following from the Surety Agreement to repay the earnest money.

- **EXECUTION OF GUARANTEE AGREEMENT BY THE COMPANY SUBSIDIARIES, A STATEMENT OF SUBMISSION TO ENFORCEMENT AND THE ESTABLISHMENT**

In June 2016 CPD Group entered into preliminary purchase agreement. Based on that agreement 14/119 Gaston Investments (one of the CPD Group company) was expected to acquire plot no 146 in Ursus for PLN 14 ml. 8 March 2017, CPD Group entered into conditional agreement with Integra Sp. z o.o. based on which it sold shares in its wholy- owned subsidiary, 14/119 Gaston Investments. 14/119 Gaston Investments did not have material assets or liabilities and did not run operating activity as of 31/12/2016. In line with the agreement sale price was determined at the level of PLN 5 ml and represents the compensation for CPD for transfer of the right to purchase plot no 146 in Ursus.

30. GRANTED LOANS

Details of the loans granted to related parties 31.12.2016

List of loans as at 31.12.2016						
Related entity	**Currency**	**Principal amount in PLN thous.**	**Accrued interest in PLN thous.**	**Cost of funds**	**Margin**	**Repayment date**
1/95 Gaston Investments	PLN	0	0	3M WIBOR	1,55%	on request
2/124 Gaston Investments	PLN	3 319	465	3M WIBOR	1,55%	on request
3/93 Gaston Investments	PLN	3 071	398	3M WIBOR	1,55%	on request
4/113 Gaston Investments	PLN	7 429	1 245	3M WIBOR	1,55%	on request
5/92 Gaston Investments	PLN	4 446	481	3M WIBOR	1,55%	on request
6/150 Gaston Investments	PLN	2 735	425	3M WIBOR	1,55%	on request
7/120 Gaston Investments	PLN	1 655	234	3M WIBOR	1,55%	on request
8/126 Gaston Investments	PLN	6 153	790	3M WIBOR	1,55%	on request
9/151 Gaston Investments	PLN	1 446	190	3M WIBOR	1,55%	on request
10/165 Gaston Investments	PLN	2 230	230	3M WIBOR	1,55%	on request
11/162 Gaston Investments	PLN	1 855	180	3M WIBOR	1,55%	on request
12/132 Gaston Investments	PLN	4 244	571	3M WIBOR	1,55%	on request
13/155 Gaston Investments	PLN	3 577	361	3M WIBOR	1,55%	on request
15/167 Gaston Investments	PLN	2 031	199	3M WIBOR	1,55%	on request
16/88 Gaston Investments	PLN	582	93	3M WIBOR	1,55%	on request
18 Gaston Investments	PLN	3 248	386	3M WIBOR	1,55%	on request
19/97 Gaston Investments	PLN	601	97	3M WIBOR	1,55%	on request
20/140 Gaston Investments	PLN	674	113	3M WIBOR	1,55%	on request
Antigo Investments	PLN	4 405	203	3M WIBOR	1,55%	on request
write-down		*(1 412)*	*(203)*			
Belise Investments	PLN	12 960	5 146	3M WIBOR	1,55%	on request
Buffy Holdings No 1 Ltd	PLN	161 905	36 892	3M WIBOR	0,75%	on request
write-down	PLN	*(5 375)*	*(36 892)*			
Celtic Asset Management	PLN	973	22	3M WIBOR	1,55%	on request
write-down	PLN	*(214)*	*(22)*			
Celtic Investments Ltd	PLN	1 927	58	3M LIBOR	0,75%	on request
write-down	PLN	*(1 870)*	*(58)*			
Challange 18	PLN	157 292	27 996	3M WIBOR	1,55%	on request
Elara Investments	PLN	2 907	127	3M WIBOR	1,55%	on request
write-down	PLN	*(2 076)*	*(127)*			
Gaston Investments	PLN	1 721	23	3M WIBOR	1,55%	on request
write-down	PLN	*(1 721)*	*(23)*			
HUB Developments	PLN	2 448	205	3M WIBOR	1,55%	on request
write-down		*(529)*	*(205)*			
Smart City	PLN	4	0	3M WIBOR	1,55%	on request
write-down		*0*	*0*			
IMES		4 043	197	3M WIBOR	1,55%	on request
Lakia Enterprises Limited	PLN	51 062	8 665	3M WIBOR	1,55%	on request
write-down		*0*	*(4 165)*			
Total		**437 748**	**44 298**			

MANAGEMENT BOARD STATEMENT

V. 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 2016 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 2016 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 WICZKOWSKA
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

WALDEMAR MAJEWSKI
MEMBER OF THE MANAGEMENT BOARD

VI. 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 consolidated 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 (hereinafter called "the Parent Company"), which comprise the consolidated statement of financial position as at 31 December 2016, the consolidated statement of comprehensive income, the consolidated statement of changes in equity, the consolidated statement of cash flows for the year from 1 January to 31 December 2016 and a summary of significant accounting policies and other explanatory notes.

Management and Supervisory Board's Responsibility

The Parent Company's Management Board is responsible for the preparation of these consolidated financial statements, on the basis of correctly maintained consolidation documentation, and their fair presentation in accordance with the International Financial Reporting Standards as adopted by the European Union and 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 meet the requirements of the Accounting Act of 29 September 1994 ("the Accounting Act" – Journal of Laws of 2016, item 1047 as amended).

Auditor's Responsibility

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

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 with a resolution dated 10 February 2015. 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.

Independent Registered Auditor's Report (cont.)

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

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:

a. give a true and fair view of the Group's financial position as at 31 December 2016 and its financial performance and its cash flows for the year from 1 January to 31 December 2016, in accordance with the International Financial Reporting Standards as adopted by the European Union and the applicable accounting policies;

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 as amended);

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

Our opinion on the audit of the consolidated financial statements does not cover the Report on the Group's operations.

The Parent Company's Management Board is responsible for the preparation of the Report on the Group's operations in accordance with the Accounting Act and the Decree. Further, the Management Board and Supervisory Board are obliged to ensure that the Report on the Group's operations meets the requirements of the Accounting Act.

With respect to our audit of the consolidated financial statements, our responsibility was to read the Report on the Group's operations and consider whether the information included in this Report complies with the regulations of article 49 of the Accounting Act and the Decree and is consistent with the information in the related consolidated financial statements. Our responsibility was also to consider, based on the knowledge of the Group and its environment obtained during our audit, whether the Report on the Group's operations does not contain any material misstatements.

In our opinion, the information contained in the Report on the Group's operations for the year from 1 January to 31 December 2016 comply with the requirements of article 49 of the Accounting Act and the Decree and is consistent with the information in the audited consolidated financial statements.

Further, 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.

Independent Registered Auditor's Report (cont.)

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

With respect to our audit of the consolidated financial statements, our responsibility was also to read the Group's Statement of Corporate Governance, which is a separate part of the Report on the Group's operations. In our opinion, the Group included information in accordance with the scope defined in the Decree, and information as indicated in the Decree, complies with the applicable regulations and is consistent 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 2017

VII. CHARTERED AUDITOR'S REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR FROM 1 JANUARY TO 31 DECEMBER 2016

CPD S.A. Group

Independent Registered Auditor's Report

Consolidated Financial Statements

Report on Group's operations

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

For the year from 1 January to 31 December 2016

Content:

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 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.

Registered auditor's report on the audit of the consolidated financial statements for the year from 1 January to 31 December 2016

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

This report contains 15 consecutively numbered pages and consists of:

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.

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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 from Poen S.A. 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 2016 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 2016, the Parent Company's shareholders were:

Shareholder's name	Number of shares held	Par value of shares held (PLN)	Type of shares held	Votes (%)
Coopertaive 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**

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

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

I. General information about the Group (cont.)

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

• Elżbieta Donata Wiczkowska	Chairman	
• Colin William Kingsnorth	Board Member	
• Iwona Ewa Makarewicz	Board Member	
• John Purcell	Board Member	
• Waldemar Majewski	Board Member	from 29 june 2016

I. General information about the Group (cont.)

h. As at 31 December 2016, 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 2016
Mandy Investments Sp. z o.o.	Subsidiary 100%	Full	Not applicable	Not applicable	31 December 2016
Lakia Enterprises Limited	Subsidiary 100%	Full	PricewaterhouseCoopers Limited, Cyprus	At the date of this report of the independent auditor, the audit of the financial statements of the company has not been completed	31 December 2016
Lakia Investments Sp. z o.o.	Subsidiary 100%	Full	Not applicable	Not applicable	31 December 2016
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 2016
Blaise Investments Sp. z o.o.	Subsidiary 100%	Full	Not applicable	Not applicable	31 December 2016
Robin Investments Sp. z o.o.	Subsidiary 100%	Full	Not applicable	Not applicable	31 December 2016
IMES Poland Sp. z o.o.	Subsidiary 100%	Full	Not applicable	Not applicable	31 March 2017
Hub Developments Ltd Sp. z o.o.	Subsidiary 100%	Full	Not applicable	Not applicable	31 December 2016
Elara Investments Sp. z o.o.	Subsidiary 100%	Full	Not applicable	Not applicable	31 December 2016
Celtic Investments Limited	Subsidiary 100%	Full	PricewaterhouseCoopers Limited, Cyprus	At the date of this report of the independent auditor, the audit of the financial statements of the company has not been completed	31 December 2016
Gaston Investments Sp. z o.o.	Subsidiary 100%	Full	Not applicable	Not applicable	31 December 2016

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	At the date of this report of the independent auditor, the audit of the financial statements of the company has not been completed	31 December 2016
Challange Eighteen Sp. z o.o.	Subsidiary 100%	Full	Not applicable	Not applicable	31 December 2016
Celtic Trade Park Kft	Subsidiary 100%	Full	Not applicable	Not applicable	31 December 2016
Smart City Spółka z ograniczoną odpowiedzialnością Sp.k.	Jointy controlled 50%	Equity	PricewaterhouseCoopers Sp. z o.o.	At the date of this report of the independent auditor, the audit of the financial statements of the company has not been completed	31 December 2016
2/124 Gaston Investments Spółka z ograniczoną odpowiedzialnością Sp.k.	Subsidiary 100%	Full	Not applicable	Not applicable	31 December 2016
3/93 Gaston Investments Spółka z ograniczoną odpowiedzialnością Sp.k.	Subsidiary 100%	Full	Not applicable	Not applicable	31 December 2016
4/113 Gaston Investments Spółka z ograniczoną odpowiedzialnością Sp.k.	Subsidiary 100%	Full	Not applicable	Not applicable	31 December 2016
5/92 Gaston Investments Spółka z ograniczoną odpowiedzialnością Sp.k.	Subsidiary 100%	Full	Not applicable	Not applicable	31 December 2016
6/150 Gaston Investments Spółka z ograniczoną odpowiedzialnością Sp.k.	Subsidiary 100%	Full	Not applicable	Not applicable	31 December 2016
7/120 Gaston Investments Spółka z ograniczoną odpowiedzialnością Sp.k.	Subsidiary 100%	Full	Not applicable	Not applicable	31 December 2016

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**
8/126 Gaston Investments Spółka z ograniczoną odpowiedzialnością Sp.k.	Subsidiary 100%	Full	Not applicable	Not applicable	31 December 2016
9/151 Gaston Investments Spółka z ograniczoną odpowiedzialnością Sp.k.	Subsidiary 100%	Full	Not applicable	Not applicable	31 December 2016
10/165 Gaston Investments Spółka z ograniczoną odpowiedzialnością Sp.k.	Subsidiary 100%	Full	Not applicable	Not applicable	31 December 2016
11/162 Gaston Investments Spółka z ograniczoną odpowiedzialnością Sp.k.	Subsidiary 100%	Full	Not applicable	Not applicable	31 December 2016
12/132 Gaston Investments Spółka z ograniczoną odpowiedzialnością Sp.k.	Subsidiary 100%	Full	Not applicable	Not applicable	31 December 2016
13/155 Gaston Investments Spółka z ograniczoną odpowiedzialnością Sp.k.	Subsidiary 100%	Full	Not applicable	Not applicable	31 December 2016
14/119 Gaston Investments Spółka z ograniczoną odpowiedzialnością Sp.k.	Subsidiary 100%	Full	Not applicable	Not applicable	31 December 2016
15/167 Gaston Investments Spółka z ograniczoną odpowiedzialnością Sp.k.	Subsidiary 100%	Full	Not applicable	Not applicable	31 December 2016
16/88 Gaston Investments Spółka z ograniczoną odpowiedzialnością Sp.k.	Subsidiary 100%	Full	Not applicable	Not applicable	31 December 2016
18 Gaston Investments Spółka z ograniczoną odpowiedzialnością Sp.k.	Subsidiary 100%	Full	Not applicable	Not applicable	31 December 2016
19/97 Gaston Investments Spółka z ograniczoną odpowiedzialnością Sp.k.	Subsidiary 100%	Full	Not applicable	Not applicable	31 December 2016

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 2016
Belise Investments Sp. z o.o.	Subsidiary 100%	Full	PricewaterhouseCoopers Sp. z o.o.	At the date of this report of the independent auditor, the audit of the financial statements of the company has not been completed	31 December 2016
Antigo Investments Sp. z o.o.	Subsidiary 100%	Full	Not applicable	Not applicable	31 December 2016
Smart City Sp. z o.o.	Subsidiary 100%	Full	Not applicable	Not applicable	31 December 2016

I. General information about the Group (cont.)

i. During the financial year, the following changes took place in the scope of consolidation:

- As at 15 December 2016 the subsidiary company Blaise Gaston Investments Sp. z o.o. Sp.k. was sold.

j. The Parent Company is an issuer of securities admitted for trading on the Warsaw Stock Exchange. In accordance with the choice of selecting accounting policies permitted by the Accounting Act, the Company has decided to prepare its consolidated financial statements in accordance with IFRS as adopted by the European Union.

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 2016 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 registered auditor to the Group by Resolution No. 12 of the Supervisory Board of CPD S.A. dated on 10 march 2016 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 2016, item 1000 as amended).

d. The audit was conducted in accordance with an agreement dated on 14 june 2016, in the period from 13 february 2017 to 17 march 2017.

e. An audit was conducted in accordance with International Standards on Auditing as adopted by the National Council of Certified Auditors as the National Standards on Audit and Assurance with a resolution dated 10 February 2015. The scope of an audit was influenced by an application of materiality. In accordance with these auditing standards, the concept of materiality is applied by the auditor at the planning stage and when conducting the audit as well as to evaluate the effect of misstatements identified and adjusted (if any) on the consolidated financial statements, and to form the opinion in the Independent Registered Auditor's Report.

   An audit was designed to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement. Misstatements may arise due to fraud or error. The misstatements are considered to be material, if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the consolidated financial statements.

   Based on a professional judgement, the certain quantitative thresholds for materiality were determined and documented, including the overall materiality for the consolidated financial statements as a whole. These, together with qualitative considerations, helped us to determine the scope of the audit and the nature, timing and extent of the audit procedures and to evaluate the effect of misstatements, both individually and in aggregate, on the consolidated financial statements as a whole. Therefore, all statements included in the Independent Registered Auditor's Report, including those related to the other legal and regulatory requirements, have been expressed considering the materiality determined in accordance with those auditing standards and the auditor's judgement.

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION as at 31 December 2016 (selected lines)

			Change		Structure	
	31.12.2016 PLN '000	31.12.2015 PLN '000	PLN '000	(%)	31.12.2016 (%)	31.12.2015 (%)
ASSETS						
Non-current assets	592,502	667,182	(74,680)	(11.2)	82.8	93.8
Current assets	123,473	44,295	79,178	178.8	17.2	6.2
Total assets	**715,975**	**711,477**	**4,498**	**0.6**	**100.0**	**100.0**
LIABILITIES AND EQUITY						
Share capital	3,286	3,286	-	-	0.5	0.5
Reserve capital	987	987	-	-	0.1	0.1
Equity component on initial recognition	(27,909)	(27,909)	-	-	(3.9)	(3.9)
Translation reserves	(5,383)	(5,311)	(72)	1.4	(0.8)	(0.7)
Retained earnings	475.922	479,778	(3.856)	0,8	66,5	67.4
Liabilities	269.072	260,646	8.426	(3.2)	37,6	36.6
Total liabilities and equity	**715,975**	**711,477**	**4,498**	**0.6**	**100.0**	**100.0**

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME for the year from 1 January to 31 December 2016 (selected lines)

			Change		Structure	
	2016 PLN '000	2015 PLN '000	PLN '000	(%)	2016 (%)	2015 (%)
Revenue	20,022	18,735	1,287	6.9	100.0	100.0
Costs of sales	(2,051)	(3,499)	1,448	(41.4)	(10.2)	(18.7)
Gross profit	**17,971**	**15,236**	**2,735**	**18.0**	**89.8**	**81.3**
Operating profit	**10,902**	**58,172**	**(47,270)**	**(81.3)**	**54.5**	**310.5**
Profit for the year	**(3,856)**	**46,348**	**(50,204)**	**(108.3)**	**(19.3)**	**247.4**
Currency translation adjustment	(72)	(10)	(62)	620.0	(0.4)	(0.1)
Total net comprehensive income for the year	**(3,928)**	**46,338**	**(50,266)**	**(108.5)**	**(19.6)**	**247.3**

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:

	2016	2015	2014
Asset ratios			
- receivables turnover	27 days	24 days	80 days
Profitability ratios			
- operating profit margin	11%	(31)%	(63)%
- return on capital employed	(1)%	11%	28%
Liability ratios			
- gearing	38%	37%	35%
- payables turnover	133 days	88 days	95 days
	31.12.2016	**31.12.2015**	**31.12.2014**
Liquidity ratios			
- current ratio	1.6	1.7	0.4
- quick ratio	1.5	1.5	0.3

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 inflation. The consumer price index (on a December to December basis) amounted to 0.8% in the audited year (deflation -0.5% in 2015).

CPD S.A. is as at 31 December 2016 a parent company in a Group which consists of 35 associated companies (including 35 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 715,975 thousand. During the year total assets increased by PLN 4,498 thousand, i.e. by 0.6%. This increase was financed mainly by an increase in short-term trade payables and other liabilities of PLN 18,459 thousand and generated net profit of PLN 3,856 thousand, with a simultaneous drop in the balance of long-term embedded derivatives of PLN 7,612 thousand.

- Liability ratios and the structure of liabilities have changed. The gearing ratio increased from 37% at the end of the previous year to 38% at the end of the current year. The payables turnover ratio increased from 88 days to 133 days, respectively.

- Revenue amounted to PLN 20,022 thousand, which increased by PLN 1,287 thousand, i.e. 6.9% compared with the previous year.

- In 2016 financial income amounted to PLN 8,146 thousand and comprised mainly financial income from valuation of embedded derivatives of PLN 7,612 thousand.

- In 2016 financial costs amounted to PLN 16,575 thousand and comprised mainly costs of foreign exchange differences of PLN 5,149 thousand, costs from interests on bonds of PLN 4,932 thousand, costs from interests on bank loans of PLN 2,881 thousand and costs from interests on finance lease of PLN 2,405 thousand. An increase of financial costs by PLN 3,195 thousand, i.e. by 23.9% compared to previous financial year.

- The Group's liquidity ratios have slightly changed. In the audited year, the current ratio amounted to 1.6 and it has fallen by 0.1 compared to the previous year. Quick ratio, which amounted to 1.5 didn't change compared to the previous year.

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 the year from 1 January to 31 December 2015 were approved by Resolution No. 3 passed by the General Shareholders' Meeting of the Parent Company on 30 june 2016 and filed with the National Court Register in Warsaw on 11 July 2016.

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 Report on Group's operations for the year from 1 January to 31 December 2016 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 as amended) and is consistent with that presented in the consolidated financial statements.

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 14 march 2017.

This report should be read in conjunction with the Independent Registered Auditor's Report dated 17 march 2017 to the General Shareholders' Meeting and the Supervisory Board of CPD S.A., that includes the unqualified audit opinion on 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

Key Registered Auditor
No. 90091

Warsaw, 17 march 2017

VIII. CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR FROM 1 JANUARY TO 31 DECEMBER 2016

CPD S.A.

Consolidated financial statements

for the year ended 31 December 2016

(All amounts in PLN thousand unless otherwise stated)

Consolidated property portfolio

INVESTMENT PROPERTY (Note 5)

Property	Company	As at 31 December 2016 Fair value
Solar (Viterra)	Lakia Investments	31 676
Aquarius	Robin Investments	25 394
Ursus	2/124 Gaston investments	32 450
Ursus	3/93 Gaston investments	33 320
Ursus	4/113 Gaston Investments	49 800
Ursus	5/92 Gaston Investments	44 450
Ursus	6/150 Gaston Investments	18 000
Ursus	7/120 Gaston Investments	16 650
Ursus	8/126 Gaston Investments	21 280
Ursus	9/151 Gaston Investments	8 140
Ursus	10/165 Gaston Investments	16 460
Ursus	12/132 Gaston Investments	27 260
Ursus	13/155 Gaston Investments	26 010
Ursus	15/167 Gaston Investments	16 500
Ursus	16/88 Gaston Investments	3 320
Ursus	18 Gaston Investments	2 960
Ursus	19/97 Gaston Investments	7 420
Ursus	20/140 Gaston Investments	3 570
Ursus	Imes Poland	41 060
Wolbórz	HUB Developments	2 000
IRIS	Belise Investments	104 849
Capitalised rights of perpetual usufruct of land		26 137
		558 706

INVESTMENTS PROPERTIES CLASSIFIED AS ASSETS HELD FOR SALE

		Fair value as at 31.12.2016
Ursus	11/162 Gaston Investments	12 880
Ursus	18 Gaston Investments	280
Capitalised rights of perpetual usufruct of land		581

INVENTORIES (Note 9)

		As at 31 December 2016	
Property	**Company**	**Carrying amount**	**Fair value**
Tenement house in Łódź	Antigo Investments	2 810	2 810
Koszykowa	Elara Investments	820	820
		3 630	**3 630**
Jaktorów	Celtic Asset Management	240	240
Czosnów	Celtic Asset Management	500	500
Nowa Piasecznica	Antigo Investments	170	170
Lesznowola	Antigo Investments	14	14
Alsonemedi	Celtic Trade Park	914	914
		1 838	**1 838**
		5 468	**5 468**

Total fair value of property portfolio	**564 174**

(All amounts in PLN thousand unless otherwise stated)

Consolidated statement of comprehensive income

	Note	12 months ended 31 December 2016	12 months ended 31 December 2015
Revenue	16	20 022	18 735
Cost of sales	17	(2 051)	(3 499)
Including:			
Inventory impairment		*(1)*	*(1 312)*
Cost of services sold		*(2 050)*	*(2 187)*
GROSS PROFIT		**17 971**	**15 236**
Administrative expenses - property related	18	(7 442)	(9 508)
Administrative expenses - other	20	(7 989)	(11 213)
Selling and marketing expenses		(427)	(334)
Net loss on sale of investment property		(2 475)	0
Other income	19	3 010	5 514
Net gain from fair value adjustments on investment property	5	4 722	59 382
Post-tax share of the profit or loss of the joint-venture accounted for using the equity method		3 680	(911)
Net gain / (loss) on sale of subsidiares	29	(148)	6
OPERATING PROFIT		**10 902**	**58 172**
Finance income	21	8 146	8 626
Finance costs	21	(16 575)	(13 380)
PROFIT BEFORE INCOME TAX		**2 473**	**53 418**
Income tax expense	22	(6 329)	(7 070)
PROFIT (LOSS) FOR THE YEAR		**(3 856)**	**46 348**
OTHER COMPREHENSIVE INCOME			
Currency translation adjustment		(72)	(10)
TOTAL COMPREHENSIVE INCOME		**(3 928)**	**46 338**
Profit (loss) attributable to:			
Equity holders of the Group		**(3 856)**	**46 348**
Total comprehensive income attributable to:			
Equity holders of the Group		**(3 928)**	**46 338**
Total comprehensive income for the period attributable to owners of the Group arises from:			
Continuing operations		(3 928)	46 338
Discontinued operations		0	0
BASIC EARNINGS PER SHARE (PLN)	33	(0,12)	1,41
DILUTED EARNINGS PER SHARE (PLN)	33	(0,17)	0,99

Elżbieta Donata Wiczkowska
Chairman of the Board

Colin Kingsnorth
Board Member

John Purcell
Board Member

Iwona Makarewicz
Board Member

Waldemar Majewski
Board Member

Explanatory notes set out on pages from 11 to 57 comprise the part of these consolidated financial statements

(All amounts in PLN thousand unless otherwise stated)

Consolidated statement of financial position

	Note	As at 31 December 2016	As at 31 December 2015
ASSETS			
Non-current assets			
Investment properties	5	558 706	651 094
Property, plant and equipment		829	964
Intangible assets, excluding goodwill		30	60
Investments in joint ventures accounted for using the equity method	10	32 572	14 512
Goodwill		0	0
Deferred income tax assets	15	0	552
Non-current receivables		365	0
Non-current assets		**592 502**	**667 182**
Current assets			
Inventory	8	5 468	5 296
Trade and other receivables, including:	7	10 229	9 256
- receivables and loans		*5 169*	*3 988*
- prepayments		*5 060*	*5 268*
Bonds		3 702	3 670
Cash and cash equivalents	9	89 999	26 073
		109 398	**44 295**
Assets held for sale	28	14 075	0
Current assets		**123 473**	**44 295**
Total assets		**715 975**	**711 477**

(All amounts in PLN thousand unless otherwise stated)

Consolidated statement of financial position - cont.

	Note	As at 31 December 2016	As at 31 December 2015
EQUITY			
Capital and reserves attributable to the parent Company's equity holders			
Share capital	11	3 286	3 286
Own shares		0	0
Other reserves		987	987
Embedded element at inception date	14	(27 909)	(27 909)
Translation reserve		(5 383)	(5 311)
Retained earnings/(accumulated losses)		475 922	479 778
Total equity		**446 903**	**450 831**
LIABILITIES			
Non-current liabilities			
Trade and other payables	12	2 091	2 070
Borrowings, including finance leases	13	138 878	144 474
Bonds issued	14	29 742	56 041
Derevatives	14	0	11 635
Deferred income tax liabilities	15	20 248	20 906
Non-current liabilities		**190 959**	**235 126**
Current liabilities			
Trade and other payables	12	35 171	16 712
Bonds issued	14	31 131	1 279
Derevatives	15	4 023	0
Borrowings, including finance leases	13	7 206	7 529
Current liabilities		**77 531**	**25 520**
Liabilities directly associated with assets held for sale	28	582	0
Current liabilities including liabilities directly associated with assets held for sale		**78 113**	**25 520**
Total liabilities		**269 072**	**260 646**
Total equity and liabilities		**715 975**	**711 477**

Elżbieta Donata Wiczkowska
Chairman of the Board

Colin Kingsnorth
Board Member

John Purcell
Board Member

Iwona Makarewicz
Board Member

Waldemar Majewski
Board Member

(All amounts in PLN thousand unless otherwise stated)

Consolidated statement of changes in equity

	Note	Share capital CPD S.A.	Embedded element at inception date	Own shares	Translation reserve	Accumulated profit (loss)			Total
						Supplementary capital	Reserve capital	Retained earnings	
Balance at 1 January 2015		**3 286**	**(27 909)**	**0**	**(5 301)**	**0**	**987**	**433 430**	**404 493**
Currency translation differences		0	0	0	(10)	0	0	0	(10)
Profit for the year		0	0	0	0	0	0	46 348	46 348
Total comprehensive income		0	0	0	(10)	0	0	46 348	46 338
Balance at 31 December 2015		**3 286**	**(27 909)**	**0**	**(5 311)**	**0**	**987**	**479 778**	**450 831**
Balance at 1 January 2016		**3 286**	**(27 909)**	**0**	**(5 311)**	**0**	**987**	**479 778**	**450 831**
Currency translation differences		0	0	0	(72)	0	0	0	(72)
Loss of the year		0	0	0	0	0	0	(3 856)	(3 856)
Total comprehensive income		0	0	0	(72)	0	0	(3 856)	(3 928)
Balance at 31 December 2016		**3 286**	**(27 909)**	**0**	**(5 383)**	**0**	**987**	**475 922**	**446 903**

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

Elżbieta Donata Wiczkowska
Chairman of the Board

Colin Kingsnorth
Board Member

Waldemar Majewski
Board Member

John Purcell
Board Member

Iwona Makarewicz
Board Member

Explanatory notes set out on pages from 11 to 57 comprise the part of these consolidated financial statements

(All amounts in PLN thousand unless otherwise stated)

Consolidated cash flow statement

	Note	12 months ended 31 December 2016	12 months ended 31 December 2015
Cash flows from operating activities			
Cash generated from operations	23	14 269	(2 388)
Interest paid		(5 445)	(4 195)
Income tax paid		0	0
Net cash generated from operating activities		**8 824**	**(6 583)**
Cash flows from investing activities			
Capital expenditure on investment property		(11 355)	(5 927)
Purchases of property, plant and equipment		(106)	(238)
Purchases of subsidiaries		0	(23 059)
Compensation from the transfer of plots of land to the City		0	6 977
Purchases of shares in subsidiaries		69 600	0
Proceeds from sale of property, plant and equipment		40	0
Proceeds from sale of investment properties		2 099	0
Repayment of loans granted		0	20
Interest received		44	44
Loans granted		(347)	0
Cash and cash equivalents of the subsidiaries acquired		0	939
Net cash used in investing activities		**59 975**	**(21 244)**
Cash flows from financing activities			
Proceeds from borrowings		0	7 745
Repayments of borrowings		(4 873)	(2 167)
Proceeds from issue of bonds		0	29 552
Net cash used in financing activities		**(4 873)**	**35 130**
Net (decrease)/increase in cash and cash equivalents		**63 926**	**7 303**
Cash and cash equivalents at beginning of the year		**26 073**	**18 770**
Cash and cash equivalents at end of the year		**89 999**	**26 073**

Elżbieta Donata Wiczkowska
Chairman of the Board

Colin Kingsnorth
Board Member

John Purcell
Board Member

Iwona Makarewicz
Board Member

Waldemar Majewski
Board Member

(All amounts in PLN thousand unless otherwise stated)

Additional notes and explanations to the consolidated financial statement

1 General information

1.1. Information about a parent entity

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

Celtic Property Developments S.A. (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.

(All amounts in PLN thousand unless otherwise stated)

Additional notes and explanations to the consolidated financial statement

1.1. Information about a parent entity (cont.)

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 Wiczkowska	Chairman of the Board
Colin Kingsnorth	Board Member
John Purcell	Board Member
Iwona Makarewicz	Board Member
Waldemar Majewski	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 2016 Company's shareholders were*:

Company	Country	No. of shares	% owned capital	% of voting rights
Coopertaive 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 2016.

1.2. Information about Capital Group

As at balance sheet date CPD Group comprised CPD S.A. as a parent entity, 35 subsidiaries and 1 entity under common control.

In 2016 there were the following changes in the Group structure:

- sale of shares in Blaise Gaston Investments Spółka z ograniczoną odpowiedzialnością sp.k.;
- in April 2016 the resolutions had been adopted on the repeal of liquidation and continued existence of 14/119 Gaston Investments Spółka z ograniczoną odpowiedzialnością sp.k. and Celtic Asset Management Sp. z o.o.,

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.

(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 statements 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 2016 and for the period from 1 January 2016 to 31 December 2016, while comparative data is for the period from 1 January 2015 to 31 December 2015.

These consolidated financial statements 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 2016 and description of the impact of applying the amendments:

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.

Amendment of this standard has not affected the consolidated financial statements.

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 annnual periods beginning on February 1, 2015.

Amendment of this standard has not affected the consolidated financial statements.

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.

Amendment of this standard has not affected the consolidated financial statements.

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 Group applies the rules resulting from the standard in these consolidated financial statements.

(All amounts in PLN thousand unless otherwise stated)

Additional notes and explanations to the consolidated financial statement

2.1 Basis of preparation - cont.

Amendments to 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.

Amendment of this standard has not affected the consolidated financial statements.

Annual amendments MSSF 2012-2014

International Accounting Standards Board published in September 2014 "Annual amendments in IFRS from 2012 to 2014", which change 4 standards: IFRS 5, IFRS 7, IAS 19 and IAS 34.

Amendment of those amendments has not affected the consolidated financial statements.

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 applies the rules resulting from the amendments in these consolidated financial statements.

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 Group applies the rules resulting from the amendments in these consolidated financial statements.

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 pubic 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 Group applies the rules resulting from the amendments in these consolidated financial statements.

Additional notes and explanations to the consolidated financial statement

2.1 Basis of preparation (cont.)

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:

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 estimates that the application of IFRS 9 will not have a material impact on the consolidated financial statements.

IFRS 14 "Regulatory Deferral Accounts"

The standard permits an entity which is a first-time adopter of International Financial Reporting Standards to continue to account, with some limited changes, for 'regulatory deferral account balances' in accordance with its previous GAAP, both on initial adoption of IFRS and in subsequent financial statements. Regulatory deferral account balances, and movements in them, are presented separately in the statement of financial position and statement of profit or loss and other comprehensive income, and specific disclosures are required.

By decision of the European Union, IFRS 14 will not be approved.

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 will apply IFRS from 1 January 2018.

The Group estimates that the application of IFRS 15 will have insignificant effect on the consolidated financial statements.

Additional notes and explanations to the consolidated financial statement

2.1 Basis of preparation (cont.)

Clarifications to IFRS 15 Revenue from Contracts with Customers

Clarifications to IFRS 15 "Revenue from Contracts with Customers" were published April 12, 2016 and are effective for the annual reporting periods beginning on or after 1 January 2018.

Explanations provide additional information and clarification regarding the key assumptions used in IFRS 15, including on identity separate responsibilities, determining whether an entity acts as an intermediary (agent), or is the main supplier of goods and services (principal) and the method of recording revenue from licenses.
Apart from the additional clarifications also introduced exemptions and simplifications for entities applying the new standard for the first time.

The Group is going to adopt the amendments on 1 January 2018.

The Group estimates that the application of clarification to IFRS 15 will not have significant effect on the consolidated financial statements.

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

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. The effective date of the amended provisions has not been established by the international accounting standards Board.

The Group analyses effect of the changes on the consolidated financial statements.

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

IFRS 16 „Leasing"

IFRS 16 "Leasing" was published by the International Accounting Standards Board on January 13, 2016 and are effective for annual periods beginning on or after January 1, 2019.

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 as asset at the start of the lease and, if lease payments are made over time, also 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, IRFS 16 estimated the classification of leases as either operating leases or finance leases as is required: (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 or finance leases, and to account for two types of leases differently.

The Group will apply IFRS 16 after its approval by the European Union.

The Group analyses effect of the changes on the consolidated financial statements.

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

2.1 Basis of preparation (cont.)

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.

The Group analyses effect of the changes on the consolidated financial statements.

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.

The Group analyses effect of the changes on the consolidated financial statements.

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

Amendments to MSSF 2: classification and measurement of share-based payment transactions

Amendment to IFRS 2 is effective for annual periods beginning on or after January 1, 2018 or after that date. The amendment introduces, among others, guidance on accounting for cash-settled share-based payment transactions, classification of share-based payment transactions from cash-settled to equity-settled, and recognition of tax liability employee of the transaction based on shares.

The Group is going to adopt the amendments on 1 January 2018.

The Group analyses effect of the changes on the consolidated financial statements.

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

Amendments to IFRS 4: Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts

Amendments to IFRS 4 address concerns about issues arising from implementing IFRS 9, Financial Instruments.

Published amendments to IFRS 4 complement already existing options in the standards and are designed to prevent the temporary fluctuations of the insurance sector entities results in connection with the implementation of IFRS 9.

The Group is going to adopt the amendments on 1 January 2018.

The Group analyses effect of the changes on the consolidated financial statements.

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

(All amounts in PLN thousand unless otherwise stated)

Additional notes and explanations to the consolidated financial statement

2.1 Basis of preparation (cont.)

Annual improvements cycle IFRSs 2014-2016

The Board finalised the Annual Improvements to IFRS Standards 2014–2016 Cycle in December 2016.

The issues included in this cycle are: IFRS 1 First-time Adoption of International Financial Reporting Standards, IAS 28 Investments in Associates and Joint Ventures, IFRS 12 Disclosure of Interests in Other Entities.

The improvements include calrifications and changes concerning the scope of the standards, recognition and measurement, as well as provide terminological changes and editing.

The group will apply these changes to IFRS 12 starting from 1 January 2017, and the amendments to IFRS 1 and IAS 28 on 1 January 2018.

The Group analyses effect of the changes on the consolidated financial statements.

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

Amendments of IAS 40 "Transfers of investment property"

Changes to IAS 40, specify requirements for transfers of investment properties. The change is effective for annual periods beginning on January 1, 2018, or after that date.

The Group is going to adopt the amendments on 1 January 2018.

The Group analyses effect of the changes on the consolidated financial statements.

At the date of preparation of these consolidated financial statements, the amenments to IAS 40 have not yet been approved by the European Union.

IFRIC 22: transactions in foreign currency and advance considersation

IFRIC 22 clarifies the accounting for transactions that include the receipt or payment of advance consideration in a foreign currency. IFRIC 22 is effective for annual reporting periods beginning on or after 1 January 2018.

The Group analyses effect of the changes on the consolidated financial statements.

At the date of preparation of these consolidated financial statements, the interpretation has not yet been approved by the European Union.

2.2 Consolidation

(a) Subsidiaries

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

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

(All amounts in PLN thousand unless otherwise stated)

Additional notes and explanations to the consolidated financial statement

2.2 Consolidation - cont.

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

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

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

(b) Joint-ventures

Jointly controlled entities are consolidated using the propoerty rights method.
These consolidated financial statements include the results and assets and liabilities of the following subsidiaries:

	Name	Country	Shareholder	31 December 2016	31 December 2015
1	Mandy Investments Sp. z o.o. w likwidacji	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	Celtic Asset Management Sp. z o.o.	Poland	Lakia Enterprises Limited	100%	100%
5	Blaise Investments Sp. z o.o.	Poland	Lakia Enterprises Limited	100%	100%
6	Robin Investments Sp. z o.o.	Poland	Lakia Enterprises Limited	100%	100%
7	IMES Poland Sp. z o.o.	Poland	Buffy Holdings No 1 Ltd	100%	100%
8	Hub Developments Ltd Sp. z o.o.	Poland	Lakia Enterprises Limited	100%	100%
9	Elara Investments Sp. z o.o.	Poland	Lakia Enterprises Limited	100%	100%
10	Celtic Investments Limited	Cyprus	CPD S.A.	100%	100%
11	Gaston Investments Sp. z o.o.	Poland	Lakia Enterprises Limited	100%	100%
12	Buffy Holdings No 1 Ltd	Cyprus	CPD S.A.	100%	100%
13	Challange Eighteen Sp. z o.o.	Poland	Buffy Holdings No 1 Ltd	100%	100%
14	Celtic Trade Park Kft	Hungary	Lakia Enterprises Limited	100%	100%
15	Blaise Gaston Investments Spółka z ograniczoną odpowiedzialnością Sp.k.	Poland	Blaise Investments Sp. z o.o.	0%	99%
			Gaston Investments Sp. z o.o.	0%	1%
16	Smart City Spółka z ograniczoną odpowiedzialnością Sp.k. (*)	Poland	Challange Eighteen Sp. z o.o.	49%	49%
			Gaston Investments Sp. z o.o.	1%	1%

(*) joint-venture

(All amounts in PLN thousand unless otherwise stated)

Additional notes and explanations to the consolidated financial statement

2.2 Consolidation (cont.)

	Name	Country	Shareholder	31 December 2016	31 December 2015
17	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%
18	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%
19	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%
20	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%
21	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%
22	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%
23	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%
24	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%
25	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%
26	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%
27	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%
28	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%
29	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%
30	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%
31	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%
32	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%
33	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%

(All amounts in PLN thousand unless otherwise stated)

Additional notes and explanations to the consolidated financial statement

2.2 Consolidation (cont.)

	Name	Country	Shareholder	31 December 2016	31 December 2015
34	20/140 Gaston Investments Spółka z ograniczoną odpowiedzialnością Sp.k.	Poland	Challange Eighteen Sp. z o.o.	99%	99%
			Gaston Investments Sp. z o.o.	1%	1%
35	Belise Investments Sp. z o.o.	Poland	Lakia Enterprises Limited	100%	100%
36	Antigo Investments Sp. z o.o.	Poland	Lakia Enterprises Limited	100%	100%
37	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 2016, the following changes took place in the structure of CPD Group:

- on December 15, 2016 the subsidiary Blaise Gaston Investments Spółka z ograniczoną odpowiedzialnością Sp.k. has been disposed.

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.

After initial recognition, investment properly is carried at fair value. Fair value is calculated using cash flow projections based on active market prices, adjusted, if necessary, for any difference in the nature, location or condition of the specific asset. These valuations are prepared annually by independent professional appraisers Savills Sp. z o.o. The investment property portfolio is appraised in accordance with RICS Valuation – Professional Standards incorporating the International Valuation Standards published by the Royal Institution of Chartered Surveyors (RICS). 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.

(All amounts in PLN thousand unless otherwise stated)

Additional notes and explanations to the consolidated financial statement

2.6 Property, plant and equipment (cont.)

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.

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.

Additional notes and explanations to the consolidated financial statement

2.9 Goodwill (cont.)

Goodwill arising from the acquisition of a foreign entity and any adjustment to the carrying amounts of assets and liabilities tofair 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.

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 holds 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 effectiveinterest 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 theoriginal 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 andsites held for sale during normal course of business.

Additional notes and explanations to the consolidated financial statement

2.12 Inventories (cont.)

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),

• 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, theGroup 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.

Additional notes and explanations to the consolidated financial statement

2.17 Borrowing costs

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

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 different 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 an embedded derivative that at the balance sheet date is measured at fair value through profit or loss.

2.19 Embedded derivatives

When 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.

(All amounts in PLN thousand unless otherwise stated)

Additional notes and explanations to the consolidated financial statement

2.20 Income tax (cont.)

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.

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 balancesheet date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liabilityis settled.

Deferred income tax assets are recognized to the extent that it is probable that future taxable profit will be available againstwhich 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 theapplicable 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-base 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 of 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.

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 economicbenefits 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 risksand 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.

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.

(All amounts in PLN thousand unless otherwise stated)

Additional notes and explanations to the consolidated financial statement

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: 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.

	Year ended at 31 December 2016	**Year ended at 31 December 2015**
Debt in foreign currencies - EUR	152 855	157 933
Assumed change in PLN/EUR exchange rate	+/-1%	+/-1%
FX gains/losses due to change in FX rate	1 529	1 579
Tax shield	290	300
Effect on net profit/(loss)	1 238	1 279

(All amounts in PLN thousand unless otherwise stated)

Additional notes and explanations to the consolidated financial statement

3.1 Financial risk factors (cont.)

(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 13). Variable interest rate loans expose CPD Group to the risk of fluctuations in future cash flows. The Management Board keeps track of fluctuations in interest rates and responds adequately. The variable interet rate applicable to 80% of the bank credit received by subsidiary Belise has been fixed with IRS contract. As at the year end CPD Group does not use other interest rate hedges.

	Year ended at 31 December 2016	**Year ended at 31 December 2015**
Variable interest rate loans	118 980	119 893
Cost of interest in the period	7 948	8 973
Assumed change in interest rates	+/-1pp	+/-1pp
Effect of the change on the cost of interest	1 190	1 199
Tax shield	226	228
Effect on net profit/(loss)	964	971

Trade receivables and other receivables and liabilities as at 31.12.2016 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 ING Bank Śląski, mBank, BZ WBK). The Company uses banks and other financial institutions with the following long-term IDR ratings from an independent rating agency (Fitch):

- ING Bank Śląski - A
- 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, inthe 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 o 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.

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.

(All amounts in PLN thousand unless otherwise stated)

Additional notes and explanations to the consolidated financial statement

3.1 Financial risk factors (cont.)

As at 31 December 2016 short-term liabilities amounted to PLN 77 531 thousand (including borrowings amounting to PLN 7 206 thousand) and are lower than current assets (excluding assets held for sale) by PLN 31 867 thousand. A detailed description of the situation regarding borrowings presented in the financial statements at 31 December 2016 as borrowings, including finance lease, and the evaluation of risks by the Board are presented in note 13 "Borrowings, including finance leases".

The below table includs 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:

As at 31.12.2016	Within 1 year	1 – 5 years	More than 5 years
Loans and leases	9 176	87 341	166 617
Bonds issued	35 154	29 742	0
Trade payables and other payables	28 376	2 091	0
	72 706	119 174	166 617

As at 31.12.2015	Within 1 year	1 – 5 years	More than 5 years
Loans and leases	10 099	27 305	271 495
Bonds issued	1 279	67 676	0
Trade payables and other payables	16 340	2 070	0
	27 718	97 051	271 495

3.2 Financing structure 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%.

	31 December 2016	**31 December 2015**
Total loans, including finance leases (Note 13)	146 084	152 003
Liability under bonds issued (note 14)	64 896	68 955
Trade payables and other payables (Note 12)	37 262	18 782
Less: cash and cash equivalents (Note 9)	-89 999	-26 073
Net debt	**158 243**	**213 667**
Equity	446 903	450 831
Total capital	**605 146**	**664 498**
Financing structure ratio	**26,1%**	**32,2%**

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.

Additional notes and explanations to the consolidated financial statement

4 Major accounting estimates and judgments (cont.)

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 that 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 2 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: 50,89% 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 into shares since 26 September 2015 until the day falling 5 days before the maturity date, i.e. 22 September 2017.

The liability under the embedded derivative amounted to PLN 4 million as at 31 December 2015 representing 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.

In February 2016 Belise Investments Sp. z o.o., the Group subsidiary, concluded interest rate swap (IRS) contrat. The value of the contract corresponds to 80% of the BZ WBK borrowings.
The contract is settled in monthly periods based on EURIBOR 1M.

The IRS contract is presented at fair value based on valuation by BZ WBK. The results of changes in the valuation are reflected in the consolideted statement of comprehensive income as finance cost or finance income.

The fair value of the contract hedging the interest rate is datermined as a difference in discounted interest cash flows based on fixed and floating interest rates. Market interest rates are the entry data for the valuation.

As at 31.12.2016 the IRS is valued at PLN 967 thousand.

Accounting treatment 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.

4 Major accounting estimates and judgments (cont.)

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.

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 transferred to a subsidiary SPV 100% controlled by CPD Group. The lands excluded from the joint venture consist of areas which according to the local spatial development plan are destinated for the construction of public roads and for educational purposes. However in the first half of 2016 the parties decided to leave the land in Smart City. Moreover part of the educational land was mortgaged to collateralise bank loan financing Smart City residential project.

As a result the land has been decideed to be treated as a part of the joint venture and accounted for based on property rights method. The contribution of the educational and road plots into the JV in the first half of 2016 generated nil profit, based on the fololowing MSSF 11 regulation:
- sale or contribution of assets to a joint venture shal lbe treated a s a trabsaction with the joint venture partners and the selling or contributing entity sholl recognise result on of such transaction only pro rata to other partners' share in the joint venture.

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 property rights method and the joint ventuire partners have equal 50% share in profits, assets and liabilities,

- land destinated for roads and educational purposes as well as related liabilities were treated as a part of the joint venture and accountesd for based on property rights method, with CPD group entitled to 100% of profits, assets and liabilities and Unibep group having no respective rights.

Determination of Fair Value of Real Estate

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.

<u>CPD Group distinguishes the following classes of assets included in its real property portfolio:</u>
(i) non-developed land or land developed with tenement houses; these mainly include land in Jaktorów, Czosnów, Lesznowola and Nowa Piasecznica as well as tenement houses in Warsaw and Łódź, disclosed as inventory in the consolidated financial statements and valued at acquisition price or at cost not exceeding their net sale price and non-developed land in Wolbórz classified as investmeny property and presented at fair value;

(ii) investment properties generating significant rent income (3 office buildings in Warsaw);

(iii) investment land in the district of Ursus in Warsaw designed for residential and retail construction as per valid local zoning plan;

(iv) investment land in the district of Ursus in Warsaw designed for public purposes as per valid local zoning plan.

<u>The Group valued individual real investment properties using the following methods:</u>
The Group has real estate valued annually at fair value as at the balance sheet date. Results of the valuations imply decisions on impairment write-offs of the properties valued at cost or update of the valuation of the fair value properties.

(All amounts in PLN thousand unless otherwise stated)

Additional notes and explanations to the consolidated financial statement

4 Major accounting estimates and judgments (cont.)

Fair value changes of investment properties are recognized in the profit and loss under 'Net result from fair value adjustments on investment property' header, while changes in the impairment allowances are recognised within "Costs of goods sold".

Non-developed land and land developed with tenement houses were valued using the comparative method (comparison in pairs). The comparative method determines the value of a real estate 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 price per square meter is the variable affecting the valuation result the most.

The income approach (investment method) was applied to properties generating income. The income approach defines 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.

Assuming rental or lease market rates can be defined market value of the the real property generating rent income is determined based on direct capitalization, as 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 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 rates are determined at least annually by third party property experts and the net operating income is based on rentals in force.

The land for residential and retail development is valued based on residual method. The value of such property is detemined as a difference between expected proceeds from project sales and cost necessary to finalise the projectsand reasonable developer margin.

The land for residential and retail development was valued based on the following assumptions:

- the useful area of apartments to be built amounts to 470,227 sq.m.;
- the useful area of shops to be built on ground floors of the houses amounts to 41,428 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 11 per sq.m. and the capitalization rate to be 8%.

The land for public purposes was valued using the comparative method (comparison in pairs).

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 2016.

Investment property	Valuation method / fair value valuation level	Capitalization rate	Anticipated rent rates per sq.m.	Discount rate
Office buildings	income method / level 3	7,75% - 9,00%	9,36-11,75	9% - 10%
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%

(All amounts in PLN thousand unless otherwise stated)

Additional notes and explanations to the consolidated financial statement

4 Major accounting estimates and judgments (cont.)

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.

Investment property	Valuation method / fair value valuation level	Capitalization rate	Anticipated rent rates per sq.m.	Discount rate
Office buildings	income method / level 3	7,75% - 9,00%	9,34-11,75	9% - 10%
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%

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

Valuation method	Fair value	Judgemental variable	Assumed changed in judgemental veriable	Impact on valuation
income	161 919	capitalisation rate	+/- 0,25 pp	-2 743 / 2 831
		discount rate	+/- 0,25 pp	-2 787 / 2 831
		rent rate	+/- 5%	7 167 / 7 167
residual	333 570	discount rate	+/- 0,25 pp	-1 637 / 1 637
		construction cost per 1 m2	+/-1,4%	-25 321 / 25 417
		sales price per 1 m2	+/- 0,9%	14 153 / -14 056
comparable	37 080	n/a	n/a	n/a
capitalised perpetual usufruct	26 137	discount rate	+/- 0,25 pp	-717 / 763
	558 706			

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 againstwhich the temporary differences can be utilized.

(All amounts in PLN thousands unless otherwise stated)

Additional notes and explanations to the consolidated financial statements

5 Investment properties

	Year ended 31 December 2016	Year ended 31 December 2015
At the beginning of the period	**651 094**	**581 386**
Capital expenditure	11 355	5 927
Acquisition	0	23 990
Disposal of investment property	(4 574)	0
Disposal of investment property in course of joint venture	0	(16 620)
Transfer to joint venture	(16 012)	0
Change in the balance of capitalized financial liability concerning the property disposed in course of joint venture	(519)	0
Fair value of properies disposed in course of sale of subsidiary	(68 746)	0
Change in the balance of capitalized financial liability concerning the property disposed	(4 829)	0
Change in the balance of capitalized financial liability concerning the properties transferred to assets held for sale	(581)	0
Change in the balance of capitalized financial liability	(44)	2 847
Transfer of road plots of land in Urus to the municipality of Warsaw	0	(5 818)
Net gain from fair value adjustment on investment property	4 722	59 382
	558 706	**651 094**

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 2016 and as at 31 December 2015 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, 2016, the total fair value of real properties owned by the Group and disclosed under the 'Investment Properties' header in the consolidated financial statements amounted to PLN 532.6 million (excluding the perpetual usufruct liability of PLN 26 million) and was lower then the same value disclosed at the end of 2015 by PLN 86.7 million. The decline in the value of the property occurred mainly as a result of the disposal of investment property in the course of the disposal of shares in a company Blaise Gaston Investments Spółka z ograniczoną odpowiedzialnością sp.k. (the value of the disposed property PLN 68.7 million), as well as in connection with the transfer of property belonging to the company 11/162 Gaston Investments Spółka z ograniczoną odpowiedzialnością sp.k. and 18 Gaston Investments Spółka z ograniczoną odpowiedzialnością sp.k. (part) to the assets held for sale. In 2016, the Group recognized a gain from fair value adjustment of investment properties in the amount of PLN 4.7 million.
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 spółka z ograniczoną odpowiedzialnością sp.k., Lakia Enterprises Ltd regarding the implementation of the joint project, involving the construction of the complex buildings with services and 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 16.6 million.

(All amounts in PLN thousands unless otherwise stated)

Additional notes and explanations to the consolidated financial statements

5 Investment properties (cont.)

At the same time, in the framework of the signed investment agreement the parties to the agreement have identified that part of the land (and any costs and revenues associated with them) owned by the company Smart City will be under the 100% control Group CPD. In the first half, 2016, the Group decided that the educational land (with a value of PLN 16 million) is also part of the joint venture and will be applied under the equity method, in view of the above, the Group has transferred it to the joint venture.

The capital expenditure on investment properties in 2016 amounted to PLN 11 355 thousand and related mainly to the cost of demolition to prepare the assets for sale and expenditure for the purchase of heating networks in Ursus.

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

As at 31 December 2016, 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 2016	31 December 2015
Investment property according to external valuation	532 569	618 984
Liabilities in respect of perpetual usufruct	26 137	32 110
Investment property presented in the statement of financial position	**558 706**	**651 094**

The disposal of part of Ursus property owned by Challange Eighteen, the Group recorded PLN 2 475 thousand of a loss.

Direct operating expenses relating to investment properties:

	12 months ended 31 December 2016	12 months ended 31 December 2015
- generating income from rent	4 096	3 987
- other	245	109
	4 341	**4 096**

6 Fair value of security

	31 December 2016	31 December 2015
Aquarius	25 394	26 336
Ursus	80 660	76 380
Cybernetyki 7b	31 676	31 578
IRIS	104 849	101 850
	242 579	**236 144**

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 7/120 Gaston Investments Spółka z ograniczoną odpowiedzialnością Sp.k., 12/132 Gaston Investments Spółka z ograniczoną odpowiedzialnością Sp.k. oraz 13/155 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).

(All amounts in PLN thousands unless otherwise stated)

Additional notes and explanations to the consolidated financial statements

6 Fair value of security - cont.

A mortgage established on parcels located in Ursus, belonging to subsidiaries 16/88 Gaston Investments Spółka z ograniczoną odpowiedzialnością sp.k., 19/97 Gaston Investments Spółka z ograniczoną odpowiedzialnością sp.k. is a precautionary concerning refund of the deposit, arising from the conditional sales contract of rights and obligations in the company 11/162 Gaston Investments Spółka z ograniczoną odpowiedzialnością sp.k. (a letter of guarantee to the total amount of PLN 12 million, valid until June 30, 2020).

7 Trade receivables and other receivables

	31 December 2016	31 December 2015
Trade receivables	1 715	1 292
Prepayments and accruals	5 060	5 268
Receivables from the state budget	3 368	2 678
Receivables from related entities	86	18
Short-term trade receivables and other receivables	**10 229**	**9 256**
Long-term receivables	365	0
Total trade receivables and other receivables	**10 594**	**9 256**

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 rent receivables 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 woth linear settlement of rental income in the case of leasses concerned by no-rent periods at the begining or by significantly lower rent rates in the said initial period. The total of balance of this section as at December 31, 2016 amounted to PLN 2.4 million. Another important balance on receivables are deferred prepaid commission costs (PLN 1,4 million).

The CPD Group recognized a loss of PLN 185 thousand in respect of impairment and write-off of receivables in the year ended 31 December 2016 (year ended 31 December 2015: PLN 235 thousand). The loss was recognized under "other administrative expenses" header in the consolidated comprehensive income.

Trade receivables	31 December 2016	31 December 2015
Current	1 715	1 292
Overdue, with recognized impairment (provided for in full)	319	371

Other receivables	31 December 2016	31 December 2015
Overdue, with recognized impairment (provided for in full)	313	313

Impairment of receivables	31 December 2016	31 December 2015
- trade receivables:		
Opening balance	684	570
- increases	185	235
- decreases	(237)	(121)
Closing balance	**632**	**684**

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

(All amounts in PLN thousands unless otherwise stated)

Additional notes and explanations to the consolidated financial statements

8 Inventories

	31 December 2016	31 December 2015
Work in progress	2 810	2 950
Finished goods	820	560
Goods for resale	1 838	1 786
	5 468	**5 296**

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, Lesznowola and Jaktorów. Work in progress relates to properties under construction, i.e. tenement house in Łódź.

	31 December 2016	31 December 2015
At the beginning of the period	**5 296**	**6 525**
Capital expenditure	31	70
Impairment loss	(1)	(1 312)
Foreign exchange differences	142	13
As at the balance sheet date	**5 468**	**5 296**

9 Cash and cash equivalents

	31 December 2016	31 December 2015
Cash in hand and at bank	11 145	19 209
Restricted cash	3 324	3 204
Short-term bank deposits	75 530	3 660
	89 999	**26 073**

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

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 residencial 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 2016	31 December 2015
Smart City Spółka z ograniczoną odpowiedzialnością sp.k.	32 572	14 512

(All amounts in PLN thousands unless otherwise stated)

Additional notes and explanations to the consolidated financial statements

10 Joint venture (cont.)

	31 December 2016	31 December 2015
Opening balance as at 1 January 2015	**14 512**	**0**
Group's share in net assets as at the date of starting joint venture	0	15 472
Group's share of the net profit or loss of the joint ventures presented in theses interim consolidated financial statements	3 680	(911)
Transfer of the educational land and liabilities to the joint venture (Note 4)	14 511	0
Other adjustments	(131)	(49)
Closing balance as at 31 December 2015	**32 572**	**14 512**

Condensed financial information of individually material joint ventures of the Group as at 31 December 2016 and for the period from 1 January 2016 to 31 December 2016 is presented in the below table:

	Smart City Spółka z ograniczoną odpowiedzialnością Sp.k.	
	31 December 2016	31 December 2015
Financial information coming from statement of financial position		
Total non-current assets, including	**14 121**	**27**
Fixed assets	22	27
Investment property	14 099	0
Total current assets, including:	**79 590**	**30 876**
Inventory	56 267	21 091
Trade receivables and other receivables	5 293	8 648
Cash and cash equivalents	18 030	1 137
Total assets	**93 711**	**30 903**
Total current liabilities, including:	**28 767**	**1 874**
Trade payables and other liabilties	25 829	1 874
Provisions	2 938	0
Total non-current liabilities	**12 230**	**0**
Bank loans	12 230	0
Total liaabilities	**40 997**	**1 874**
Net assets	**52 714**	**29 029**
% held by the Group	***50%***	***50%***
Group share of net assets of the joint venture	12 599	0
% held by the Group	***100%***	***100%***
Group share of net assets of the joint venture	20 058	14 515
Purchase price allocation adjustments	(19)	22
Consolidation adjustments	(66)	(25)
Carrying amount of investment in joint venture presented in the consolidated financial statements	**32 572**	**14 512**

The Group recognized a gain on the joint venture in Smart City Spółka z ograniczoną odpowiedzialnością Sp.k. in the amount of PLN 3 680 thousand.

(All amounts in PLN thousands unless otherwise stated)

Additional notes and explanations to the consolidated financial statements

11 Share capital

	Number of shares in thousands		Value of shares	
	31 December 2016	31 December 2015	31 December 2016	31 December 2015
Ordinary shares series B	32 336	32 336	3 233	3 233
Ordinary shares series C	163	163	16	16
Ordinary shares series D	76	76	8	8
Ordinary shares series E	89	89	9	9
Ordinary shares series F	199	199	20	20
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.The shares issued are not priviledged. Each of the issued shares has a nominal value of PLN 0,10 and has been fully paid.

12 Trade payables and other payables

Long-term trade payables and other payables

	31 December 2016	31 December 2015
Deposits of tenants	2 091	2 070

Short-term trade payables and other payables

	31 December 2016	31 December 2015
Trade payables	1 451	1 279
Other liabilities	8 448	322
Avanced sales payments	5 000	0
Output VAT and other tax liabilities	6 795	372
Deposits of tenants	352	120
Accruals and deferred income	13 125	14 619
Total	**35 171**	**16 712**

Trade payables bear no interest and are payable within one 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.

Other liabilities relate mainly to investment outlays for Ursus property.

The received advance payment results from preliminary agreement for sale of partner rights and obligations in 11/162 Gaston Investments Spółka z ograniczoną odpowiedzialnością Sp.k.

The provision for potential tax risks amounting to PLN 12.2 million was the biggest part of accruals as at 31 December 2016.

(All amounts in PLN thousands unless otherwise stated)

Additional notes and explanations to the consolidated financial statements

13 Loans and borrowings (including finance lease)

	31 December 2016	31 December 2015
Long-term		
Bank loans	112 094	112 364
Financial liabilities - hedging instruments	647	0
Finance lease liabilities	26 137	32 110
	138 878	**144 474**
Short-term		
Bank loans	6 886	7 529
Financial liabilities - hedging instruments	320	0
	7 206	**7 529**
Total loans and borrowings	**146 084**	**152 003**

As of 31 December 2016 bank credits consist of:
- payable of PLN 42 167 thousand to mBank Hipoteczny S.A. (PLN 1 837 thousand being short-term and PLN 40 330 thousand long-term),
- payable of PLN 76 813 thousand to Bank Zachodni BZ WBK (PLN 5 049 thousand being long-term and PLN 71 764 thousand as short-term).

On 18 June 2014 the subsidiaries Lakia Investments and Robin Investments entered into loan agreements with mBank Hipoteczny. The above mentioned loan was granted to refinance a loan with HSBC Bank Poland from 2006, which was used to finance the office investments located in Cybernetics 7b and Połczyńska 31a. Mortgage credit in the mBank was launched on 1 July 2014. As at balance sheet date Lakia's involvement amounted to EUR 5.534.033, and Robin's - EUR 4.285.405,14. According to the terms and conditions of the loan agreement with mBank Hipoteczny, the companies are obliged to repay the entire loan until June 20, 2029.

The loan was granted on market terms and is secured by, among others, mortgage on investment properties owned by companies Robin Investments Sp. o.o. and Lakia Investments Sp. o.o. and registered pledge 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 2011 (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.

In connection with the fulfillment of the conditions for the loan convertion 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 thousand 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 thousand.

(All amounts in PLN thousands unless otherwise stated)

Additional notes and explanations to the consolidated financial statements

13 Borrowings (including finance lease) (cont.)

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.

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.

In accordance with the above credit agreements, the company reports to funders financial indicators – covenants, based on debt service coverage, the projected debt service coverage, to service the debt. A key indicator, which is commonly used, is the debt service coverage ratio (DSCR), which tells the recipient how many times the cash flow generated by the project and expenditure related to the scheduled debt service. It is worth noting that this indicator, the calculation is based on the standard of market patterns, does not take account of the balance of funds on the project. As at Dec 31, 2016, and on the day of the approval of the report for publication any of the reported indicators has not been tampered with.

In February 2016 Belise Investments entered into a swap transaction rate IRS, in order to secure the streams of interest payments, for an amount corresponding to 80% of the loan BZ WBK.

The value of hedging derivatives - the IRS as at the balance sheet date was estimated at PLN 967 thousand. The method of valuation of IRS transactions is presented in note 4.

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 2016	31 December 2015
Repayment of the principal amount of lease liabilities based on the effective interest rate due within:		
1 year	10	261
from 1 to 5 years	277	318
after more than 5 years	25 850	31 531
	26 137	**32 110**

	31 December 2016	31 December 2015
Par value of minimum lease payments due:		
within 1 year	1 970	2 570
from 1 to 5 years	7 881	9 120
after more than 5 years	133 983	177 316
	143 834	**189 006**
Future financial costs	(117 697)	(156 896)
	26 137	**32 110**

(All amounts in PLN thousands unless otherwise stated)

Additional notes and explanations to the consolidated financial statements

13 Borrowings (including finance lease) (cont.)

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 2016	31 December 2015
up to 6 months	3 473	2 383
from 6 months to 1 year	3 413	5 146
from 1 to 5 years	79 460	18 185
more than 5 years	32 634	94 179
	118 980	**119 893**

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

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

	31 December 2016	31 December 2015
Currency		
EUR	118 980	119 893

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.

14 Bonds issued

	31 December 2016	31 December 2015
a/ Bonds serie A		
Beginning balance	38 040	42 880
Accrued interest	2 553	2 344
Valuation as at balance sheet date	894	(4)
Valuation of the embedded derivative	(7 612)	(7 180)
Bonds value as at balance sheet date	**33 875**	**38 040**

	31 December 2016	31 December 2015
b/ Bonds serie B		
Beginning balance	30 915	29 552
Accrued interest	2 738	2 633
Paid interest	(2 738)	(1 354)
Valuation using the effective interest rate method	106	84
Bonds value as at balance sheet date	**31 021**	**30 915**

(*) The nominal value of bonds issued on 13 January 2015 (PLN 30 000 thousand) 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 thousand and the costs of legal services.

(All amounts in PLN thousands unless otherwise stated)

Additional notes and explanations to the consolidated financial statements

14 Bonds issued (cont.)

	31 December 2016	31 December 2015
Long-term		
Bonds issued	29 742	56 041
Derevatives	0	11 635
Short-term		
Bonds issued	29 852	0
Derevatives	4 023	0
Bonds issued - interest	1 279	1 279
	64 896	**68 955**

Bondholders as at year end	**Year ended 31 December 2016**	**Year ended 31 December 2015**
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	20	17
Broadmeadow	0	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 thousand. The issuing price of one bond is EUR 50 thousand. 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:
a) 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;
b) 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.

(All amounts in PLN thousands unless otherwise stated)

Additional notes and explanations to the consolidated financial statements

14 Bonds issued (cont.)

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 thousand each and do not have the form of an instrument.
The total nominal value of all issued bonds is maximum PLN 30 000 thousand.

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

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

In October, 2016 the Group concluded the Conversion agreement, on the basis of which the surety, securing obligations resulting from the Bonds, granted by the subsidiary, Blaise Gaston Investments spółka z ograniczoną odpowiedzialnością spółka komandytowa has been terminated and the endorsement was introduced with the following subsidiaries: 12/132 Gaston Investments Spółka z ograniczoną odpowiedzialnością sp.k. and 13/155 Gaston Investments Spółka z ograniczoną odpowiedzialnością sp.k.

15 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 2016	31 December 2015
Deferred tax assets before offset	**20 191**	**20 161**
Set off	(20 191)	(19 609)
Deferred tax assets	**0**	**552**
- to be utilized within 12 months	0	552
	0	**552**
Deferred income tax liabilities before offset	**40 439**	**40 515**
set off	(20 191)	(19 609)
Deferred income tax liabilities after offset	**20 248**	**20 906**
- to be paid after more than 12 months	20 248	20 906
- to be paid within 12 months	0	0

(All amounts in PLN thousands unless otherwise stated)

Additional notes and explanations to the consolidated financial statements

15 Deferred income tax (cont.)

	12 months ended 31 December 2016
Change in deferred tax assets	30
Change in deferred tax liabilities	(76)
Amount charged/(credited) to profit or loss	**106**

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

Deferred income tax liabilities (before offset)

	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

	2015	Charged to profit/(loss)	Charged to capital on translation	2016
Property valuation at fair value	23 827	(7 268)	0	16 559
Accrued interest on loans	16 147	1 253	0	17 400
Provision for income	513	5 910	0	6 423
Foreign exchange	28	29	0	57
Currency translation adjustment	0	0	0	0
Other	0	0	0	0
Total	40 515	(76)	0	40 439

Deferred income tax assets (before offset)

	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	2 607
	19 501	661	0	20 162

	2015	Charged to profit/(loss)	Charged to capital on translation	2016
Accrued, interest unpaid	1 289	780	0	2 069
Foreign exchange gains/(losses)	616	4	0	620
Provisions	42	82	0	124
Other	15 608	-447	0	15 161
Tax losses	2 607	-390	0	2 217
	20 162	29	0	20 191

(All amounts in PLN thousands unless otherwise stated)

Additional notes and explanations to the consolidated financial statements

15 Deferred income tax (cont.)

	31 December 2016	31 December 2015
Tax losses	11 668	13 716
Deductible temporary differences on loans and borrowings (foreign exchange differences and accrued interest)	10 889	6 784
Other deductible temporary differences	83 711	85 611
Total	106 268	106 111
Deferred tax assets before offset	**20 191**	**20 161**
Offset of deferred tax assets and liabilities within individual companies	(20 191)	(19 609)
Net deferred tax assets	**0**	**552**

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 31.12.2016

	2017	2018-2019	2020-2021	Total
- Losses on which deferred tax was recognized	1 074	9 938	658	11 670
- Losses on which deferred tax was not recognized	79 983	14 534	17 350	111 867

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

16 Revenues

Revenues by category:	12 months ended 31 December 2016	12 months ended 31 December 2015
Rental income	13 376	12 666
Real estate advisory services	825	185
Services relatied to rental	5 797	5 884
Accounting services	24	0
	20 022	**18 735**

In 2016 rental income was predominant in sales. Revenues from services relating to rental were another major item of revenues (PLN 5 797 thousand).

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

(All amounts in PLN thousands unless otherwise stated)

Additional notes and explanations to the consolidated financial statements

16 Revenues (cont.)

Future cummulated uncancallable minimum rent revenues:

	12 months ended 31 December 2016	12 months ended 31 December 2015
up to 1 year	12 687	10 538
from 1 to 5 years	23 411	27 710
more than 5 years	5 533	3 044
	41 631	**41 292**

17 Cost of sales

	12 months ended 31 December 2010	12 months ended 31 December 2009
Changes in impairment write-downs of inventories	1	1 312
provided	2 050	2 187
	2 051	**3 499**

In the current year the change in impairment inventory write-downs was due to an increase in the value of the Koszykowa (by PLN 260 thousand) and Nowa Piasecznica (PLN 50 thousand) properties offset by decrease in the value of the properties in Łódź (PLN 161 thousand) and Czosnów (PLN 160 thousand).

In 2015 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).

18 Administrative expenses – relating to properties

	12 months ended 31 December 2016	12 months ended 31 December 2015
Employee expenses	1 305	1 255
Property maintenance	4 111	4 042
Real estate tax	1 067	2 953
Perpetual usufruct	723	1 039
Depreciation and amortization	236	219
	7 442	**9 508**

19 Other income

	12 months ended 31 December 2016	12 months ended 31 December 2015
Provision released	107	1 609
Waived or expired liabilities	0	101
Sale of PPE	4	0
Contractual penalties received	2 519	5
Other	380	3 799
	3 010	**5 514**

(All amounts in PLN thousands unless otherwise stated)

Additional notes and explanations to the consolidated financial statements

19 Other income (cont.)

Received contractual penalties are the main item of other income in 2016.
On 21 July 2016. subsidiaries have entered into agreements with the bankruptcy trustee acting on behalf of the Energetyka Ursus spółka z ograniczoną odpowiedzialnością w upadłości likwidacyjnej. The trustee agrees to pay to the CPD SA subsidiaries a penalty compensation of PLN 2.471 thousand for use of property belonging to the subsidiaries without contractual background.

20 Administrative expenses - other

	12 months ended 31 December 2016	12 months ended 31 December 2015
Advisory services	5 006	7 932
Audit fee	274	207
Transport	12	85
Taxes	275	364
Office maintenance	1 450	1 593
Other services	221	328
Costs of not deductible VAT	393	285
Impairment write-down in respect of receivables	185	235
Other costs	173	184
	7 989	**11 213**

In 2016 the change in the administrative expenses resulted mainly from advisory services costs decreased by PLN 2.9 million.

21 Financial income and costs

	12 months ended 31 December 2016	12 months ended 31 December 2015
Interest expenses:		
- bank loans	(2 881)	(3 604)
- interest on finance lease	(2 405)	(2 429)
- interest on bonds	(4 932)	(4 932)
- other interest expenses	(135)	(437)
Net foreign exchange loss	(5 149)	(457)
Loss on bonds revaluation	(106)	(84)
Result of changing subsidiary into joint venture	0	(972)
Other	0	(465)
Embeded derivative valuation	(967)	0
Financial costs	**(16 575)**	**(13 380)**
Interest income:		
- bank interest	59	1 206
- interest from unrelated entities	40	240
Embeded derivative valuation	7 612	7 180
Amortised cost valuation	435	0
Financial income	**8 146**	**8 626**
Financing activities, net	**(8 429)**	**(4 754)**

(All amounts in PLN thousands unless otherwise stated)

Additional notes and explanations to the consolidated financial statements

22 Income tax expense

	12 months ended 31 December 2016	12 months ended 31 December 2015
Current tax	6 435	13
Prior years tax	0	0
Deferred tax (Note 14)	(106)	7 057
	6 329	**7 070**

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. Cypriot subsidiaries are subject to Cypriot 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%	(12 140)	1 518	(790)
Hungary	19%	(73)	7	(7)
				(796)

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 2016	12 months ended 31 December 2015
Profit before tax	**2 473**	**53 418**
Estimated tax liability at the 19% tax rate	(470)	(10 149)
Impact on tax:		
- various tax rates applicable to Group companies and the tax on consolidation adjustments	796	432
- loss of companies where the asset was not recognized	(3 014)	(984)
- use of prior years losses, where the assets was not recognised	1 913	340
- temporary differences in foreign companies	(2 307)	(1 238)
- subsidiaries shares valuation	(6 390)	0
- valuation of real properties	729	4 969
- valuation of the embedded derivative	1 446	1 364
- other	968	(1 804)
Income tax expense	**(6 329)**	**(7 070)**

(All amounts in PLN thousands unless otherwise stated)

Additional notes and explanations to the consolidated financial statements

23 Cash generated from operations

	12 months ended 31 December 2016	12 months ended 31 December 2015
Profit before income tax	2 473	53 418
Adjustments for:		
- depreciation of tangible fixed assets	206	188
- amortisation of intangible assets	30	32
– currency translation adjustments	(215)	(23)
- foreign exchange differences	5 019	202
- gains (losses) on revaluation to fair value of investment property	(4 722)	(59 382)
– share of the profit or loss of the joint venture	(3 680)	911
– loss on change the subsidiary into joint venture	0	972
– result on embedded derivatives	(7 612)	(7 180)
- interest expenses	7 833	8 212
- foreign exchange differences	(50)	(240)
- impairment of inventories	1	1 312
method	106	84
- result in investment property disposal	2 475	0
- result of sale of tangible non-current assets	(4)	0
- result of sale of subsidiaries	(148)	0
- result on embeded derivative valuation	967	0
- other adjustments	100	(59)
Movements in working capital:		
- change in receivables	(1 327)	187
- change in inventories	(31)	(70)
- change in trade payables and other payables	12 848	(952)
	14 269	**(2 388)**

24 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.

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, CPD S.A. has provided a guarantee for the period up to 12 August 2022 year:

a) Amounts that are required (or may be required) to cover any cost overruns of the project outside of costs defined in the credit agreement, up to a maximum of EUR 20 666 thousand,

b) Amounts that are required (or may be required) to cover the debts or any other outstanding payments due to pay, up to a maximum amount of EUR 20 666 thousand,

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 thousand.

Additional notes and explanations to the consolidated financial statements

24 Contingencies (cont.)

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 45 000 thousand.

On 10 October 2016 the guarantee of Blaise Gaston Investments Spółka z ograniczoną odpowiedzialnością Sp.k. was replaced by guarantee provided by 12/132 Gaston Investments Spółkę z ograniczoną odpowiedzialnością sp.k. and 13/155 Blaise Gaston Investments Spółkę z ograniczoną odpowiedzialnością sp.k.

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 granted 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.

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.) are a collateral to the Bank’s claims arising from the credit agreement.

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.

On 6 December 2016 the subsidiaries 16/88 Gaston Investments Spółka z ograniczoną odpowiedzialnością sp.k. and 19/97 Gaston Investments Spółka z ograniczoną odpowiedzialnością guaranteed claims for prepayment refund arising from preliminary agreement for sale of 11/162 Gaston Investments Spółka z ograniczoną odpowiedzialnością. The amount guaranteed is PLN 12 million. As a result the subsidiaries' real estates were mortgaged up to PLN 4 million and PLN 8 million respectively.

25 Contractual liabilities (commitments)

On 6 December 2016 the subsidiaries Gaston Investments sp. z o.o. oraz Challange Eighteen sp. z o.o. concluded conditional preliminary agreement to sell general and limited partners' rights in 11/162 Gaston Investments spółka z ograniczoną odpowiedzialnością sp.k. The sale is to happen by 7 Jukly 2017. The investment property of PLN 12 880 thousand is the main assetof the company andis presented as asset held for sale.

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.
All related party transactions have been at arm's length.

(All amounts in PLN thousands unless otherwise stated)

Additional notes and explanations to the consolidated financial statements

26 Transactions with related entities and transactions with employees (cont.)

The CPD group concluded the following transactions with related parties:

	12 months ended 31 December 2016	12 months ended 31 December 2015
a) Transactions with key managers		
Remuneration of the Management Board members	261	218
Cost of work and services provided by members of the Management Board	939	1 313
Cost of remuneration of members of the Supervisory Board	330	307
Cost of services provided by members of the Supervisory Board	0	2
Payables to the Management Board members	203	0

		12 months ended 31 December 2016	12 months ended 31 December 2015
b) Transactions with other related parties			
Revenues			
Smart City Spółka z ograniczoną odpowiedzialnością Sp.k.	*- services*	503	192
Laxey Cooperative	*- services*	9	6
Costs			
Kancelaria Radców Prawnych Oleś i Rodzynkiewicz	*- costs of legal services*	99	22
Laxey Cooperative	*- interest*	42	5
Smart City Spółka z ograniczoną odpowiedzialnością Sp.k.		0	5
Liabilities			
Smart City Spółka z ograniczoną odpowiedzialnością Sp.k.	*- trade payables*	0	19
Receivables			
Smart City Spółka z ograniczoną odpowiedzialnością Sp.k.	*- trade payables*	86	18
c) Transactions with shareholders			
Laxey Cooperative	*- loan receivable*	334	325
Laxey Cooperative	*- loan receivable allowance*	(334)	(325)

27 Seasons of activity and unusual events

The activity of the CPD Group is not seasonal nor cyclical.

28 Assets and liabilities held for sale

As at 31 December 2016 investment property belonging to 18 Gaston Investments Spółka z ograniczoną odpowiedzialnością sp.k. (działka nr 148/2) was classified as held for sale.

Moreover assets and liabilities of 1/162 Gaston Investments Spółka z ograniczoną odpowiedzialnością Sp.k. are presented as held for sale. As of the date of these statements the transaction is still in progress. The relevant share transfer agreement is to be concluded by 7 July 2017.

(All amounts in PLN thousands unless otherwise stated)

Additional notes and explanations to the consolidated financial statements

28 Assets and liabilities held for sale (cont.)

(a) Assets held for sale

	31 December 2016	31 December 2015
Investment property	13 742	0
Trade and other receivables	234	0
Cash and cash equivalents	99	0
	14 075	**0**

(b) Liabilities classified as held for sale

	31 December 2016	31 December 2015
Borrowings, including finance leases	581	0
Trade and other payables	1	0
	582	**0**
Net assets held for sale	**13 493**	**0**

29 Sale of subsidiaries

In 2016, the Group sold limited partner rigths and obligations in Blaise Gaston Investments spółka z ograniczoną odpowiedzialnością sp.k. for PLN 69 600 thousand. The disposal of the subsidiary generated a loss of PLN 148 thousand.

30 Events after the balance sheet date

IMES Poland sp. o.o. and 18 Gaston Investments spolka z ograniczona odpowiedzialnoscia sp. k. (the “Company”) on 30th of January 2017 granted warranties as a result of conditional sales agreements concluded with legal entities (“Buyer”), leading to the sale of rights to land located in Warsaw’s Ursus district, as well as cooperation agreement (“Conditional Sales Agreement”).
Warranty will be applied as a combined mortgage on the right to perpetual usufruct of held real estate for each full amount of the payment, the Buyer has to make in favor of the Company in respect of each mortgage.
Company submitted to enforcement under Art. 777 § 1 point 5 of the Civil Code, as to the obligation to repay a sum of money to the full amount of payment, the Buyer has to make in favor of the Company, as well as each of the parties will submit a written statement in the form required by applicable law, including permission to bring Buyer’s claims concerning the conclusion of the Final Agreement to the land register kept for the property owned by them.
The total sale price of property rights and cooperation agreements, was set at a total amount of PLN 82 million net (“Total Price”).
Conclusion of Final Agreements for the transaction was predicted in stages between December 2017 and December 2019. The conclusion of Final Agreements is subject to a number of conditions precedent, mainly related to the preparation of infrastructure and the media in such a way that the implementation of housing projects in line with agreed objectives.

On 31 January 2017 the Buyer paid part of the price in the amount of 45 million pln (net) plus the appropriate VAT. Subsequent payments to a fixed total price will be implemented according to the schedule adopted by Buyer and Seller in the years 2017-2019.

(All amounts in PLN thousands unless otherwise stated)

Additional notes and explanations to the consolidated financial statements

30 Events after the balance sheet date (cont.)

On 22 February 2017 CPD SA together with the Group subsidiaries: Challange Eighteen Sp.z o.o., Lakia Enterprise Ltd and 4/113 Gaston Investments spółka z ograniczoną odpowiedzialnością Sp. k. concluded investment agreement with Unibep SA and Unidevelopment SA. The agreement is aimed at performance of the resideential construction investment on the property belonging to 4/113 Gaston Investments spółka z ograniczoną odpowiedzialnością Sp. k.. Participation of Unidevelopment in teh joint venture is subject to the Polish antymonopoly approval.

On 22 February 2017 Unidevelopment SA decreased their contribution into Smart City Sp. z o.o. Sp. k. from PLN 11 030 thousand down to PLN 5 370 thousand. The contribution decrease related to the first stage of Ursa Smart City project.

In June 2016 CPD Group entered into preliminary purchase agreement. Based on that agreement Gaston 14/119 (one of the CPD Group company) was expected to acquire plot no 146 in Ursus for PLN 14 ml. 8 March 2017, CPD Group entered into conditional agreement with Integra Sp. z o.o. based on which it sold shares in its wholy-owned subsidiary, Gaston 14/119. Gaston 14/119 did not have material assets or liabilities and did not run operating activity as of 31/12/2016. In line with the agreement sale price was determined at the level of PLN 5 ml and represents the compensation for CPD for transfer of the right to purchase plot no 146 in Ursus.

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

31 Remmuneration 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 2016 and 2015 is as follows:

	12 months ended 31 grudnia 2016	12 months ended 31 grudnia 2015
Auditor's fee	274	207

32 Dividend distribution

In 2016, the Group did not pay any dividend or interim dividend. No dividend or interim dividends were paid in 2015.

33 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.

(All amounts in PLN thousands unless otherwise stated)

Additional notes and explanations to the consolidated financial statements

33 Earnings per share – basic and diluted (cont.)

	12 months ended 31 December 2016	12 months ended 31 December 2015
Profit (loss) attributable to the shareholders in the parent company	(3 856)	46 348
Weighted average number of ordinary shares (in '000)	32 863	32 863
Earnings per share	(0,12)	1,41
Diluted profit attributable to shareholders	(7 230)	42 427
Weighted average number of ordinary shares (in '000)	42 654	42 654
Diluted earnings per share	(0,17)	0,99

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 2 553 thousand), valuation of bonds as at the balance sheet date (PLN 894 thousand) and the valuation of the embedded derivative instrument (PLN -7 612 thousand). The amounts were 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.

34 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, and did not hold any fixed assets in the current year nor in the previous year.

External operating income is divided by country as follows:

	12 months ended 31 December 2016	12 months ended 31 December 2015
Poland	20 022	18 735
Cyprus	0	0
	20 022	18 735

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

	12 miesięcy zakończone 31 December 2016	12 miesięcy zakończone 31 December 2015
Poland	559 565	652 116
Cyprus	0	0
Hungary	0	2

(All amounts in PLN thousands unless otherwise stated)

Additional notes and explanations to the consolidated financial statements

559 565	652 118

These consolidated financial statements were prepared and approved by the Management Board of the Company on 14.03.2017 and signed on its behalf by:

Elżbieta Donata Wiczkowska
Chairman of the Board

Colin Kingsnorth
Board Member

John Purcell
Board Member

Iwona Makarewicz
Board Member

Waldemar Majewski
Board Member