CPD S.A.

STANDALONE ANNUAL REPORT 2016

CPD S.A.

ANNUAL REPORT

FOR THE YEAR ENDED 31 DECEMBER 2016

TRANSLATORS' EXPLANATORY NOTE

The following document is a free translation of the Annual Report of CPD S.A. published on Marchl 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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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.

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 WOMEN AND MEN IN THE MANAGEMENT BOARD AND THE SUPERVISORY BOARD

In keeping with the *Code of Best Practice for WSE-Listed Companies*, CPD S.A. presents information about the participation of women and men, respectively, in the Management Board and the Supervisory Board of the Company in the last 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 REPORT

1. CPD S.A. – HISTORY AND BUSINESS PROFILE

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. CPD S.A. AS THE PARENT COMPANY IN THE GROUP STRUCTURE

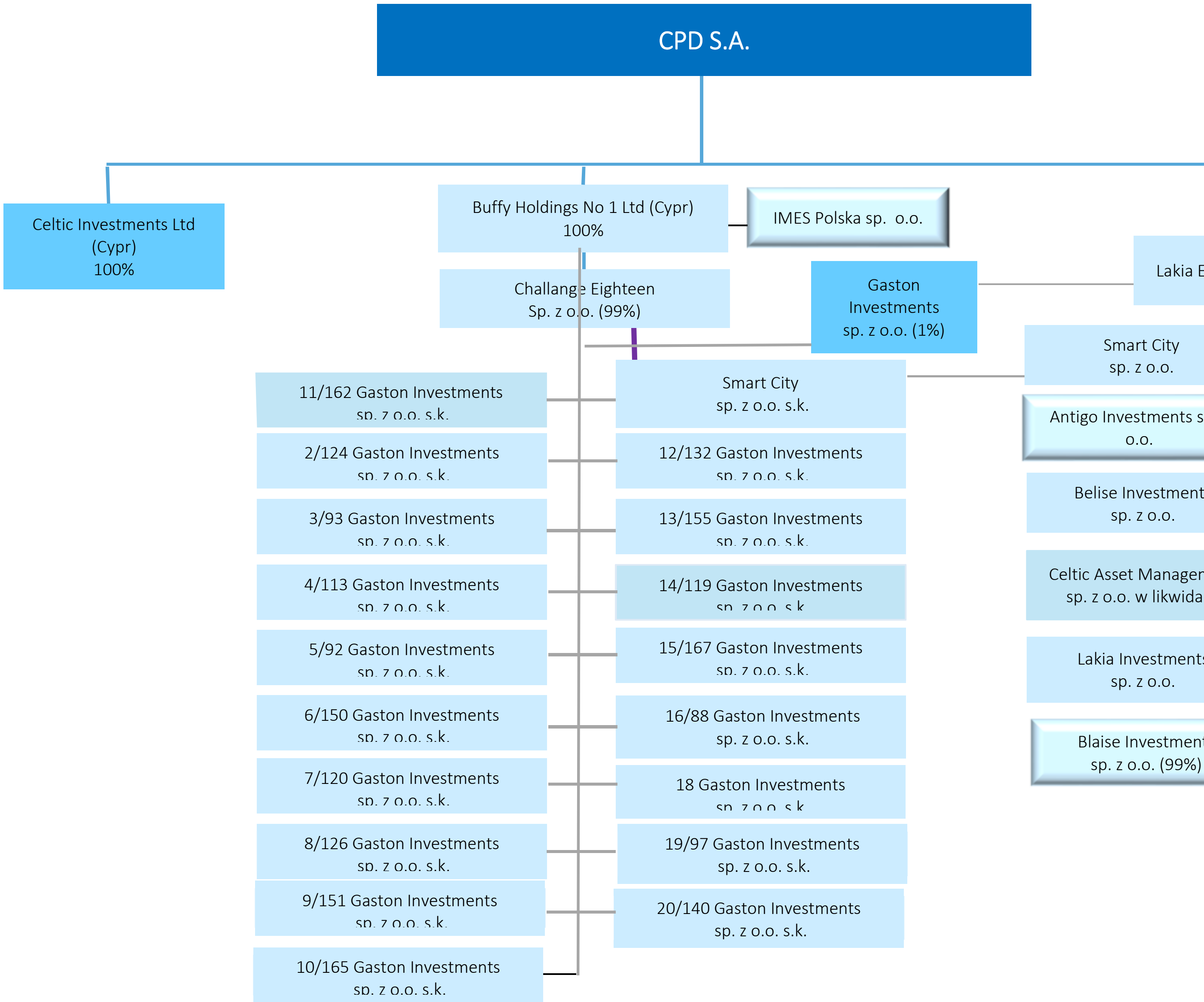
As of the report publication date, CPD S.A. (hereinafter referred to as 'the Company') directly or indirectly held shares and shareholdings in 35 subsidiaries and one half controlled. CPD S.A. directly controls 3 entities which are responsible for various areas of the Group's operations (hereinafter referred to as 'the CPD Group', 'the Group'):

- **Buffy Holdings No1 Ltd (Cyprus)** – this company holds shares in investment companies responsible for the Ursus investments;
- **Lakia Enterprises Ltd (Cyprus)** – this company holds shares in investment companies responsible for investment projects in Poland and Hungary;
- **Celtic Investments Ltd (Cyprus)**

As the parent company, CPD S.A. co-ordinates and supervises activities of its subsidiaries, while being the centre where growth strategy decisions are taken. CPD S.A. undertakes initiatives focusing on optimisation of the Group's operational costs, it develops and co-ordinates Group's investment and marketing policies and activities.

All Group companies are consolidated by the full method, except the company Smart City limited liability limited partnership, which is reconsilated by the equity method.

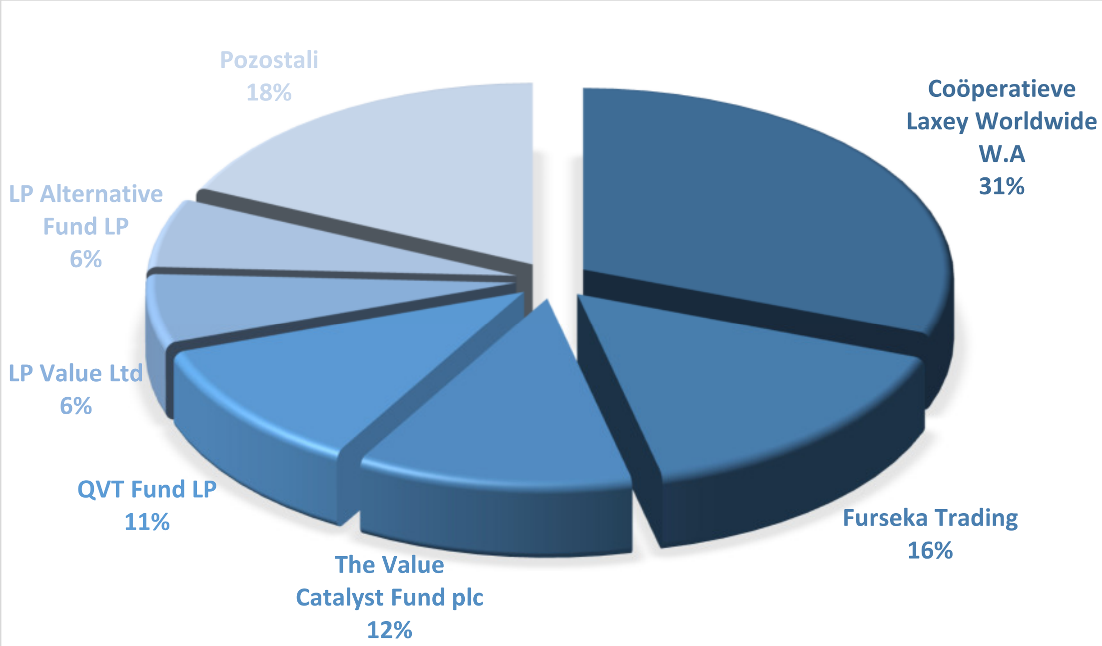
CPD Group structure on the December 31, 2016.



3. SHAREHOLDERS

CONTROLLING STAKES

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

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

On 5 August 2014, resolution was adopted to issue series A bonds convertible to series G shares in the Company, conditionally increase the Company's share capital, deny the existing shareholders entirely their right of subscription for series G shares, amend the Company's Articles, dematerialise series G shares, and apply for admission and floating of series G shares on a stock exchange. Redemption date of tranche 1 bonds is 26 September 2017.

SHAREHOLDERS WITH SPECIAL RIGHTS

All shares issued by the Company to date are ordinary bearer shares. The Company Articles do not grant any specific rights to shares in the Company, including preferential voting rights or the right to appoint members of the Company's governing bodies. The Company's shareholders do not own shares bearing 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 TRANSFER OF OWNERSHIP RIGHTS

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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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 %

- **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 *21. 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. STRATEGY AND POLICY REGARDING FURTHER DEVELOPMENT OF THE GROUP

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.

6. CPD GROUP ACTIVITIES AND IMPORTANT EVENTS DURING THE REPORTING PERIOD

- **EVENTS AFFECTING THE COMPANY'S ACTIVITIES AND ITS FINANCIAL PERFORMANCE**

➢ **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

18 April 2016, the Extraordinary General Meeting of Shareholders 14/119 limited liability company in liquidation adopted a resolution on the repeal of liquidation and continued existence of the Celtic Asset Management Sp. o.o. 14/119 limited liability company.

➢ REPEAL THE LIQUIDATION OF THE SUBSIDIARY

27 April 2016, the Extraordinary General Meeting of Shareholders Celtic Asset Management 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 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.

➢ 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.

7. ASSESSMENT OF FEASIBILITY OF THE COMPANY'S INVESTMENT PLANS

The Company does not conduct its own development projects. Previous projects were carried out by the Group's subsidiaries and were financed by using their own resources as well as bank loans. In future, the Group intends to implement projects through subsidiaries or co-controlled companies, and to finance such construction projects and investments (targeted loans) through funds raised directly by those companies or through CPD S.A.

8. FACTORS AND UNUSUAL EVENTS AFFECTING THE COMPANY'S FINANCIAL PERFORMANCE

In the Management Board's view, 2016 saw no unusual events which would have had an effect on the Company's performance.

9. FACTORS OF IMPORTANCE FOR THE COMPANY'S FURTHER GROWTH

Factors which might directly or indirectly affect the Company's and the Group's future operations include:

- The macroeconomic situation on the Polish market as it shapes the demand for real estate and the purchasing power of customers;
- The situation on financial markets, and, in particular, availability of sources of funding and the cost of capital raised;
- Banks' lending policies and availability of mortgage loans;

- The government's policy to support the construction sector;
- Administrative decisions regarding lands held by subsidiaries.

10. OVERVIEW OF ESSENTIAL ECONOMIC AND FINANCIAL DATA

Selected items of the statement of comprehensive income

	12 months ended		Change
	31.12.2016	31.12.2015	2016/2015
	(PLN ths.)	(PLN ths.)	(%)
Revenue	196	447	-56,2%
Administrative expenses	-2 178	-2 169	0,4%
Marketing costs	-18	-143	-87,4%
Impairment of investments in subsidiaries	-11 808	32 088	-136,8%
Interest income on loans	15 065	15 294	-1,5%
Other operating income	69	0	-
Other operating expenses	-41	-30	36,7%
Profit from operations	**1 285**	**45 487**	**-97,2%**
Finance income	8 552	8 499	0,6%
Finance costs	-7 010	-5 800	20,9%
Profit before tax	**2 827**	**48 186**	**-94,1%**
Income tax	-5 068	0	-
PROFIT/LOSS FOR THE YEAR	**-2 241**	**48 186**	**-104,7%**

Earnings per share (PLN)	-0,07	1,47	-104,6%
Diluted earnings per share (PLN)	-0,13	1,04	-112,7%

In 2016, the Company CPD SA reported a net loss of 2.2 million PLN.

The factor that had the biggest impact on the final amount of the net loss in 2016 was negative change of allowance for impairment of investments in subsidiaries in the amount of 11.8 million PLN. The Company analyzed for impairment of loans granted to subsidiaries. Details of write-offs are presented in Note 4 to the Financial Statements of the Company.

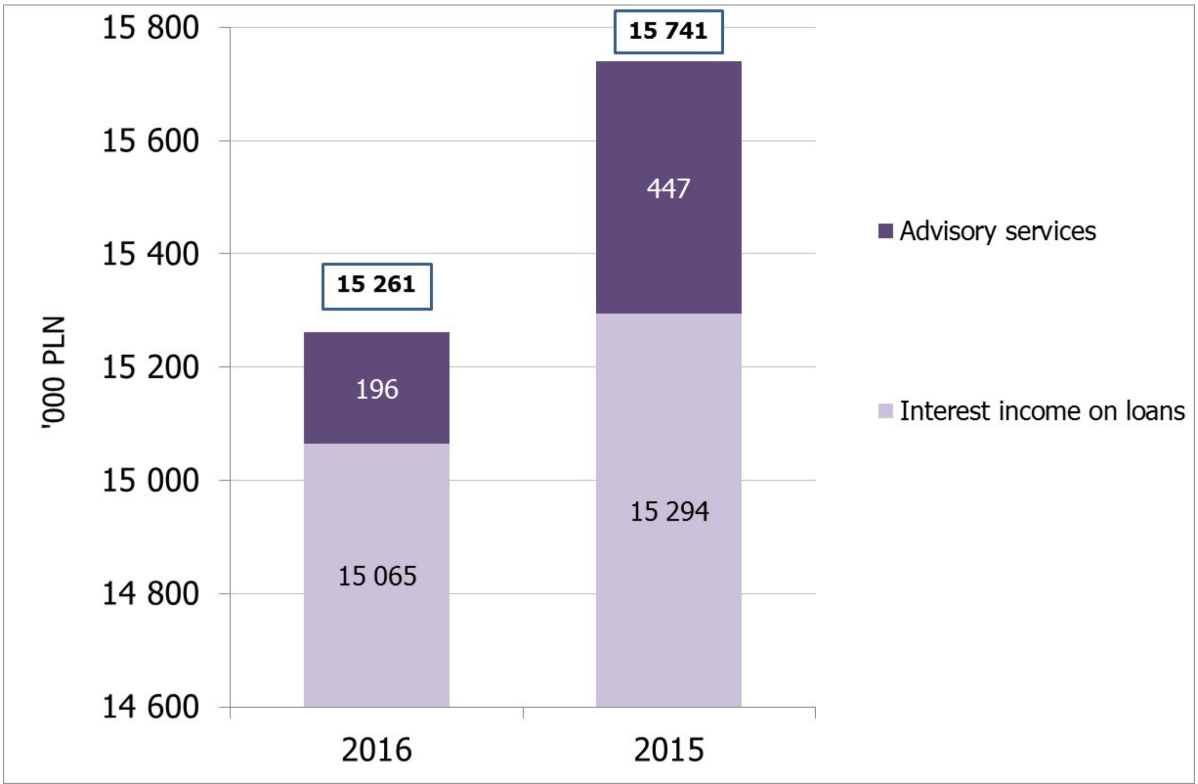
Also recognize the liability for deferred income tax in the amount of PLN 5.1 million had a negative impact on the final value of the net result of the Company.

Another factor that contributed to the negative net result of the Company for 2016 years was the increase in financial expenses by PLN 1.2 million mainly due to the recognition of foreign exchange losses.

The Company's revenues declined slightly compared with 2015. The biggest items of income in the income statement of the Company in the amount of PLN 15.1 million were interest income from loans granted to Group companies CPD SA. These revenues decreased by PLN 0.2 million compared to 2015 (-1.5%).

In 2016, the Company has also achieved sales of services in the amount of PLN 0.2 million, which was lower by PLN 0.25 million compared to 2015. 100% of the revenue generated in 2016 came from domestic sales in respect of services rendered to the companies in the Group.

The chart below shows the structure of revenues from sales in the years 2016 and 2015.



Selected items of the statement of financial position

		As at:		Change
		31.12.2016 (PLN ths.)	31.12.2015 (PLN ths.)	2016/2015 (%)
Total assets		**536 296**	**534 019**	***0,4%***
Non-current assets, including:		482 413	521 167	*-7,4%*
	Property, plant and equipment	*1*	*3*	*-66,7%*
	Intangible assets, excluding goodwill	*1*	*4*	*-75,0%*
	Long-term receivables	*482 411*	*521 160*	*-7,4%*
Current assets, including:		53 883	12 852	*319,3%*
	Trade receivables and other receivables	*551*	*1 067*	*-48,4%*
	Bonds	*3 702*	*3 670*	*0,9%*
	Cash and cash equivalents	*49 630*	*8 115*	*511,6%*
Total equity and liabilities		**536 296**	**534 019**	***0,4%***
Equity, including:		447 091	449 332	*-0,5%*
	Share capital	*3 286*	*3 286*	*0,0%*

	Reserve capital	*987*	*987*	*0,0%*
	Fair value of capital element at inception date	*-27 909*	*-27 909*	*0,0%*
	Share premium	*796 643*	*796 643*	*0,0%*
	Retained earnings	*-325 916*	*-323 675*	*0,7%*
Non-current liabilities		47 460	80 585	*-41,1%*
Current liabilities		41 745	4 102	*917,7%*

At the end of December 2016. Value of the Company's total assets increased slightly compared to the end of 2015 (an increase of 2.3 million PLN, ie 0.4%). First of all, it increased the value of assets (an increase of 41 million PLN), which was the result of the partial repayment of loans by subsidiaries.

The above-mentioned increase in offset Decrease in long-term receivables.

With regard to fixed assets, nearly 100% of the assets represented just long-term receivables arising from long-term loans to related parties. At the end of December 2016. Value of the equity amounted to 447.1 million PLN, which accounted for 83% of the total assets of the Company, while liabilities accounted for 17% of total assets.

These indicators have changed slightly compared to the end of 2015 years (84% and 16%). The decrease in equity was 0.5% compared to the end of December 2015.

In 2016, it increased the value of liabilities (increase amounted to 5%). This was mainly due to the recognition of liabilities for deferred income tax. As at December 31, 2016, the Company had long-term liabilities with a value of 47.5 million PLN. Long-term liabilities issued bonds amounted to 25.6 million PLN. 16.8 million PLN concerned and liabilities to a subsidiary Lakia Enterprises Ltd under the loan.

Short-term liabilities in the amount of PLN 41.7 million, accounted for 8% of total assets of the Company. The biggest item among the liabilities were liabilities from convertible bonds denominated in EUR in the amount of 39.3 million PLN.

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	**16,6%**	**15,9%**
Non-current liabilities to total assets	**8,8%**	**15,1%**
Borrowings including finance leases	3,1%	2,4%
Bonds	4,8%	10,5%
Built-in derivative instrument	0,0%	2,2%
Deferred tax liability	0,9%	0,0%
Current liabilities to total assets	**7,8%**	**0,8%**
Bonds	6,6%	0,2%
Built-in derivative instrument	0,7%	0,0%
Trade and other payables	0,5%	0,5%

Slightly changed compared to the end of 2015 was also the structure of liabilities. The share of long-term debt in total assets fell from 15.1% at the end of December 2015. To 8.8% at the end of December 2016. This change stems from the fact that the date of the redemption or conversion of convertible bonds falls on 2017 years.

At the end of 2016 long-term liabilities accounted for 53% of total liabilities, while a year earlier the share was 95%.

11. RISK FACTORS AND THREATS

The Company's operations are exposed to financial, operational and economic risks. The risk management policy adopted by the Company aims at minimizing the effects of adverse events. Occurrence of a specific risk, whether alone or in combination with other circumstances, may have a significant negative impact on the Company's business, its financial situation, growth prospects or financial performance and it may also have an impact on the evolution of the Company's share prices.

The risks described below do not represent a complete or exhaustive list and, as such, may not be viewed as the only risks to which the Company is exposed. Additional risks that are unknown to the Company at present or ones which are currently considered by the Company as irrelevant may also have a significant negative impact on the Company's operations, its financial situation, prospects or performance.

- ### RISK RELATED TO THE MACROECONOMIC SITUATION ON THE MARKETS ON WHICH THE COMPANY AND THE GROUP OPERATE

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 RELATED TO THE PROCESS OF OBTAINING ADMINISTRATIVE DECISIONS, THE POSSIBILITY OF APPEAL AND THE NON-EXISTENCE OF MASTER ZONING PLANS**

The land development business conducted by the Company and its Group is associated with the need to obtain numerous administrative decisions enabling them to implement construction projects, e.g. decisions on the location of investments, zoning and development decisions (if no master plan exists for the area), construction permits, occupancy certificates for newly erected structures, environmental decisions required under environmental legislation. The obligation to obtain the aforementioned administrative decisions triggers the risk of halting or delaying the completion of construction projects in case such decisions are not granted or if the relevant procedures are protracted.

Moreover, the Company cannot rule out the possibility that the decisions which have already been reached may be appealed against by parties to administrative proceedings, or that they might be repealed. This, in turn, would affect the ability to continue or complete the ongoing construction projects and, consequently, the Company's business operations, its financial position and performance.

Furthermore, there is also the risk of inability to implement construction projects in areas where master plans have not been adopted and where a zoning decision or a development decision cannot be obtained or is significantly constrained.

- **RISK RELATED TO COMPETITION**

While focusing on its development business in the residential and commercial sector, the Company faces strong competition from domestic and foreign developers. This may create obstacles for the Company in acquiring the right land plots for new investments at attractive prices. The increasing competition may also propel the supply of residential and commercial property and, consequently, lead to stagnation or decline of selling prices of flats/houses and rents. This kind of situation may negatively impact the Company's performance.

- **RISK RELATED TO GEOGRAPHICAL CONCENTRATION OF THE COMPANY'S AND GROUP'S PROJECTS**

As the majority of real property, including the Ursus residential project, is concentrated in Warsaw, this fact exposes the Company to a greater risk of changes in the local market and business environment in comparison with other land development companies with a more diversified portfolio (in geographical terms).

The Company has a subsidiary in Hungary which owns property located near Alsonemedi in the vicinity of Budapest. As the Hungarian market is less stable politically and economically than the Polish market, it cannot be excluded that the negative perceptions of the Hungarian economy by investors may have a negative impact on the estimated value of the property held by the Group. However, considering the size of the project, its potential negative impact on the Group's performance is highly limited.

- **RISK RELATED TO FAILURE TO ATTAIN THE ADOPTED STRATEGIC GOALS**

The Company cannot guarantee that its strategic goals will be attained and, in particular, it cannot guarantee the expected significant expansion of the scale of its business. Successful implementation of the strategy depends on many factors beyond the Company's control, which nevertheless determine the situation on the real estate market. The Company endeavours to build its strategy on the basis of the current market situation. The Company cannot ensure, however, that its strategy is based on a complete and accurate analysis of current and future market trends. Moreover, one cannot exclude that the activities undertaken by the Company may turn out to be insufficient or missed from the perspective of its strategic goals. An erroneous assessment of market prospects and any erroneous decisions may have a significant adverse effect on the financial performance of the Company and the Group.

- **RISK RELATED TO MANAGERIAL STAFF**

The Company's operations and its further growth largely depend on knowledge, experience and qualifications of the managerial staff and key staff members. It is the competence of the managerial staff that determines the success of all milestones in implementation of land development projects. If key employees leave the Company, it might not be able to hire new, equally experienced and qualified experts who would be able to continue the implementation of the Company's strategy, and this might materially and adversely affect the Company's financial performance.

- **RISK RELATED TO FINANCING GROWTH WITH BANK LOANS AND OTHER DEBT INSTRUMENTS**

The standard practice in land development projects is to use debt financing at a significant level. Thus, the Company is exposed, on the one hand, to the risk of increasing interest rates and higher debt servicing costs and, on the other hand, the company might not be able to service its debt in an extreme situation, in case the demand for the Company's products falls. Thus, if loan agreements providing funds for construction projects are breached, there is a risk that the lender may take over the assets of the Company which are used as collateral for the loans. Likewise, the Company may not exclude the risk of more difficult access to debt financing or of material rise in the costs of debt due to a change in banks' lending policies. This may restrict the Company's opportunities to undertake new projects and, therefore, materially affect the financial results it may generated in future.

- **FOREIGN EXCHANGE RISK**

CPD Company's debt denominated in foreign currencies amounted to 31 December 2016. Equivalent of 33.9 million PLN. Given the above, the Company is exposed to the risk of zloty depreciation against the currencies in which liabilities are loans, which could adversely affect the Company's financial position.

- **LIQUIDITY RISK**

A liquidity risk arises when assets and liabilities do not overlap in terms of their payment deadlines. This situation potentially improves profitability but also increases the risk of loss. The Company applies procedures aimed at minimizing such losses by maintaining an adequate level of cash and other assets that are easy to sell, as well as by adequate access to credit lines. The Company's liquidity levels are controlled on an ongoing basis by the Management Board.

12. COURT LITIGATIONS, ADMINISTRATIVE PROCEEDINGS AND ARBITRAGE IN CASES EXCEEDING 10% OF THE COMPANY'S EQUITY

Neither CPD S.A. nor any of its subsidiaries is party to court litigation, proceedings before the authority competent for arbitration or a public body, where the total value would exceed 10% of the equity of CPD S.A.

13. COMPANY'S ORGANISATIONAL AND CAPITAL-RELATED RELATIONSHIPS

The organizational and capital relationships of CPD S.A. as well as the structure of the Group are presented in point *2. CPD S.A. AS THE PARENT COMPANY IN THE GROUP STRUCTURE* of this report.

14. 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 77 137 970 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 23 745 316 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 18 387 728 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 65 146 288 PLN, which exceeds 10% of the equity CPD SA 31 December 2016;

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.

15. SIGNIFICANT DEALS BETWEEN RELATED PARTIES

During the reporting period, the Company did not conclude any transactions with related parties on terms other than the market terms. Transactions with related parties are described in Note 22 to the Company's financial statements *Transactions with related parties.*

16. CREDIT AND LOAN AGREEMENTS, WARRANTIES AND GUARANTEES

In 2016, the liabilities under the following two most important credit 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.

17. ISSUES OF SECURITIES, BUY-BACK OF TREASURY SHARES FOR REDEMPTION

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.

18. DESCRIPTION OF DIFFERENCES IN FINANCIAL PERFORMANCE FORECASTS

The Company did not publish financial performance forecasts for 2016.

19. ASSESSMENT OF FINANCIAL RESOURCES MANAGEMENT

CPD SA finances its operations primarily with equity. In fiscal year 2016 the CPD's financial resources are used in accordance with the plans, specifications and current needs. CPD SA fulfilled its regularly with their obligations to counterparties, banks and mandatory charges to the State. Liabilities representing 17% of the total assets of the Company do not pose a threat to the financial condition of the Company.

In September 2014, CPD SA 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 Company amounted to 33.9 million PLN.

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

20. CHANGES IN MANAGEMENT PRINCIPLES

CPD 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.

21. REMUNERATION OF MANAGEMENT BOARD MEMBERS AND SUPERVISORY BOARD MEMBERS

• Remuneration of Supervisory Board members

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**		

• Remuneration of Management Board members

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 Management Board of CPD (PLN)	Remuneration of Management Board of Group (PLN)	TOTAL (PLN)	Period	Comments
Elżbieta Wiczkowska	President	60 000	539 962	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	3 333	141 452	144 785	06.2016 - 12.2016	-
Total		**243 333**	**956 601**	**1 199 936**		

22. AGREEMENTS WITH MANAGING STAFF – INDEMNITIES

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.

23. COMPANY SHARES HELD BY MANAGING AND SUPERVISORY STAFF

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.

24. AGREEMENTS CHANGING THE 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.

25. CONTROL SCHEME FOR EMPLOYEE STOCK PROGRAMMES

During the reporting period the Company did not introduce any employee stock programmes.

26. AGREEMENT WITH THE COMPANY'S AUDITOR

The 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)

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.);

27. STRUCTURE OF ASSETS AND LIABILITIES – BY LIQUIDITY

	As at:		% in total assets	% in total assets	Change
	31.12.2016	31.12.2015			2016/2015
	(PLN ths.)	(PLN ths.)	2016	2015	(%)
Property, plant and equipment	1	3	0,000%	0,001%	*-66,7%*
Intangible assets, excluding goodwill	1	4	0,000%	0,001%	*-75,0%*
Long term receivables	482 411	521 160	90,0%	97,6%	*-7,4%*
Non-current assets	**482 413**	**521 167**	**90,0%**	**97,6%**	***-7,4%***
Trade and other receivables	551	1 067	0,10%	0,20%	*-48,4%*
Bonds	3 702	3 670	0,7%	0,7%	-
Cash and cash equivalents	49 630	8 115	9,3%	1,5%	*511,6%*
Current assets	**53 883**	**12 852**	**10,0%**	**2,4%**	***319,3%***
TOTAL ASSETS	**536 296**	**534 019**	**100,0%**	**100,0%**	***0,4%***

	As at:		% in total assets	% in total assets	Change
	31.12.2016	31.12.2015			2016/2015
	(PLN ths.)	(PLN ths.)	2016	2015	(%)
Share capital	3 286	3 286	0,6%	0,6%	*0,0%*
Reserve capital	987	987	0,2%	0,2%	*0,0%*
Fair value of capital element at inception date	-27 909	-27 909	-5,2%	0	*0,0%*
Share premium	796 643	796 643	148,5%	149,2%	*0,0%*
Retained earnings	-325 916	-323 675	-60,8%	-60,6%	*0,7%*
Equity	**447 091**	**449 332**	**83,4%**	**84,1%**	***-0,5%***
Bonds	25 634	56 041	4,8%	0	*-54,3%*
Embedded derivative	0	11 635	0,0%	0	*-100,0%*
Borrowings, including finance leases	16 758	12 909	3,1%	2,4%	*29,8%*
Deferred tax liability	5 068	0	0,9%	0,0%	-
Non-current liabilities	**47 460**	**80 585**	**8,8%**	**15,1%**	***-41,1%***
Bonds	35 239	1 279	6,6%	0,2%	*2655,2%*
Embedded derivative	4 022	0	0,7%	0,0%	-
Trade and other payables	2 484	2 823	0,5%	0,5%	*-12,0%*
Current liabilities	**41 745**	**4 102**	**7,8%**	**0,8%**	***917,7%***
TOTAL EQUITY AND LIABILITIES	**536 296**	**534 019**	**100,0%**	**100,0%**	***0,4%***

28. GRANTED LOANS

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. ('the Company') hereby confirms that according to its best knowledge the Company's financial statements for the accounting year ended 31 December 2016 and all comparative data have been drawn up in accordance with the applicable accounting principles and give a true, fair and clear view of the Company's assets and financial situation and its financial results, and that the Management Board report provides a true picture of the Company's growth and achievements as well as the Company's situation, including threats and risks.

The Management Board of CPD S.A. hereby confirms that the entity authorised to audit the annual financial statements which performs the reviewed of the annual financial statements was selected in compliance with the law, and that the entity and individual auditors who carry out the audit do meet the legal requirements to issue an unbiased and independent opinion on the annual financial statements under review, in accordance with applicable regulations and professional standards. In the years 2014 and 2015, the financial statements of CPD S.A. and of 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. AUDITOR'S OPINION

Independent Registered Auditor's Report

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

Report on the financial statements

We have audited the accompanying financial statements of CPD S.A. (hereinafter called "the Company"), Cybernetyki 7B Street, Warsaw, which comprise the statement of financial position as at 31 December 2016, the statement of comprehensive income, the statement of changes in equity, the statement of cash flows for the financial year from 1 January 2016 to 31 December 2016 and a summary of significant accounting policies and other explanatory notes.

Management and Supervisory Board's Responsibility

The Company's Management Board is responsible for the preparation of these financial statements, on the basis of correctly maintained books of account, 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 Company's Management Board is also responsible for internal controls as management determines necessary to enable the preparation of 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 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 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the 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 financial statements.

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

Independent Registered Auditor's Report (cont.)

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

Opinion

In our opinion, the accompanying financial statements:

a. give a true and fair view of the Company'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) and the Company's Memorandum of Association;

c. have been prepared on the basis of correctly maintained books of account.

Report on Other Legal and Regulatory Requirements

Opinion on the Report on the Company's operations

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

The Company's Management Board is responsible for the preparation of the Report on the Company'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 Company's operations meets the requirements of the Accounting Act.

With respect to our audit of the financial statements, our responsibility was to read the Report on the Company'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 financial statements. Our responsibility was also to consider, based on the knowledge of the Company and its environment obtained during our audit, whether the Report on the Company's operations does not contain any material misstatements.

In our opinion, the information contained in the Report on the Company'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 financial statements. Further, based on the knowledge of the Company and its environment obtained during our audit we have not identified any material misstatements in the Report on the Company's operations.

With respect to our audit of the financial statements, our responsibility was also to read the Company's Statement of Corporate Governance, which is a separate part of the Report on the Company's operations. In our opinion, the Company 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 financial statements.

Independent Registered Auditor's Report (cont.)

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

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

CPD S.A.

Independent Registered Auditor's Report

Financial Statements

Report on Company's operations

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

For the year from 1 January to 31 December 2016

Content:

Independent Registered Auditor's Report
prepared by PricewaterhouseCoopers Sp. z o.o.

Financial Statements
prepared by CPD S.A.

Report on Company's operations
prepared by Management Board of CPD S.A.

Registered Auditor's Report on the audit of the financial statements
prepared by PricewaterhouseCoopers Sp. z o.o.

CPD S.A.

Registered auditor's report on the audit of the 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 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 9 consecutively numbered pages and consists of:

Page

I. General information about the Company 2
II. Information about the audit 4
III. The Company's results, financial position and significant items of financial statements .. 5
IV. The independent registered auditor's statements 8
V. Final information 9

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I. General information about the Company

a. CPD S.A. ("the Company") has its seat in Warszawa, Cybernetyki 7B Street.

b. The Company was formed on the basis of a Notarial Deed drawn up on 23 February 2007 by notarial assessor Radosław Chorabik and registered with Rep. A No. 863/2007. On 23 March 2007, the Company was entered in the Register of Businesses maintained by the District Court in Kraków 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 Company 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 Company name from Celtic Property Developments S.A. to CPD S.A. The change of Company's name was registered in the National Court Register on 17 September 2014.

c. The Company was assigned a tax identification number (NIP) 677-22-86-258 for the purpose of making tax settlements and a REGON number 120423087 for statistical purposes.

d. As at 31 December 2016 the Company's registered 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. Total equity as at that date amounted to PLN 447,091 thousand.

e. As at 31 December 2016, the Company's shareholders were:

Shareholder's name	Number of shares held	Par value of shares held (PLN)	Type of shares held	Votes (%)
Cooperatieve Laxey Worldwide W.A.	10,082,930	1,008,293.0	ordinary	30.68
Furseka Trading and Investments Ltd	5,137,222	513,722.2	ordinary	15.63
The Value Catalyst Fund plc	3,975,449	397,544.9	ordinary	12.10
QVT Fund LP	3,701,131	370,113.1	ordinary	11.26
LP Value Ltd	2,005,763	200,576.3	ordinary	6.10
LP Alternative Fund LP	2,003,981	200,398.1	ordinary	6.10
Shareholders with less than 5% of shares	5,956,727	595,672.7	ordinary	18.13
	32,863,203	**3,286,320.3**		**100.00**

I. General information about the Company (cont.)

f. During the year the Company's operations comprised:
- activities of financial holdings,
- activities related to the real estate market services,
- central business activitiy.

g. During the year the Management Board of the Company comprised:

• Elżbieta Donata Wiczkowska	Chairman of the Management Board,
• Iwona Ewa Makarewicz	Member of the Management Board,
• Colin William Kingsnorth	Member of the Management Board,
• John Purcell	Member of the Management Board,
• Waldemar Majewski	Member of the Management Board from 29 June 2016.

h. The Company has the following related entities:

Cooperatieve Laxey Worldwide W.A. - significant investor of the highest level

and companies belonging to the Company's parent's group CPD S.A.

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

j. As the parent company of the Group, the Company has also prepared consolidated financial statements according to IFRS as adopted by the European Union as at 14 march 2017. To better understand the Company's financial position and its results of operations as the Parent Company, the financial statements should be read in conjunction with the consolidated financial statements.

II. Information about the audit

a. The audit of the financial statements 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 Piotr Wyszogrodzki (no. 90091).

b. PricewaterhouseCoopers Sp. z o.o. was appointed registered auditor to the Company by Resolution No. 12 of the Supervisory Board dated on 10 march 2016 in accordance with paragraph 11, point 8 of the Company's Memorandum of Association.

c. PricewaterhouseCoopers Sp. z o.o. and the key registered auditor conducting the audit are independent of the audited entity 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 following periods 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 financial statements, and to form the opinion in the Independent Registered Auditor's Report.

   An audit was designed to obtain reasonable assurance whether the 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 financial statements.

   Based on a professional judgement, the certain quantitative thresholds for materiality were determined and documented, including the overall materiality for the financial statements as a whole. These, together with qualitative considerations, helped 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 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 Company's results, financial position and significant items of financial statements

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

	31.12.2016	31.12.2015	Change		Structure	
	PLN '000	PLN '000	PLN '000	(%)	31.12.2016 (%)	31.12.2015 (%)
ASSETS						
Non-current assets	482,413	521,167	(38,754)	(7.4)	90.0	97.6
Current assets	53,883	12,852	41,031	319.3	10.0	2.4
Total assets	**536,296**	**534,019**	**2,277**	**0.4**	**100.0**	**100.0**
LIABILITIES AND EQUITY						
Equity	447,091	449,332	(2,241)	(0.5)	83.4	84.1
Liabilities	89,205	84,687	4,518	5.3	16.6	15.9
Total liabilities and equity	**536,296**	**534,019**	**2,277**	**0.4**	**100.0**	**100.0**

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

	2016	2015	Change		Structure	
	PLN '000	PLN '000	PLN '000	(%)	2016 (%)	2015 (%)
Sales	196	447	(251)	(56.2)	(8.7)	0.9
Administrative expenses	(2,178)	(2,169)	(9)	0.4	97.2	(4.5)
Marketing expenses	(18)	(143)	125	(87.4)	0.8	(0.3)
Impairment/Reversal of impairment of investments in subsidiaries	(11 808)	32,088	(43,896)	(136.8)	526.9	66.7
Financial income from interest on loans	15,065	15,294	(229)	(1.5)	(672.2)	31.7
Other operating income	69	-	69	-	(3.1)	-
Other operating cost	(41)	(30)	(11)	36.7	1.8	(0.1)
Gross gain	**1,285**	**45,487**	**(44,202)**	**(97.2)**	**(57.3)**	**94.4**
Net profit	**(2,241)**	**48,186**	**(50,427)**	**(104.7)**	**100.0**	**100.0**
Total net comprehensive income for the year	**(2,241)**	**48,186**	**(50,427)**	**(104.7)**	**100.0**	**100.0**

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

Selected ratios characterising the Company's financial position and results

The following ratios characterise the Company's operating activities. financial results during the year and its financial position as at the balance sheet date compared with previous years:

	2016 r.	2015 r.	2014 r.
Profitability ratios			
- return on capital employed	(1)%	11%	32%
Liability ratios			
- gearing	17%	16%	13%

	31.12.2016 r.	31.12.2015 r.	31.12.2014 r.
Liquidity ratios			
- current and quick ratio	1.3	3.1	5.2

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

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

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

The 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).

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

- At the end of the financial year, the Company's total assets amounted to PLN 536,296 thousand. During the year total assets increased by PLN 2,277 thousand, i.e. by 0.4%. This increase resulted mainly from an increase in cash and cash equivalents by PLN 41,515 thousand with a simultaneous decrease of long-term receivables of PLN 38,749 thousand.

- The liability gearing ratio amounted to 17% at the end of the current year and didn't change siginicantly compared to previous year.

- In 2016 the Company recognized a loss from impairment of investments in subsidiaries in the amount of PLN 11,808 thousand, which resulted mainly from a decrease in net assets of subsidiaries.

- The largest item in operating expenses were the administrative expenses amounted to the PLN 2,178 thousand and have not changed significantly compared to the previous year.

- Financial income in 2016 amounted to PLN 8,552 thousand and consisted primarily financial income from the valuation of the embedded derivative in the amount of PLN 7,160 thousand.

- Financial expenses in 2016 amounted to PLN 7,010 thousand and consisted primarily of interest expense on bonds in the amount of PLN 5,148 thousand, The increase in financial expenses, compared to the previous reporting period, amounted to PLN 1,210 thousand, i.e. 20.9% due to increase in the balance of exchange rate differences amounting to PLN 912 thousand and an increase in the balance of other interest expense to PLN 350 thousand.

- Return on capital employed was negative and amounted to -1% and was lower by 12 percentage points than that achieved in the previous year. This was mainly due joinder of allowance for impairment of investments in subsidiaries.

- The Company's liquidity has changed. Liquidity ratios I and II, which amounted to 1.3 in the year under review (2015: 3.1) decreased due to the reclassification of some bonds issued to current liabilities.

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

IV. The independent registered auditor's statement

a. The Management Board of the Company provided all the information. explanations. and representations requested in the course of the audit and provided a representation letter confirming the completeness of the data 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 financial statements of the Company for the year from 1 January to 31 December 2015 were approved by Resolution No. 4 passed by the General Shareholders' Meeting on 30 june 2016 and filed with the National Court Register in Warsaw on 11 July 2016.

d. We have assessed the operation of the accounting system. Our assessment covered in particular:
   - the accuracy of the documentation relating to business transactions;
   - the fairness. accuracy and verifiability of the books of account. including computerised books of account;
   - the methods used for controlling access to data and the computerised data processing system;
   - the safeguarding of the accounting documentation. books of account. and financial statements.

   This assessment. together with our verification of individual items of the financial statements. provides the basis for expressing an overall and comprehensive opinion on these financial statements. The audit was not intended to provide a comprehensive opinion on the operations of the said system.

e. The notes to the financial statements present all significant information required by IFRS as adopted by the European Union.

f. The information contained in the statement of operations of the Company for the financial year from 1 January to 31 December 2016 has been prepared in accordance with the provisions of the Decree of the Minister of Finance dated 19 February 2009 concerning the publication of current and periodic information by issuers of securities and the conditions of acceptance as equal information required by the law of other state. which is not a member state (Journal of Laws of 2014. item 133 as amended) and is consistent with that presented in the financial statements.

V. Final information

This report has been prepared in connection with our audit of the financial statements of CPD S.A.. Cybernetyki 7B Street. Warsaw. The financial statement was signed by the Company's Management 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 financial statements. The opinion on the financial statements expresses an overall conclusion from the audit. This conclusion does not constitute the sum of the ratings results of the examination of individual items statements or issues. but assumes individual arrangements appropriate weight (significance). taking into account the impact of the facts noted on the truth and fairness of the 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. FINANCIAL STATEMENTS FOR THE ACCOUNTING YEAR FROM 1 JANUARY TO 31 DECEMBER 2016

CPD S.A.

Financial statements

for the year ended 31 December 2016

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(All amounts in PLN thousands unless otherwise stated)

Statement of comprehensive income

	Notes	12 months ended 31/12/2016	12 months ended 31/12/2015
Revenues	15	196	447
Administrative costs	16	(2 178)	(2 169)
Marketing costs		(18)	(143)
Impairment of investments in subsidiaries	4 , 5	(11 808)	32 088
Interest income on loans	19	15 065	15 294
Other operating income	17	69	0
Other operating cost	18	(41)	(30)
OPERATING RESULT		1 285	45 487
Financial income	20	8 552	8 499
Financial costs	20	(7 010)	(5 800)
PROFIT (LOSS) BEFORE INCOME TAX		**2 827**	**48 186**
Income tax	21	(5 068)	0
PROFIT (LOSS) FOR THE YEAR		**(2 241)**	**48 186**
TOTAL COMPREHENSIVE INCOME		**(2 241)**	**48 186**
BASIC EARNINGS PER SHARE (PLN)	**25**	**-0,07**	**1,47**
DILUTED EARNINGS PER SHARE (PLN)	**25**	**-0,13**	**1,04**

The notes are an integral part of these condensed interim consolidated financial statements

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 thousands unless otherwise stated)

Statement of financial position

ASSETS	Nota	Na dzień 31/12/2016	31/12/2015
Non-current assets			
Property, plant and equipment		1	3
Intangible assets		1	4
Long-term receivables	4	482 411	521 160
Shares in subsidiaries	5	0	0
		482 413	521 167
Current assets			
Trade receivables and other receivables	7	551	1 067
- trade receivables and loans		547	1 063
- prepaid expenses		4	4
Bonds	6	3 702	3 670
Cash and cash equivalents	8	49 630	8 115
		53 883	12 852
Total assets		536 296	534 019
EQUITY			
Share capital	9	3 286	3 286
Reserve capital	10	987	987
Fair value of capital element at inception date	13	(27 909)	(27 909)
Share premium	27	796 643	796 643
Retained earnings		(325 916)	(323 675)
Total equity		447 091	449 332
LIABILITIES			
Non-current liabilities			
Bonds issued	13	29 742	56 041
Derivative financial instruments	13	0	11 635
Borrowings, including financial leasing	12	16 758	12 909
Deffered tax liability	14	5 068	0
		51 568	80 585
Current liabilities			
Bonds issued	13	31 131	1 279
Derivative financial instruments		4 023	0
Borrowings, including financial leasing	11	2 483	2 823
		37 637	4 102
Total equity and liabilities		536 296	534 019

The notes are an integral part of these condensed interim consolidated financial statements

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Board Member

John Purcell

Board Member

Iwona Makarewicz

Board Member

Waldemar Majewski

Board Member

(All amounts in PLN thousands unless otherwise stated)

Statement of changes in equity

	Note	Share capital	Embedded derivative at inception date	Own shares	Share premium	Supplementary capital	Accumulated profit (loss)		Razem
							Other Reserves	Retained earnings	
Balance as at 01/01/2015		**3 286**	**(27 909)**	**0**	**796 643**	**0**	**987**	**(371 861)**	**401 146**
Profit (loss) for the period		0	0	0	0	0	0	48 186	48 186
		0	0	0	0	0	0	48 186	48 186
Balance as at 31/12/2015		3 286	(27 909)	0	796 643	0	987	(323 675)	449 332
Balance as at 01/01/2016		**3 286**	**(27 909)**	**0**	**796 643**	**0**	**987**	**(323 675)**	**449 332**
		0	0	0	0	0	0	0	0
Profit (loss) for the period		0	0	0	0	0	0	(2 241)	(2 241)
		0	0	0	0	0	0	(2 241)	(2 241)
Balance as at 31/12/2016		**3 286**	**(27 909)**	**0**	**796 643**	**0**	**987**	**(325 916)**	**447 091**

The notes are an integral part of these condensed interim consolidated financial statements

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Board Member

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Board Member

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Board Member

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Board Member

(All amounts in PLN thousands unless otherwise stated)

Cash flow statement

	Note	12 months ended 31/12/2016	12 months ended 31/12/2015
Cash flow from operating activities			
Cash generated from operations	23	(1 609)	(1 803)
Inerest paid		(2 611)	(1 380)
Net cash generated from operating activities		(4 220)	(3 183)
Cash flows from investing activities			
Loans granted		(38 174)	(54 173)
Loan repayments received		72 147	21 452
Interest received		8 168	2 513
Net cash generated from investing activities		42 141	(30 208)
Cash flows from financing activities			
Loans received		8 700	0
Loan repayments received		(5 106)	(117)
Proceeds from issuance of bonds		0	29 552
Net cash generated from financing activities		3 594	29 435
Change in net cash and cash equivalents		41 515	(3 956)
Cash and cash equivalents at the beginning of year		8 115	12 071
Cash and cash equivalents at the end of the period		49 630	8 115

The notes are an integral part of these condensed interim consolidated financial statements

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Board Member

John Purcell
Board Member

Iwona Makarewicz
Board Member

Waldemar Majewski
Board Member

(All amounts in PLN thousands unless otherwise stated)

Notes to the financial statements

1 General information

Celtic Property Developments S.A. ("Company", "CPD") with its registered office in Warsaw (02-667), Cybernetyki 7B, was established on the basis of statute on 26 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 shares are listed on Warsaw Stock Exchange.

On 2 September 2010 Extraordinary Shareholders Meeting passed a resolution about changing the company name from POEN S.A. to Celtic Property Developments S.A.

On 29 May 2014 Extraordinary Shareholders Meeting passed a resolution about changing the name of the company from Celtic Property Developments S.A. to CPD S.A. The change was registered in National Court Register on 17 September 2014

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

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

In order to fully understand the financial position and results of operations CPD SA As the parent company of the Group of these financial statements should be read in conjunction with the annual consolidated financial statements for the period ended 31 December 2015, the reports will be available on the Company's website at www.celtic.pl in time according to the current report on time the annual report of the Company and the consolidated annual report of the Group for the year 2015.

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

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

The shares of the Company are listed on the Warsaw Stock Exchange.
Share capital on December 31, 2016 includes 32 863 thousand. of shares with a nominal value of PLN $ 0.10 each, including:

- 32.335.858 bearer ordinary shares of series B,
- 163.214 bearer ordinary shares of series C,
- 76.022 bearer ordinary shares of series D,
- 88.776 bearer ordinary shares of series E,
- 199.333 bearer ordinary shares of series F.

This financial statement has been adopted by the Management Board on 14 March, 2017.

The Company uses following registration numbers:

REGON 120423087

NIP 677-22-86-258

The Board of Directors of the Company consists of:

Elżbieta Donata Wiczkowska - Chairmen of the Board

Colin Kingsnorth - Board Member

John Purcell - Board Member

Iwona Makarewicz - Board Member

Waldemar Majewski - Board Member

(All amounts in PLN thousands unless otherwise stated)

Notes to the financial statements

The Supervisory Board of the company consists of:
Andrew Pegge
Wiesław Piotr Oleś
Gabriela Gryger
Mirosław Jerzy Gronicki
Michael Haxby

Statements have been prepared on a going business for the foreseeable future, bearing in mind that there are no circumstances indicating a threat to the continued activity.

2 The accounting principles

Accounting policies are in accordance with the principles applied in the annual financial statements for the year ended December 31, 2015. these principles have been applied consistently to all periods presented.

2.1 Basis of preparation

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

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 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 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 Company applies the rules resulting from the standard in these financial statements. Amendment of this standard has not affected the 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 financial statements.

(All amounts in PLN thousands unless otherwise stated)

Notes to the financial statements

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 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 Company applies the rules resulting from the amendments in these financial statements. Amendment of this standard has not affected the 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 this standard has not affected the 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 Company applies the rules resulting from the amendments in these financial statements. Amendment of this standard has not affected the 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 Company applies the rules resulting from the amendments in these financial statements. Amendment of this standard has not affected the financial statements.

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

In these 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 Company estimates that the application of IFRS 9 will not have a material impact on the financial statements.
The Company analyses effect of the changes on the 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.
At the date of preparation of these financial statements, the amendments to IFRS were not yet approved by the European Union.
The Company analyses effect of the changes on the financial statements.

Notes to the financial statements

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 Company will apply IFRS from 1 January 2018.

The Company analyses effect of the changes on the financial statements.

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 Company is going to adopt the amendments on 1 January 2018.

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

The Company analyses effect of the changes on the financial statements.

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 Company will apply IFRS 16 after its approval by the European Union.
The Company analyses effect of the changes on the financial statements.
At the date of preparation of these 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 Company analyses effect of the changes on the financial statements.
At the date of preparation of these financial statements, the amendments to IFRS were not yet approved by the European Union.

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

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

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

The Company is going to adopt the amendments on 1 January 2017.
At the date of preparation of these financial statements, the amendments to IFRS were not yet approved by the European Union.

The Company analyses effect of the changes on the financial statements.

(All amounts in PLN thousands unless otherwise stated)

Notes to the financial statements

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 Company is going to adopt the amendments on 1 January 2017.

The Company analyses effect of the changes on the financial statements.

At the date of preparation of these 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 Company is going to adopt the amendments on 1 January 2018.

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

The Company analyses effect of the changes on the financial statements.

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 Company is going to adopt the amendments on 1 January 2018.

The Company analyses effect of the changes on the financial statements.

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

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 Company 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 Company analyses effect of the changes on the financial statements.

At the date of preparation of these 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 Company is going to adopt the amendments on 1 January 2018.

The Company analyses effect of the changes on the financial statements.

At the date of preparation of these 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 Company analyses effect of the changes on the financial statements.

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

2.2 Tangible fixed assets

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

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

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

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

(All amounts in PLN thousands unless otherwise stated)

Notes to the financial statements

2.3 Shares in subsidiaries

Shares in subsidiaries are valued at cost, adjusted for subsequent write-down for impairment.

The Company at each reporting date analyzes of shares held in subsidiaries for impairment. An impairment loss is recognized for the amount by which the carrying amount of an asset exceeds its recoverable amount. The recoverable amount is the higher of the fair value of assets less costs to sell or value in use. Shares in respect of which previously assets were impaired are assessed at each reporting date for the occurrence of reasons for possible reversal of the impairment.

2.4 Financial assets

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

Loans and receivables that are not counted for derivatives financial assets of agreed or possible to determine payments, not quoted in an active market, not intended for sale. Include them to current assets, in so far as the term of their maturity does not exceed 12 months from the balance sheet date. Assets with maturities over 12 months are classified as current assets. Loans and receivables are accounted for under the heading "trade Receivables and other receivables" in the report on the financial situation.

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

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

2.5 Cash and equivalents

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

2.6 Share capital

Share capital is the nominal value of the issued shares.

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

2.7 Trade liabilities

Trade payables are recognized initially at fair value and, after initial recognition, they are measured at amortized cost using the effective interest method.
In the case when the difference between the value of acc. amortized cost and the value of the amount due does not have a significant impact on the financial results of the Company, such liability is recognized in the balance sheet at cost.

2.8 Credits and loans

Loans and advances are recognised initially at fair value less transaction costs incurred. Mortgages and loans are then shown at amortised cost.
Loans and advances are classified as current liabilities, provided that the company does not have the unconditional right to postpone payments for at least 12 months after the balance sheet date.

(All amounts in PLN thousands unless otherwise stated)

Notes to the financial statements

2.9 Complex financial instruments

Compound financial instruments issued by the group comprise convertible bonds that can be converted into share capital at the discretion of the holder, the number of shares to be issued is not dependent on changes in their fair value.

With regards to financial instruments where the fair value is different from the price to pay and when that fair value is based on market data to the company recognizes the "day-one-loss" and recognized it depending on the specific transaction. In the case of issue of convertible bonds, which as a whole has been addressed to the shareholders of the Company's day-one-loss is recognized in equity.

A liability and a compound financial instrument is recognized initially at the fair value of a similar liability that is not related conversion option into shares. The equity component is recognized initially at the difference between the fair value of the compound financial instrument as a whole and the fair value of the liability component. Any possible directly attributable transaction costs are taken into account in the valuation of liability and equity components in proportion to their initial carrying amounts.

Following initial recognition, the liability component compound financial instrument is recognized at amortized cost using the effective interest rate. Equity component of compound financial instrument is not subject to valuation after the first frame until conversion or expiry. The equity component is also wbudownym derivative that at the balance sheet is measured at fair value through profit or loss.

2.10 Embedded derivatives

In the case of the acquisition of a financial instrument that includes an embedded derivative, and the whole or part of the cash flows of the financial instrument vary in a way similar to that built-in derivative instrument itself, the embedded derivative is recognized separately from the host contract. This occurs when the fulfillment of the following conditions:

- A financial instrument is not classified as assets held for trading or available for sale, the revaluation results are recognized in the income or loss for the period,
- The nature of the embedded instrument and the related risks are not closely related to the nature of the host contract and the risks resulting from it,
- A separate instrument with the same characteristics as the embedded derivative would meet the definition of a derivative,
- It is possible to reliably determine the fair value of the embedded derivative.

Embedded derivatives are recognized in a similar way as other derivatives that are not designated as hedging instruments.

An embedded derivative are recognized as assets or liabilities at fair value through profit or loss.

2.11 Deferred income tax

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

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

Deferred tax assets and deferred tax liabilities are subject to compensation.

2.12 Employee benefits

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

In accordance with rule are not created on the reserve pension will be covering the admission fee in accordance with the code. Potential reserves would not have significant impact on the financial statements. In the event of their occurrence will be done on a cash basis.

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

2.13 Provisions

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

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

2.14 Revenue recognition

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

2.15 Other income

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

(a) Rental income

Rental income under operating leases are recognized straight-line basis over the lease term. Granted special offers are recognized as an integral part of the revenue from the lease. They are recognized in the income statement over the lease term straight-line basis as a reduction of revenue from the lease.

(b) Services related to the hiring and management services

Fees for services related to leasing and management services are recognized in the period in which the services were performed.

(c) Revenues from the sale of residential and office

Revenues from the sale of a residential and office are recognized when transferred to the buyer the significant risks and benefits (transfer of ownership) resulting from the Company's property, provided that the CPD Group has obtained a valid license to use.

Advances received related to pre-sale of real estate of a housing are deferred until you meet the criteria for revenue recognition.

(d) Cost of inventories sold

Cost of sales is recognized in the amount of the total capitalized cost of inventories sold.

Construction costs associated with unsold products are capitalized on inventories as work in progress or finished goods, depending on the severity. In a situation where it is expected that inventories produced CPD Group will realize a loss is recognized immediately as an expense. Inventories related to units sold are recognized as cost of sales in the same period in which the sale occurred.

(e) Interest income
Interest income is recognized using the effective interest rate.

Notes to the financial statements

2.16 Costs

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

Operating expenses fully charged to financial result of the Company except for those which relate to subsequent periods and in accordance with the principle of conservation of matching revenues and expenses are recognized in accrued expenses.

Other operating expenses directly related to the property that do not include general and administrative costs, are expensed as incurred.

Revenues from services invoiced to tenants and the associated costs of providing these services are reported separately because the CPD Group does not act as agent.

2.17 Interest costs

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

2.18 Foreign currencies

The financial statements are presented in Polish zloty (PLN), which is the functional currency and presentation currency of the Group CPD.
Transakcje w walutach obcych są przeliczane na PLN za pomocą kursów walutowych obowiązujących na dzień transakcji lub z dnia wyceny, jeżeli dane pozycje są wyceniane.

At the balance sheet date, assets and liabilities which are subject to valuation shall be converted into EUR at the exchange rate for the currency set medium on this day by the Polish National Bank.
Exchange differences arising from foreign currency transactions and the monetary valuation of assets and liabilities at the balance sheet date are presented as income persaldo or financial costs.

The effective interest method is a method of calculating the amortized cost of a financial asset or financial liability and of allocating the interest income or expense from interest income during the period. The effective interest rate is the rate that precisely defines discounted to the present value of estimated future cash flows through the expected life of the financial instrument or a shorter period, if necessary, to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the financial instrument (eg. The possibility of pre-payment), but does not account for 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.

3 Financial risk management

3.1 Financial risk factors

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

(a) market risk

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

(All amounts in PLN thousands unless otherwise stated)

Notes to the financial statements

As of 31.12.2016, the Company did not have any debts balances denominated in foreign currencies and as a result was not significantly exposed to currency exchange risk.

	31 December 2016	31 December 2015
Loans in EUR	1 985	1 848
Assumed change in PLN/EUR exchange rate	+/-1%	+/-1%
The result of changes in interest income	20	18
Tax shield	4	4
Effect on net profit/(loss)	16	15

	31 December 2016	31 December 2015
Receivables in EUR	0	848
Assumed change in PLN/EUR exchange rate	+/-1%	+/-1%
The result of changes in interest income	0	8
Tax shield	0	2
Effect on net profit/(loss)	0	7

	31 December 2016	31 December 2015
Liabilities in EUR	33 875	38 040
Assumed change in PLN/EUR exchange rate	+/-1%	+/-1%
The result of changes in interest income	339	380
Tax shield	64	72
Effect on net profit/(loss)	274	308

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

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

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

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

	31 December 2016	31 December 2015
Loans bear interest at variable interest rates	467 003	500 767
Assumed interest rate change	+/-1pp	+/-1pp
The result of changes in interest income	4 670	5 008
Tax shield	887	951
Effect on net profit/(loss)	+/-3 786	+/-4 059

	31 December 2016	31 December 2015
Borrowings bear interest at floating rates	16 758	12 909
Assumed interest rate change	+/-1pp	+/-1pp
The result of changes in interest income	168	129
Tax shield	32	25
Effect on net profit/(loss)	+/-136	+/-105

(All amounts in PLN thousands unless otherwise stated)

Notes to the financial statements

(c) credit risk

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

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

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

(d) liquidity risk

Liquidity risk is the risk that arises when assets and liabilities payment periods do not overlap. This condition raises the potential profitability, but also increases the risk of loss. The company shall apply to the procedure, the CPD minimizing such losses by keeping an adequate level of cash and ongoing monitoring and forecasting cash przepływow. The company has wystarczajacą the amount of current assets to terminowanego regulate any obligations. Liquidity of the company is controlled by the Management Board on a regular basis CPD.

As at 31.12.2016	Within 1 year	1 - 5 years	More than 5 years
Loans and leasing	0	0	0
Bonds issued	35 154	29 742	0
Trade payables and other payables	0	0	0
	35 154	29 742	0

As at 31.12.2015	Within 1 year	1 - 5 years	More than 5 years
Loans and leasing	0	0	0
Bonds issued	1 279	67 676	0
Trade payables and other payables	0	0	0
	1 279	67 676	0

3.2 Capital management

The company's objective in managing capital is to safeguard the CPD Company's ability to continue, so that the activities of the CPD was the implementation of return for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost.

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

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

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

	31 December 2016	**31 December 2015**
Loans received	16 758	12 909
Trade liabilities and other	64 896	68 955
Less cash and equivalents	2 483	2 823
Net borrowing	-49 630	-8 115
Equity capital	**34 507**	**76 572**
Total	447 091	449 332
The financing structure factor	**481 598**	**525 904**
Capital structure ratio	**7%**	**15%**

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

3.3 Significant estimates

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

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

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

The company recognized impairment at the balance sheet date, shares in subsidiaries in relation to the values set at the moment of taking over and made a copy of the value impairment loss loans. The total amount of impairment of shares in subsidiaries made in the year of the balance sheet date amounted to 9.826 PLN thousand while the title loans PLN 44.721 thousand (notes 4, 5 and 6).

(i) In the case of shares in subsidiaries Buffy Holdings No 1 Ltd Lakia Enterprises Ltd and their fair value was estimated based on the net assets of these companies constituting an approximation of the expected future cash flows available to shareholders in respect of shares held. A key element having a decisive impact on the value of estimated cash flows is the fair value of real estate owned subsidiaries.

Investment properties held by subsidiaries in relation to the CPD are measured at fair value using the following valuation methods:
- Land undeveloped and built houses with residential premises - valued by comparative method;
- Investment properties in which there are significant revenues from rent (3 office buildings located in Warsaw) - are measured in the investment;
- Investment land located in Warsaw's Ursus district, which, according to the local spatial development plan is intended for realization of building residential - commercial - measured on a residual;
- Investment land located in Warsaw's Ursus district, which, according to the local spatial development plan is intended for development purposes and public investment land located in the village of Wolbórz - measured by the comparative method.

As at 31 December 2016. Net value of interests in subsidiaries Buffy Holdings No1 Ltd, Celtic Investments Limited and Lakia Enterpises was zero and has not changed compared to the same period of the previous year (to determine the level of impairment loss in value of the shares at 31.12 .2016 in individual companies was conducted in accordance with the above-described approach and it was the same as the approach adopted on 31.12.2015). Information on shares in subsidiaries are presented in note 5.

(ii) At the same time the balance sheet date, the Company analyzes the recoverability of receivables from loans granted to subsidiaries. Analysis of the evaluation of recoverability is based on the net assets of the individual subsidiaries, which are creditors in relation to the CPD. The level of net assets of subsidiaries owning property valued at fair value shows the possible to be generated by the company cash that could be used to pay off their debts on loans taken out from the CPD. CPD determine the level of impairment in relation to companies that exhibit at the balance sheet date, the negative net asset value. The Company believes that due to the negative net asset value of these subsidiaries there is a real risk that these companies will not be able to fully repay the borrowing.

Notes to the financial statements

As at 31 December 2016 Company assessed the recoverability of loans granted to subsidiaries and based on analysis undertaken decided to dissolve the impairment loss in the amount of PLN 11,8 million compared to 31.12.2015. The decision to terminate the write-down was a consequence of the positive changes in net assets of subsidiaries, the CPD provides loans and was mainly related to the increase in the fair value of investment property held by the company. Information on loans granted to related entities is presented in note 4.

(c) Determining the fair value of embedded derivatives

On September 26, 2014 r., the company issued bonds addressed to existing shareholders. Financial data relating to bonds issued, is presented in note 14 (inn sf one.) On September 26, 2014 r., the company issued bonds addressed to existing shareholders. Financial data relating to bonds issued, is presented in note 13 (inn sf one.) To the financial statements. Issued bonds have embedded derivative in the form of the possibility of conversion of bonds into shares at a fixed rate of 4.38 PLN per share, since the bond was issued in another currency (EUR) than the functional currency (PLN) of the company, built a derivative component, contained both CAP currency, in the form of converting the value of the shares received, the rate of conversion is not higher than 1 EUR = 4.1272 PLN.

The fair value of the embedded derivative component, was estimated within level 2, by a combination of two methods: binomial trees, in the part concerning the development of the share price, and the method monte carlo, on the analysis of exchange rate volatility.

The assumptions underlying the valuation model:
- Correction curve discounting the credit risk of the issuer - 8%
- Volatility of the issuer's shares - 58.9% - value was calculated based on historical market quotes CPD SA
- Fixed rate of conversion of bonds into shares - 4.38 PLN
- Reduction of the exchange rate 1 EUR = 4.1272 PLN
- The possibility of conversion of bonds into shares in the period from 2015-09-26 to 5 days prior to the redemption date, ie. on 22-09-2017.

As at 31.12.2016 the value of liabilities due to the embedded derivative component is 4.0 million PLN and the difference between the valuation of the bonds based on the fair value model described above, and the value of the bonds with the exception of the derivative component determined at amortized cost using the effective interest rate.

(d) Income tax

CPD SA is an income tax payer in Poland. 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)

Notes to the interim financial statements

4 Long-term receivables

	December 31, 2016	December 31, 2015
Long-term loans to related parties (nota 25), including:		
-loan	450 942	484 750
-interest	85 994	80 074
Impairment	(54 891)	(43 664)
	482 045	**521 160**
Long-term loans to other parties, including:		
-loan	357	0
-interest	9	0
	366	**0**

Details of the loans granted to related parties 31.12.2016

Related party	Currency of the loan	Principal amount in PLN	Accrued interest in PLN	The Interest Rate	Margin	Maturity
1/95 Gaston Investments	PLN	0	0	3M WIBOR	1,55%	on demand
2/124 Gaston Investments	PLN	3 319	465	3M WIBOR	1,55%	on demand
3/93 Gaston Investments	PLN	3 071	398	3M WIBOR	1,55%	on demand
4/113 Gaston Investments	PLN	7 429	1 245	3M WIBOR	1,55%	on demand
5/92 Gaston Investments	PLN	4 446	481	3M WIBOR	1,55%	on demand
6/150 Gaston Investments	PLN	2 735	425	3M WIBOR	1,55%	on demand
7/120 Gaston Investments	PLN	1 655	234	3M WIBOR	1,55%	on demand
8/126 Gaston Investments	PLN	6 153	790	3M WIBOR	1,55%	on demand
9/151 Gaston Investments	PLN	1 446	190	3M WIBOR	1,55%	on demand
10/165 Gaston Investments	PLN	2 230	230	3M WIBOR	1,55%	on demand
11/162 Gaston Investments	PLN	1 855	180	3M WIBOR	1,55%	on demand
12/132 Gaston Investments	PLN	4 244	571	3M WIBOR	1,55%	on demand
13/155 Gaston Investments	PLN	3 577	361	3M WIBOR	1,55%	on demand
15/167 Gaston Investments	PLN	2 031	199	3M WIBOR	1,55%	on demand
16/88 Gaston Investments	PLN	582	93	3M WIBOR	1,55%	on demand
18 Gaston Investments	PLN	3 248	386	3M WIBOR	1,55%	on demand
19/97 Gaston Investments	PLN	601	97	3M WIBOR	1,55%	on demand
20/140 Gaston Investments	PLN	674	113	3M WIBOR	1,55%	on demand
Antigo Investments	PLN	4 405	203	3M WIBOR	1,55%	on demand
Impairment on loan Antigo		*(1 412)*	*(203)*			
Belise Investments	PLN	12 960	5 146	3M WIBOR	1,55%	on demand
Buffy Holdings No 1 Ltd	PLN	161 905	36 892	3M WIBOR	0,75%	on demand
Impairment on loan Buffy Holdings	PLN	*(5 375)*	*(36 892)*			
Celtic Asset Management	PLN	973	22	3M WIBOR	1,55%	on demand
Impairment on loan CAM	PLN	*(214)*	*(22)*			
Celtic Investments Ltd	PLN	1 927	58	3M LIBOR	0,75%	on demand
Impairment on loan CIL	PLN	*(1 870)*	*(58)*			
Challange 18	PLN	157 292	27 996	3M WIBOR	1,55%	on demand
Elara Investments	PLN	2 907	127	3M WIBOR	1,55%	on demand
Impairment on loan loan Elara Investments	PLN	*(2 076)*	*(127)*			
Gaston Investments	PLN	1 721	23	3M WIBOR	1,55%	on demand
Impairment on loan Gaston Investments	PLN	*(1 721)*	*(23)*			
HUB Developments	PLN	2 448	205	3M WIBOR	1,55%	on demand
Impairment on loan HUB		(529)	*(205)*			
Smart City	PLN	4	0	3M WIBOR	1,55%	on demand
Impairment on loan Smart City		*0*	*0*			
IMES		4 043	197	3M WIBOR	1,55%	on demand
Lakia Enterprises Limited	PLN	51 062	8 665	3M WIBOR	1,55%	on demand
Impairment on loan Lakia Enterprises		*0*	*(4 165)*			
		437 747	**44 298**			

(All amounts in PLN thousands unless otherwise stated)

Details of the loans granted to other parties 31.12.2016

Other party	Currency of the loan	Principal amount in PLN	Accrued interest in PLN	The Interest Rate	Margin	Maturity
Bolzanus Limited	PLN	357	9	3M WIBOR	1,55%	on demand
		357	**9**			

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

In 2016 the company made an impairment on loans in the amount of (11 794) thousand PLN (see table below). After these transactions result from investments in subsidiaries disclosed in the statement of comprehensive income amounted to (11 808) thousand. PLN.

In 2015, the amortisation of interest on loans granted to subsidiaries in a total amounts to 12 492 tys.PLN and redemption of principal of granted loans in the total amounts to 1 060 tys.PLN.
In 2015. the company has a total reversal of the allowance for loan in the amount of 45 964 thousand. PLN. After these transactions result from investments in subsidiaries disclosed in the statement of comprehensive income amounted to PLN (24 975) thousand. PLN.

Change in the impairment of loans granted by the CPD classified as long-term loans and short-term loans in 2016:

Status of the impairment of loans at 31.12.2015	**64 144**
Impairment for 2016 (note 3.3)	11 794
Status of the impairment of loans at 31.12.2016	**75 938**

Reasons for the permanent impairment charges on loans are described in note 3.3.

5 Shares in subsidiaries

Name	Country	Share	December 31, 2016	December 31, 2015
Lakia Enterprises Ltd	Cyprus	100%	105 000	105 000
Impairment, the value of the shares Lakia Enterprises Ltd			-105 000	-105 000
Celtic Investments Ltd	Cyprus	100%	48 000	48 000
Impairment, the value of the shares Celtic Investments Ltd			-48 000	-48 000
Buffy Holdings No1 Ltd	Cyprus	100%	184 000	184 000
Impairment, the value of the shares Buffy Holdings			-184 000	-184 000
			0	**0**

Status of the impairment of shares at 31.12.2015	**337 000**
Impairment for 2016 (note 3.3)	0
Status of the impairment of shares at 31.12.2016	**337 000**

Reasons for the permanent impairment on shares are described in note 3.3.

6 Bonds

On March 18, 2013. the company acquired bonds issued by the company Bolzanus Limited registered in in Cyprus (bonds- 3 thousand PLN, interest on December 31, 2016 - 702 thousand PLN). Bond interest rate is 8% per annum. Maturity date fell on 17 February 2016.

CPD SA and the sole shareholder of Bolzanus agreed that one of the companies of the CPD Group will buy 100% shares in Bolzanus share capital in the first half of 2017. Debt resulting from the bonds will be redeemed by offsetting receivables held against each other.

(All amounts in PLN thousands unless otherwise stated)

Notes to the interim financial statements

7 Trade receivables and other receivables

	December 31, 2016	December 31, 2015
Trade receivables from related parties	61	60
Short-term loans (related party), including:	0	0
- loan	16 061	16 017
- interest	4 986	4 463
- Impairment	(21 047)	(20 480)
Input VAT surplus	3	45
Other receivables from related parties	466	942
Other receivables from other parties	17	16
Accrued costs	4	4
Short-term receivables	**551**	**1 067**

Details of the loans granted to related parties

Related party	Currency	Principal amount in PLN	Accrued interest in PLN	Interest Rate	Margin	Maturity
Mandy Investments	PLN	16 061	4 986	3M WIBOR	1,55%	on demand
Impairment on loan Mandy Investments		*(16 061)*	(4 986)			

8 Cash and equivalents

	December 31, 2016	December 31, 2015
Cash in bank accounts (ING, PEKAO SA)	49 630	8 115
	49 630	**8 115**

Cash equivalents for the purpose of the report include cash in bank accounts in ING bank and PEKAO SA bank.
The maximum value of the credit risk associated with cash equal to their carrying amount.

9 Share capital

	Number of shares		Value of shares	
	31/12/2016	31/12/2015	31/12/2016	31/12/2015
Ordinary shares (in thousands)	32 863	32 863	3 286	3 286

As at 31 December 2016 Company's shareholders were*:

Party	Country	Number of shares	capital %	votning rights %
Cooperative Laxey Worldwide W.A.,	Netherlands	10 082 930	30,68%	30,68%
Furseka Trading and Investments Ltd	Cyprus	5 137 222	15,63%	15,63%
The Value Catalyst Fund plc	Cayman Islands	3 975 449	12,10%	12,10%
QVT Fund LP	Cayman Islands	3 701 131	11,26%	11,26%
LP Value Ltd	British Virgin Islands	2 005 763	6,10%	6,10%
LP Alternative Fund LP	USA	2 003 981	6,10%	6,10%
Shareholders below 5% of shares		5 956 727	18,13%	18,13%
Total number of shares		32 863 203	100%	100%

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

(All amounts in PLN thousands unless otherwise stated)

Notes to the interim financial statements

9 Share capital - cd

The share capital as at 31 December 2016 includes 32 863 thousand shares with a nominal value of 0,10 PLN each, including:

- 32.335.858 bearer ordinary shares of series B,
- 163.214 bearer ordinary shares of series C,
- 76.022 bearer ordinary shares of series D,
- 88.776 bearer ordinary shares of series E,
- 199.333 bearer ordinary shares of series F.

During the reporting year 2016 there were no changes in the share capital of the Company.

10 Reserve capital

	December 31, 2016	December 31, 2015
as at 31.12.2016	987	987
	987	**987**

11 Trade payables and other payables

	December 31, 2016	December 31, 2015
Accrued expenses, including:	2 134	2 154
- reserve for tax for previous years	2 027	2 027
- reserve for auditing	107	127
Trade payables	307	572
Holiday provision	0	66
Public-legal payables	33	26
Other payables	9	5
	2 483	**2 823**

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

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

12 Borrowings, including financial leasing

	December 31, 2016	December 31, 2015
Loans from related parties	16 758	12 909
	16 758	**12 909**

Loan commitments at 31 December 2016 relate to a loan from a subsidiary Lakia Enterprises (interest rate on the loan is 3M WIBOR + margin 0.50%), loan from a subsidiary Lakia Investments (interest rate on the loan is 3M WIBOR + margin 1.55%) and loan from the subsidiary Robin Investments (interest rate on the loan is 3M WIBOR + margin 1.55%). As at 31 December 2016 loan balances are as follows:Lakia Enterprises: 9 619 thousand. PLN (capital: 7 630 thousand PLN, interest 1 989 thousand PLN); Lakia Investments is 5 536 thousand PLN (capital 5 259 thousand PLN, interest 277 thousand PLN); Robin Investments: 1 603 thousand PLN (capital: 1 600 thousand PLN, interest 3 thousand PLN).

Loans from related parties will be repaid in the period from 1 to 3 years.

The loans are not secured.

(All amounts in PLN thousands unless otherwise stated)

Notes to the interim financial statements

13 Bonds issued

	December 31, 2016	December 31, 2015
a) Bonds A series		
Value at the beginning of the period	**38 040**	**42 880**
Interest accrued	2 553	2 344
Valuation at the reporting date	894	(4)
Valuation of the derivative component	(7 612)	(7 180)
Value as at 31 December 2016	**33 875**	**38 040**

Bondholder	December 31, 2016	December 31, 2015
The Weyerhaeuser Company Master Retirement Trust	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

The Management Board adopted the resolution on allocation of Tranche I of A-series convertible bonds on 26 September 2014. The Company therefore issued Tranche I convertible bonds. The date of repurchase of Tranche I bonds falls on 26 September 2017. The issuance of Tranche I bonds was a non-public one as per Art. 9 (3) of the Act on Bonds pursuant to the resolution of Issuer's Management Board No. 3/IX/2014 on issuance of D-series bearer's bonds as a part of the bond issuance scheme.

The face value of one bond amounts to EUR 50,000 (say EUR fifty thousand). The issuance price of one bond amounts to EUR 50,000. The bonds bear interest at a fixed rate of 10% (ten per cent) per annum from the Bond Issuance Date. The Company will repurchase the bonds on the day falling 3 years after the issuance date, i.e. 27 September 2017, subject to early repurchase cases, if an Event of Breach of terms of issuance of bonds by the Issuer occurs.

The embedded derivative results from:
a) holder's right to convert the bonds into shares at a fixed rate
in the period from 26 September 2015 to 5 days before the repurchase date, i.e. 22 September 2017;
b) currency cap option concerning translation of the liability into shares on the conversion date at the EUR/PLN exchange rate of the same day
not exceeding, however, EUR 1 = PLN 4.1272.

(All amounts in PLN thousands unless otherwise stated)

Notes to the interim financial statements

	December 31, 2016	December 31, 2015
b) Bonds B series		
Value at the beginning of the period	30 915	29 552
Interest accrued	2 738	2 633
Interest paid	(2 738)	(1 354)
Valuation of the embedded derivative	106	84
Value as at 31 December 2016	**31 021**	**30 915**

(*) The nominal value of bonds issued January 13, 2015 r. (30,000 thousand. PLN) was reduced by costs of the issue of bonds in the amount of 448 thousand. PLN. The costs of issuing bonds consist of the cost of handling the issue by the investment house in the amount of 425 thousand PLN and the cost of legal services.

On January 13, 2015, the Company issued a total of 30,000 covered bonds series B Bonds was carried out in the manner specified in Art. 9 Section 3 of the Act on Bonds, ie. Within the framework of a private placement.
The bonds were issued on the following conditions:
• The Issuer did not specify the purpose of issuing the meaning of the Act on Bonds, also did not specify the project to be financed from the issuance of the Bonds.
• The issued bonds are bearer bonds series B with a nominal value of PLN 1,000 each, protected, not having the form of a document.
• The total nominal value of all issued Bonds is not more than 30,000,000 PLN.
• The nominal value of one bond equals PLN 1,000. The issue price of one Bond is equal to its nominal value and amounts to PLN 1,000.
• Bonds will be redeemed by the Company on the date falling four years after the date of issue of the Bonds, ie. On January 13, 2019 years (the "Redemption Date") - except for cases of early early redemption of the Bonds in the event of breaches by the Issuer conditions under which The bonds were issued or at the request of the Issuer.
• The bonds bear interest at a fixed interest rate of 9.1% per annum.
• If the Issuer to redeem the bonds earlier in the event of infringement cases at the request of the Bondholder or at the request of the Issuer of the Bonds will be redeemed on the Redemption Date and will be made by payment of an amount equal to the nominal value of the Bonds, plus accrued and unpaid interest on the Bonds.

February 9, 2015 r. The agreement was concluded for the establishment of a registered pledge on shares of Blaise Investments Sp. Z oo, between Lakia Enterprises Limited and Matczuk Wieczorek & Partners Law Firm Advocates and Legal Advisers Sp. J. Acting in his own name but on behalf of the bondholders holding bonds Series B.
Registered pledge was established on 100 shares in the capital of Blaise Investments sp. z o.o., with a nominal value of 50 zł each, representing 100% of the share capital of the company. The nominal value package of 1,000 shares is 50,000 zł.
Registered pledge was established up to the amount of 45,000,000 zł According to a valuation performed by an expert valuer on 26 January 2015.

Podział obligacji na zobowiązanie krótkoterminowe oraz długoterminowe	December 31, 2016	December 31, 2015
Longterm bonds		
Bonds issued	29 742	56 041
Derivative financial instruments	0	11 635
Shortterm bonds		
Bonds issued	29 852	0
Derivative financial instruments	4 023	0
Interest on issued bonds	1 279	1 279
	64 896	**68 955**

14 Deferred income tax

Deferred tax liabilities

As at January 1, 2015	**18 366**
Accrued interest on loans	(2 378)
Accrued interest on bonds	127
Exchange differences	9
As at December 31, 2015 - before compensation	**16 124**
Compensation of the deferred tax asset	(16 124)
As at December 31, 2015 - after compensation	**0**
Accrued interest on loans	1 093
Accrued interest on bonds	133
Exchange differences	16
As at December 31, 2016 - before compensation	**17 366**
Compensation of the deferred tax asset	(12 298)
As at December 31, 2016 - after compensation	**5 068**

(All amounts in PLN thousands unless otherwise stated)

Notes to the interim financial statements

Deferred tax assets

As at January 1, 2015	**18 366**
Impairment on shares	(3 562)
Accrued interest on borrowings	383
Accrued interest on bonds	816
Reserves for costs	24
Holiday provision	13
Exchange differences	84
As at December 31, 2015 - before compensation	**16 124**
Compensation of deferred tax provision	(16 124)
As at December 31, 2015 - after compensation	**0**
Impairment on shares	(5 684)
Accrued interest on borrowings	48
Accrued interest on bonds	518
Tax loss	1 292
As at December 31, 2016 - before compensation	**12 298**
Compensation of deferred tax provision	(12 298)
As at December 31, 2016 - after compensation	**0**

Unrecognised deferred tax assets

At the balance sheet date are not included the following deferred tax assets	**12 months ended December 31, 2016**	**12 months ended December 31, 2015**
Unrecognised asset impairment of shares in subsidiaries	54 910	64 030
Unrecognised asset in respect of tax losses	0	2 121
Unrecognised deferred tax asset	**54 910**	**66 151**
Tax losses for the years:	**6 801**	**10 755**
2016	0	0
2015	929	923
2014	5 448	8 983
2013	341	682
2012	83	167

Expiration of tax losses	**2017**	**2018**	**2019**	**2020**	**2021**
	83	341	5 448	929	0

15 Revenue from sales

	12 months ended December 31, 2016	**12 months ended December 31, 2015**
Proceeds from sales:		
-domestic sales	196	447
	196	**447**

(All amounts in PLN thousands unless otherwise stated)

Notes to the interim financial statements

16 Administrative costs

	12 months ended December 31, 2016	12 months ended December 31, 2015
Consulting services and remuneration of the auditor	574	505
Remuneration, including:	869	945
- the cost of salaries	869	945
Non deductible VAT	283	167
Other costs, including:	452	552
- transport	8	82
- taxes	28	9
- office expenses	374	420
- other	42	41
	2 178	**2 169**

17 Other operating income

	12 months ended December 31, 2016	12 months ended December 31, 2015
Release od provisions	69	0
	69	**0**

18 Other operating costs

	12 months ended December 31, 2016	12 months ended December 31, 2015
Write off of receivables	0	30
Other	41	0
	41	**30**

19 Interest income on loans

	12 months ended December 31, 2016	12 months ended December 31, 2015
Interest income from loans		
-Interest from related parties (Note 25)	15 065	15 294
	15 065	**15 294**

20 Financial income and expenses

	12 months ended December 31, 2016	12 months ended December 31, 2015
Interest income:	**57**	**303**
-Interest on bonds	32	240
-Interest on deposits	25	63
Other financial income	888	847
Financial income from the valuation of the embedded derivative	7 607	7 180
Net exchange differences	0	169
Financial income	**8 552**	**8 499**

(All amounts in PLN thousands unless otherwise stated)

Notes to the interim financial statements

20 Financial income and expenses - cd

Interest costs:		
-Interest from related parties (Note 24)	322	284
-Interest on bonds	5 148	4 932
- Loan guarantee	194	500
- Other costs	434	84
Net exchange differences	912	0
Financial costs	**7 010**	**5 800**

21 Income tax

	12 months ended December 31, 2016	12 months ended December 31, 2015
Deffered income tax	5 068	0
	5 068	**0**

22 The effective tax rate

	12 months ended December 31, 2016	12 months ended December 31, 2015
Profit (Loss) before taxes	**2 827**	**48 186**
Tax rate	19%	19%
Income tax rate 19%	**(537)**	**(9 155)**
Interest on loans	0	2 906
Impairment value of loans receivable	(2 244)	8 733
Partial reversal of the asset on impairment losses in subsidiaries	(5 684)	0
Interest redeemed	0	(2 373)
Unrecognised deferred tax assets	0	(175)
Change in valuation of the embedded derivative	0	1 364
Paid loan interests	0	(455)
Accrued interest on bonds	0	(680)
Derivative	1 360	0
Used tax losses	830	0
asset on tax losses from previous years	1 292	0
Other	(85)	(165)
Tax	**(5 068)**	**(0)**

23 Cash flow from operating activities

	12 months ended December 31, 2016	12 months ended December 31, 2015
Profit/loss before tax	2 827	48 186
Adjustments for:		
– exchange differences	913	90
– depreciation	5	6
– wyniku z wyceny instrumentów wbudowanych	(7 612)	(7 180)
– interest costs	5 419	5 260
– interest income	(15 147)	(15 598)
– impairment of loans	11 808	(45 641)
– umorzenie pożyczki	0	1 060
– loan amortisation	0	12 492
Changes in working capital:		
- changes in receivables	517	(962)
- change in trade liabilities and other	(339)	484
	(1 609)	**(1 803)**

(All amounts in PLN thousands unless otherwise stated)

Notes to the interim financial statements

24 Commitments and guarantees secured by the assets of the unit

In the reporting year 2016 the company with Celtic Group - a subsidiary Belise Investments Sp. o.o. as the borrower and the CPD SA as a guarantor - were a party to the loan agreement with Bank Zachodni WBK SA The value of the debt obligation as of 31.12.2016 amounted to 77 458 thousand PLN.

Under the terms of the contract (including the signed annexes) the final repayment of the loan is 31 May 2021.

Company CPD SA is the guarantor of due and outstanding payments on the loan described above and submitted to execution as the obligation to pay the Bank Zachodni WBK and / or borrower of the following amounts:

Guarantee 1 to a maximum amount of EUR 20,666,000 related to amounts which are or may be required to cover any overruns of budgeted project costs and shortfalls of the borrower threatening the timely financing of the project and the timely completion of the project.

Guarantee 2 to a maximum amount of EUR 20,666,000 related to amounts which are or may be required to cover the debt service or any other due payments due for payment to the bank by the borrower.

In addition, in January 2015, the company CPD SA issued bonds totaling PLN 30 million. In this respect, the company CPD SA submitted to execution as the obligation to pay a sum of money to the amount of PLN 45 million.

Since December 2015, the Group companies Celtic - a subsidiary of Smart City Sp. o.o. Sp.k. as the borrower and the CPD SA as a guarantor - are party to the loan agreement with Bank Zachodni WBK SA to finance the construction project of residential, multifamily Ursa Smart City, at the intersection of ul. Hennela and Dyrekcyjna in Warsaw's Ursus district. The guarantor is obliged to provide a corporate guarantee for each of the Phase ensuring provision of Borrower additional funds equivalent to at least 10% of the net cost of the Project, in order to:
(A) costs and expenses of the phases, in the case of exceeding the budget of the Project; or
(B) the costs and expenses of the phases, when it is not possible for them to funding the Loan, and while there is a lack of Available Funds, which could be used for this purpose
Net costs of the Project amounts to 56 765 thousand. PLN for Phase I and 51 812 thousand. PLN for Phase II.

25 Related party transactions

CPD S.A. does not have a direct parent or parent senior. Coöperatieve Laxey Worldwide W.A. is a major investor.

CPD also concludes transactions with key managers and other affiliates controlled by the key managers of the Group.

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

a)Transactions with key management personnel	12 months ended December 31, 2016	12 months ended December 31, 2015
Remuneration of members of the Board of Directors	243	212
Remuneration of members of the Supervisory Board	330	308

(All amounts in PLN thousands unless otherwise stated)

Notes to the interim financial statements

25 Related party transactions - cd

b) Transactions with subsidiaries

	12 months ended December 31, 2016	12 months ended December 31, 2015
Revenues		
2/124 Gaston Investments	103	97
3/93 Gaston Investments	95	88
4/113 Gaston Investments	210	189
5/92 Gaston Investments	136	112
6/150 Gaston Investments	85	78
7/120 Gaston Investments	53	51
8/126 Gaston Investments	187	155
9/151 Gaston Investments	41	33
10/165 Gaston Investments	68	54
11/162 Gaston Investments	48	39
12/132 Gaston Investments	125	108
13/155 Gaston Investments	114	103
14/119 Gaston Investments	102	0
15/167 Gaston Investments	64	58
16/88 Gaston Investments	17	15
18 Gaston Investments	106	102
19/97 Gaston Investments	18	17
20/140 Gaston Investments	21	19
Antigo Investments	150	164
Blaise Gaston Investments	300	184
Blaise Investments	781	820
Belise Investments	1 306	1 501
Buffy Holdings No1 Ltd	3 981	4 074
Celtic Asset Management	22	0
Celtic Investments Ltd	9	13
Challange 18	5 169	5 473
Elara Investments	93	109
Gaston Investments	140	293
Hub Developments	79	80
Lakia Enterprises Ltd	1 666	1 509
Mandy investments	523	534
IMES	127	70
Costs		
Lakia Investments	108	105
Lakia Enterprises Ltd	169	179
Elara	0	535
Gaston	6	525
Antigo	0	539
Belise	0	1 480
Blaise	0	265
CH18	0	9 120
Elara	0	117
Gaston	0	385
HUB	0	149
Mandy	0	437
Robin	3	0
Laxey NL	42	0

(All amounts in PLN thousands unless otherwise stated)

Notes to the interim financial statements

25 Related party transactions - cd

	12 months ended December 31, 2016	12 months ended December 31, 2015
Liabilities		
Lakia Enterprises Ltd	9 619	9 581
Lakia Investments	5 536	3 328
Robin Investments	1 603	0
Receivables		
2/124 Gaston Investments	3 784	3 488
3/93 Gaston Investments	3 469	3 250
4/113 Gaston Investments	8 674	7 036
5/92 Gaston Investments	4 927	4 485
6/150 Gaston Investments	3 160	2 832
7/120 Gaston Investments	1 889	1 906
8/126 Gaston Investments	6 943	5 922
9/151 Gaston Investments	1 636	1 241
10/165 Gaston Investments	2 460	2 184
11/162 Gaston Investments	2 035	1 444
12/132 Gaston Investments	4 815	3 982
13/155 Gaston Investments	3 938	3 825
15/167 Gaston Investments	2 230	2 103
16/88 Gaston Investments	675	580
18 Gaston Investments	3 634	3 647
19/97 Gaston Investments	698	627
20/140 Gaston Investments	787	717
Antigo investments	4 608	5 075
Impairment on loan Antigo Investments	(1 615)	(1 151)
Blaise Gaston Investments	0	7 085
Blaise Investments	0	29 095
Belise Investments	18 989	18 532
Buffy Holdings No1 Ltd	198 797	194 757
Impairment on loan Buffy Holdings No1 Ltd	(42 267)	(30 652)
Celtic Asset Management	995	30
Impairment on loan Celtic Asset management	(236)	(3)
Celtic Investments Ltd	1 985	1 848
Impairment on loan Celtic Investments Ltd	(1 928)	(1 793)
Challange 18	185 288	185 206
Elara Investments	3 034	2 814
Impairment on loan Elara Investments	(2 202)	(2 274)
Gaston Investments	1 744	7 999
Impairment on loan Gaston Investments	(1 744)	(2 849)
Hub Developments	2 653	2 549
Impairment on loan HUB Developments	(734)	(501)
Smart City	4	4
Impairment on loan Smart City	(4)	0
IMES	4 240	3 413
Lakia Enterprises Ltd	59 727	57 995
Impairment on loan Lakia Enterprises Ltd	(4 165)	(4 436)
Mandy investments	21 047	20 480
Impairment on loan Mandy Investments	(21 047)	(20 480)

c)Transactions with other related party

Costs		
Kancelaria Radców Prawnych Oleś&Rodzynkiewicz sp. komandytowa	99	23

(All amounts in PLN thousands unless otherwise stated)

Notes to the interim financial statements

25 Related party transactions - cd

d) Transactions with shareholders

Laxey- loan	338	325
Impairment on loan Laxey	(338)	(325)

On September 26, 2014 were issued bonds that were acquired by the shareholders of CPD. Details are presented in Note 13.

26 Earnings (loss) per share

Earnings per ordinary share is calculated by dividing the profit (loss) of the financial year by the weighted average number of ordinary shares outstanding during the year.

Data on profit (loss) and shares used to calculate earnings (loss) per share are presented below:

	12 months ended December 31, 2016	**12 months ended December 31, 2015**
Profit attributable to the shareholders	(2 241)	48 186
Weighted average number of ordinary shares (in '000)	32 863	32 863
Earnings per share	**(0,07)**	**1,47**
Diluted profit attributable to shareholders	(5 615)	44 266
Weighted average number of ordinary shares (in '000)	42 654	42 654
Diluted earnings per share	-0,13	1,04

Dilution of earnings as at 31 December 2016 is influenced by the issuance of bonds convertible into shares by CPD Company . Correction is influenced by: the amount of interest (2.553 thousand PLN), the valuation of bonds at the balance sheet date (894 thousand PLN) and the valuation of the embedded derivative component (-7.613 thousand PLN). These amounts are net of income taxes that will be paid in the future.
Dilution of earnings as at 31 December 2015 is influenced by the issuance of bonds convertible into shares by CPD Company . Correction is influenced by: the amount of interest (2.344 thousand PLN), the valuation of bonds at the balance sheet date (-4 thousand PLN) and the valuation of the embedded derivative component (-7,180 thousand PLN). These amounts are net of income taxes that will be paid in the future.

The weighted average number of shares has been adjusted in connection with the possibility of applying the right to convert the bonds into shares (no more than 9,791,360 shares). The weighted average number of shares amounted to 42 654 thousand. pieces.

27 Legal connection enterprises

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

For the purposes of the settlement of the above transactions in the books of the assets seized are not Sa Poen venture as defined in IFRS 3. In accordance with the disposition of this standard this transaction was treated as the acquisition of a set of assets and liabilities in exchange for the payment of its own shares. As a consequence of the acquired assets and liabilities have been valued at their fair value at the moment of connection and in such values included in the books of the acquiring company.

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

Shares of subsidiaries	337 042
Loans	491 156
Other assets	5 552
Laibilities	(15 657)
Own shares falling as a result of the merger	500
Acquired net assets	**818 593**

(All amounts in PLN thousands unless otherwise stated)

Notes to the interim financial statements

27 Legal connection enterprises - cd

Issued shares	(3 483)
The acquisition of own shares as a result of the merger	(500)
Recognized in surplus capital	(17 967)
Recognized in surplus capital	**796 643**

28 Operating segments

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

29 Employment in professional groups in the financial year

As at 31 December 2016 the company employed no employees.

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

The company in 2016 did not grant the loans and did not include any other transactions with members of the Management Board and Supervisory Board.

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

	December 31, 2016	December 31, 2015
Remuneration paid or payable to the entity authorized to audit financial statements for the year	192	194

32 Events after the balance sheet date

Subsidiaries IMES Poland sp. O.o. and 18 Gaston Investments limited liability company sp. k. (the "Company") dated January 30, 2017 granted protection as a result of conditional sales contracts concluded with legal entities ("Buyer"), leading to the sale of rights to land located in Warsaw Ursus district, as well as cooperation agreements ("Conditional Purchase agreement").
Security will be a combined mortgage on the right to perpetual usufruct of real estate held for each full amount of the payment, the buyer has to make in favor of the companies in respect of each mortgage.
Company surrendered to the execution under Art. 777 § 1 point 5 of the Code of Civil Procedure, as to the obligation to repay a sum of money to the full amount of the payment, the buyer has to make in favor of the companies, as well as each of the parties will submit a written statement in the form required by applicable law, including permission to enter 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 82 million zł net ("Total Price").
Conclusion of the individual final agreements for the transaction was provided 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.
January 31, 2017 the year the Buyer has paid part of the price in the amount of 45 million zł (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.

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

These financial statements have been prepared and approved by the Board on 14.03.2017 r., 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