CONSOLIDATED ANNUAL REPORT 2017

CPD S.A.

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FOR THE YEAR ENDED 31 DECEMBER 2017

TRANSLATORS' EXPLANATORY NOTE

The following document is a free translation of the CPD S.A Consolidated Annual Report published on April 20, 2018.

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

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

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SUPERVISORY BOARD AND AUDIT COMMITTEE

I. SUPERVISORY BOARD AND AUDIT COMMITTEE OF CPD S.A.

SUPERVISORY BOARD

As at the day of December 31, 2017, 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 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 2016, the composition of Supervisory Board of CPD S.A. has changed in following manner:

AUDIT COMMITTEE

As at the day of December 31, 2017, the Audit Committee of CPD S.A. included the following persons:

- **MR WIESŁAW OLEŚ - CHAIRMAN OF THE AUDIT COMMITTEE MEETING THE REQUIREMENTS OF INDEPENDENT MEMBER OF THE AUDIT COMMITTEE**
- **MR MIROSŁAW GRONICKI - AUDIT COMMITTEE MEMBER MEETING THE REQUIREMENTS OF INDEPENDENT MEMBER OF THE AUDIT COMMITTEE**
- **MR ANDREW PEGGE - AUDIT COMMITTEE MEMBER**

MANAGEMENT BOARD

II. MANAGEMENT BOARD OF CPD S.A.

As at the day of December 31, 2017, 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.

In comparison to the status at the end of 2016, the composition of the Management Board of CPD S.A. changed as follows:

- On December 22, 2017, Mr. Waldemar Majewski resigned from his position as Member of the Management Board with effect on 31 of December of 2017.

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

CPD S.A., according to the *Good Practices of the Companies Listed on the Warsaw Stock Exchange* presents below the information about the participation of women and men, respectively, in the Management Board and Supervisory Board of the Company during past two years.

Supervisory Board CPD S.A.

date	women	men
31 December 2016	1	4
31 December 2017	1	4

Board CPD S.A.

date	women	men
31 December 2016	2	3
31 December 2017	2	2

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

1. INFORMATION ON CPD GROUP

CPD Group started its activities in Poland in 1999 from the foundation of Celtic Asset Management Sp. z o.o. In subsequent years, 1999-2005, the activities of the company focused on building and managing a real estate portfolio for external institutions in Poland, Czech Republic, Lithuania, Romania, Hungary and Germany. In 2005, Celtic Asset Management Sp. z o.o started development activity in cooperation with several funds managed by Laxey Partners. In 2007, the consolidation of the group under the name Celtic Property Developments SA (BVI) was performed and in 2008 the listing of the company Celtic Property Developments SA (BVI) began on a deregulated market (Freiverkehr) in Frankfurt. In the period from 2005 to 2010, the Company operated and managed projects mainly in Poland. In the same time, the Group has conducted and managed projects also in Montenegro, Hungary, Italy, Belgium, the United Kingdom, the Netherlands, Germany and Spain. International experience and practical knowledge of experts and project managers of Celtic Group contributed to the creation of a strong and stable capital group, which debuted on the Warsaw Stock Exchange on 23 December 2010. 17th of September the Company has changed the name for CPD S.A.

Today, CPD S.A. is the holding company controlling a group of 33 subsidiaries and two half controlled, focusing on activities in the office and residential segments. Current Group's plans focus on the residential development, mainly through the implementation of its leading project in the Warsaw's district of Ursus.

2. GROUP STRUCTURE

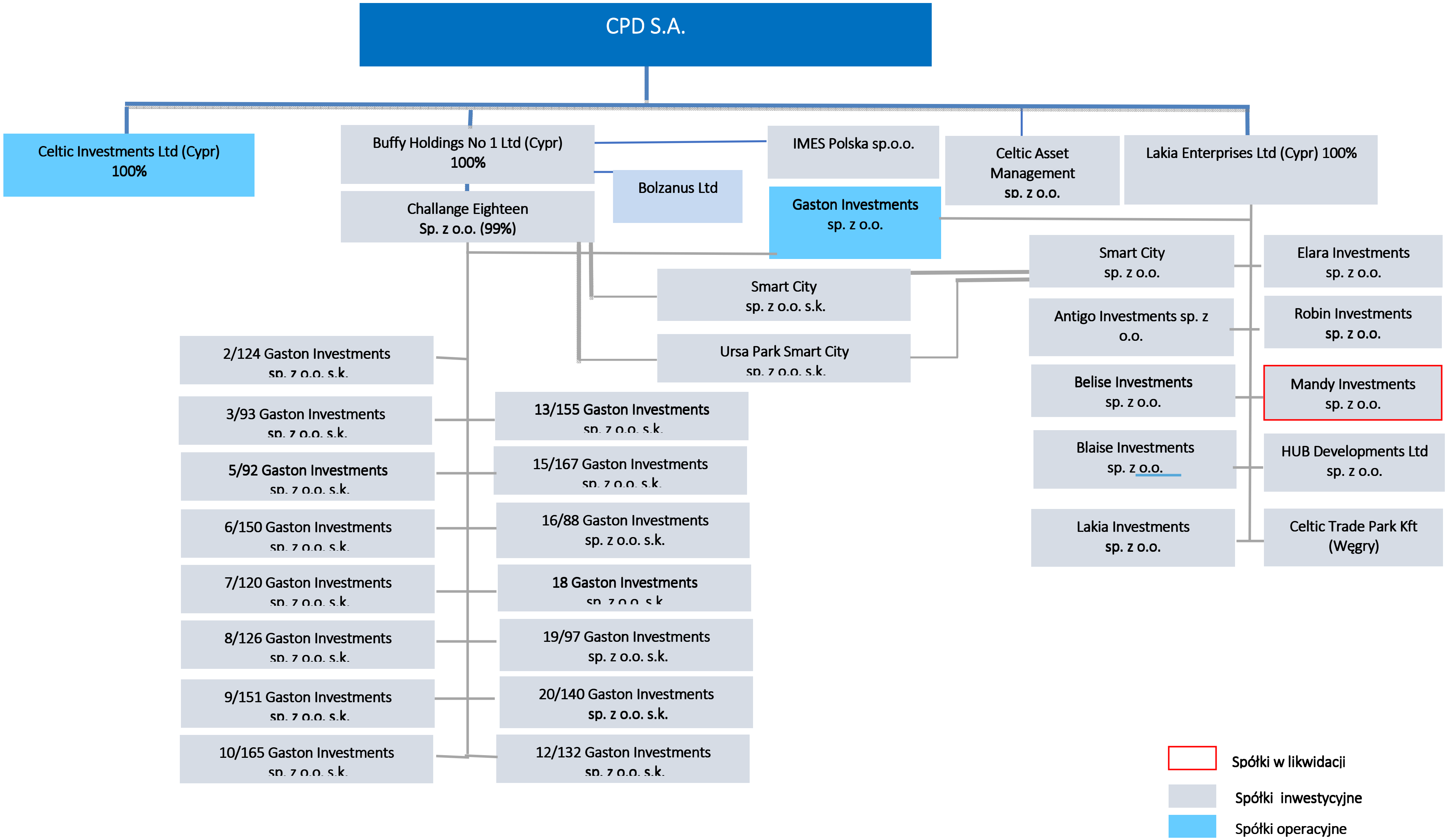
As of the day of publication hereof, the CPD Group (hereinafter referred to as "the Group", "CPD Group") was composed of a dominant entity – CPD S.A. (hereinafter referred to as "the Company") and 33 subsidiaries and two half controlled. Development activities of the Group are conducted via investment companies, direct subsidiaries of Buffy No1 Holdings Ltd (Cyprus) and Lakia Enterprises Ltd (Cyprus). Dominant entity - CPD S.A. - coordinates and supervises the activities of subsidiaries and at the same time is the decision making centre with regard to the strategic planning. CPD S.A. performs actions aiming at optimising the operating costs of the whole Group, designs investment and marketing policies and serves as the coordinator of this activity.

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

- On 28 of June 2017, the promised agreement for the sale of the general rights and obligations of a limited partner and general partner in the company 11/162 Gaston Investments spółka z ograniczoną odpowiedzialnością sp. k. with headquarters in Warsaw was concluded,
- On 26 of July 2017, the promised agreement for the sale of the general rights and obligations of a limited partner and general partner in the company 14/119 Gaston Investments spółka z ograniczoną odpowiedzialnością sp. k. with headquarters in Warsaw was concluded,
- On 2 of August 2017, final agreement for the purchase of 100% shares in Bolzanus Limited with its registered office in Limassol in Cyprus was concluded,
- On 2 of August 2017, the name of 4/113 Gaston Investments spółka z ograniczoną odpowiedzialnością sp. k. was changed for Ursa Park Smart City spółka z ograniczoną odpowiedzialnością spółka komandytowa.

All Group companies are consolidated according to the full method, except for two Group companies - Smart City spółka z ograniczoną odpowiedzialnością spółka komandytowa and Ursa Park Smart City spółka z ograniczoną odpowiedzialnością spółka komandytowa, which is reeconciliated wit the equity method.

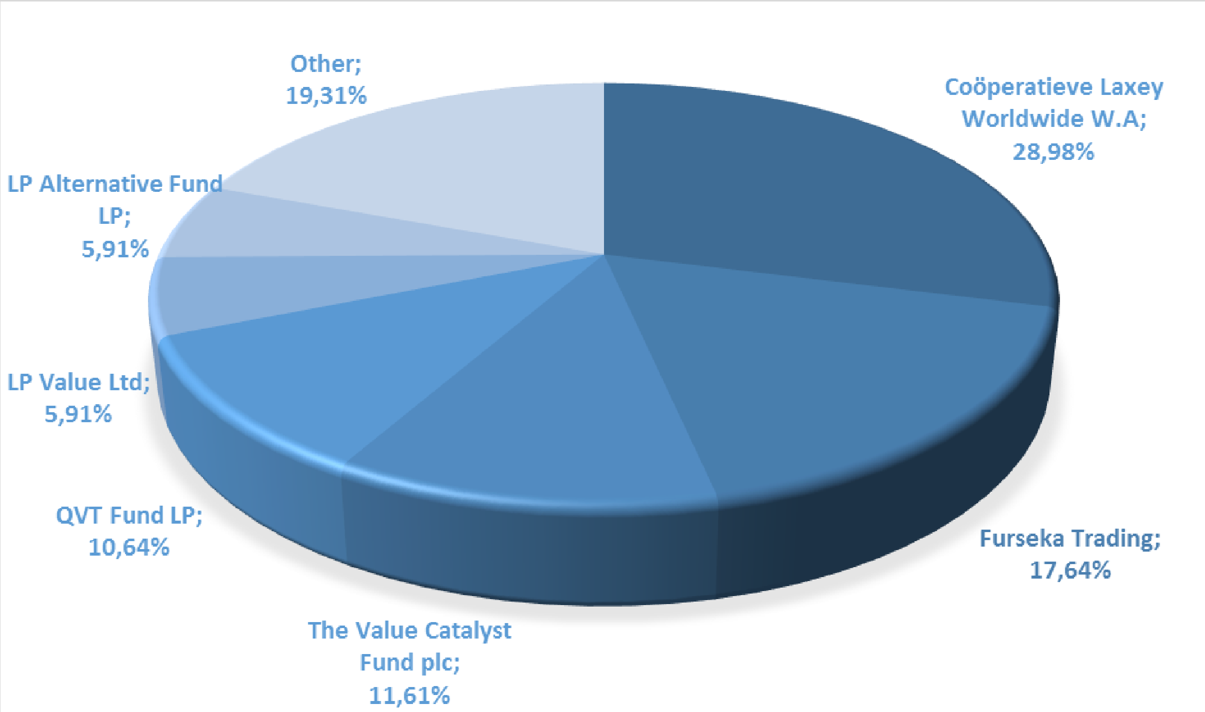
CPD Group structure on the 31 December 2017



3. SHAREHOLDERS

- **CONTROLLING SHARES**

CPD S.A. SHAREHOLDING STRUCTURE



According to the information held by the Company in the reporting period, the shareholders who hold directly or indirectly through subsidiaries at least 5% of the total number of votes at the Company's General Meeting of Shareholders (the number of shares provided on the basis of shareholders' notices pursuant to Article 69 of the Act on Public Offering or the data included in the prospectus) are:

Shareholder	Amount of owned shares	Type of shares	Amount of owned votes	Shareholder structure by owned votes	Shareholder structure by owned shares
Coöperatieve Laxey Worldwide W.A	11 406 759	Na okaziciela	11 406 759	28.98 %	28.98 %
Furseka Trading	6 942 424	Na okaziciela	6 942 424	17.64 %	17.64 %
The Value Catalyst Fund plc	4 567 681	Na okaziciela	4 567 681	11.61 %	11.61 %
QVT Fund LP	4 186 145	Na okaziciela	4 186 145	10.64 %	10.64 %
LP Value Ltd	2 327 645	Na okaziciela	2 327 645	5.91 %	5.91 %
LP Alternative Fund LP	2 325 927	Na okaziciela	2 325 927	5.91 %	5.91 %
Other	7 597 442	Na okaziciela	7 597 442	19.31 %	19.31 %

The above shareholding structure was presented in relation to the total number of shares, amounting to 39,354,023 shares and covering series B, C, D, E, F and G shares which constitute 100% of votes at the general meeting of the Company.

On 5 of August 2014, the Company adopted resolution on the issue of A series bonds convertible into series G shares, conditionally increasing the Company's share capital, depriving existing shareholders of the pre-emptive rights to series G shares, changing the Company's Articles of Association, dematerializing series G shares and applying for the admission and introduction of series G shares to trading on the regulated market. The buyback date for convertible bonds was 26 September 2017.

However, in connection with the receipt by the Company:

- On 20 of March 2017 from bondholders of series A bonds convertible into series G shares, statements on the conversion of the Bonds, ie 90 bonds convertible into Series G shares of the Company, ie 5,292,720 series G shares of the Company, and
- On 13 of June 2017, the Company received from two bondholders of A series bonds convertible into series G shares, statements on the exchange of Bonds, ie 20 convertible bonds for G series shares of the Company, ie 1.198.100 series G shares of the Company

all bonds convertible into shares issued by the Company on 26 of September 2014 in accordance with the Resolution No. 3 of the Extraordinary General Meeting of the Company of August 5, 2014 were converted into shares.

- **SHAREHOLDERS WITH SPECIAL RIGHTS**

All shares issued by the Company are ordinary bearer shares. The Company's Articles does not grant any specific rights to the Company shares, including the preferential vote or the appointment of the members to the Company Management Board or Supervisory Board. The Company's shareholders do not own shares offering special controlling rights.

- **RESTRICTIONS ON VOTING RIGHTS**

According to par. 4 par. 5 of the Company Statute, the pledgee or user of the shares is not entitled to vote on shares pledged on his behalf or given to him for use. In addition, 1,497,792 shares are own shares of the Company, in accordance with the applicable regulations, the Company is not entitled to exercise the voting right.

- **RESTRICTIONS REGARDING SHARES TRANSFER**

All hitherto issued B, C, D, E, F and G 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.

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 owned shares	Type of shares	Amount of owned votes	Shareholder structure by owned votes	Shareholder structure by owned shares
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- ### 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

Not applicable.

- ### MANAGEMENT BOARD, SUPERVISORY BOARD, AUDIT COMMITTEE

The Audit Committee was established within the Supervisory Board. The Audit Committee consists of three members of the supervisory board:

- Mr Wiesław Oleś,
- Mr Andrew Pegge
- Mr Mirosław Gronicki

The composition of the Audit Committee meets the requirements set out in the Act of May 11, 2017 on statutory auditors, audit firms and public supervision (Journal of Laws of 2017 item 1089, as amended), according to which the Audit Committee should be included at least three members, of which at least one should have knowledge and skills in accounting or auditing, at least one member of the Audit Committee should have knowledge and skills in the industry in which the issuer operates and the majority of committee members, including the chairman independence criteria.

- ### 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

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

- On December 22, 2017, Mr. Waldemar Majewski resigned from the position of Member of the Management Board;

AUDIT COMMITTEE

The Supervisory Board of the Company, acting pursuant to art. 128 and 129 of the Act of May 11, 2017 on statutory auditors, auditing companies and public supervision (Journal of Laws of 2017, item 1089), appointed the Audit Committee composed of:

- Mr Wiesław Oleś - Chairman of the Audit Committee (independent member)
- Mr Mirosław Gronicki - Member of the Audit Committee (independent member)
- Mr Andrew Pegge - Member of the Audit Committee.

The Audit Committee in the indicated composition meets the independence criteria and other requirements specified in art. 129 par. 1.3.5 and 6 of the Act on statutory auditors, auditing companies and public supervision, i.e .:

Until now, the duties of the Audit Committee were performed by the Supervisory Board of CPD (regulation resulting from § 11 items 3 and 5 of the Articles of Association of the Company and from § 11 section 2 of the Regulations of the Supervisory Board) due to the five-person composition of the Supervisory Board.

The Audit Committee is obliged to cooperate with the Company's auditors and control their independence, including in connection with the Act on Certified Auditors.

- **DEROGATIONS FROM CORPORATE GOVERNANCE RULES**

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

DISCLOSURE POLICY, INVESTOR COMMUNICATIONS

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

  The Company does not apply the principle.

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

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

  The Company does not apply the principle.

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

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

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

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

  The Company does not apply the principle.

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

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

  The Company does not apply the principle.

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

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

  The Company does not apply the principle.

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

MANAGEMENT BOARD, SUPERVISORY BOARD

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

  The Company does not apply the principle.

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

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

  The Company does not apply the principle.

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

GENERAL MEETING, SHAREHOLDER RELATIONS

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

  The Company does not apply the principle.

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

CONFLICT OF INTEREST, RELATED PARTY TRANSACTIONS

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

  The Company does not apply the principle.

  Company's Corporate Documentation (§ 13 paragraph. 2 point 14) contains provisions concerning the need of Supervisory Board a consent for conclusion of agreement by the

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

- **PRINCIPLE V.Z.6. IN ITS INTERNAL REGULATIONS, THE COMPANY SHOULD DEFINE THE CRITERIA AND CIRCUMSTANCES UNDER WHICH A CONFLICT OF INTEREST MAY ARISE IN THE COMPANY, AS WELL AS THE RULES OF CONDUCT WHERE A CONFLICT OF INTEREST HAS ARISEN OR MAY ARISE. THE COMPANY'S INTERNAL REGULATIONS SHOULD AMONG OTHERS PROVIDE FOR WAYS TO PREVENT, IDENTIFY AND RESOLVE CONFLICTS OF INTEREST, AS WELL AS RULES OF EXCLUDING MEMBERS OF THE MANAGEMENT BOARD OR THE SUPERVISORY BOARD FROM PARTICIPATION IN REVIEWING MATTERS SUBJECT TO A CONFLICT OF INTEREST WHICH HAS ARISEN OR MAY ARISE.**

  The Company does not apply the principle.

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

REMUNERATION

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

  The Company does not apply the principle.

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

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

The Company does not apply the principle.

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

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

  1) **GENERAL INFORMATION ABOUT THE COMPANY'S REMUNERATION SYSTEM;**

  2) **INFORMATION ABOUT THE CONDITIONS AND AMOUNTS OF REMUNERATION OF EACH MANAGEMENT BOARD MEMBER BROKEN DOWN BY FIXED AND VARIABLE REMUNERATION COMPONENTS, INCLUDING THE KEY PARAMETERS OF SETTING THE VARIABLE REMUNERATION COMPONENTS AND THE TERMS OF PAYMENT OF SEVERANCE ALLOWANCES AND OTHER AMOUNTS DUE ON TERMINATION OF EMPLOYMENT, CONTRACT OR OTHER SIMILAR LEGAL RELATIONSHIP, SEPARATELY FOR THE COMPANY AND EACH MEMBER OF ITS GROUP;**

  3) **INFORMATION ABOUT NON-FINANCIAL REMUNERATION COMPONENTS DUE TO EACH MANAGEMENT BOARD MEMBER AND KEY MANAGER;**

  4) **SIGNIFICANT AMENDMENTS OF THE REMUNERATION POLICY IN THE LAST FINANCIAL YEAR OR INFORMATION ABOUT THEIR ABSENCE;**

  5) **ASSESSMENT OF THE IMPLEMENTATION OF THE REMUNERATION POLICY IN TERMS OF ACHIEVEMENT OF ITS GOALS, IN PARTICULAR LONG-TERM SHAREHOLDER VALUE CREATION AND THE COMPANY'S STABILITY.**

The Company does not apply the principle.

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

5. CORPORATE SOCIAL RESPONSIBILITY

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

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

In relation to our key development project on former ZPC Ursus industrial land, and being aware of our role in such a comprehensive task as revitalisation of this area, CPD Group has for several years been undertaking initiatives exceeding the scope of typical real estate development and construction. In 2016, the Group along with the City District of Ursus Office co-organised a cycle of cultural event Farewell to Summer with Ursus".

In 2018, the CPD Group will contuing leasing the building of the Arsus Center for a symbolic lease rate of PLN 100 per month and, if financial resources are available, will continue the prosocial initiatives taken, convinced that they will bring tangible results to both direct beneficiaries and communities in which they will be implemented.

In addition, as part of social responsibility and building a sustainable urban fabric based on the local social identity, the CPD Group intends to hand over the area of 1,7 ha to City of Warsaw in 2018. ha, which according to the Local Spatial Development Plan is provided for educational investments. As part of the planned agreement, the capital city of Warsaw will undertake to implement the school-to-school complex by 2020.

6. STRATEGY AND POLICY REGARDING FURTHER GROUP DEVELOPMENT DIRECTIONS

In the coming years, the Group is going to implement a strategy aimed at building the value of the Group’s assets successively and consistently through maximisation of proceeds from rents and comprehensive implementation of the Ursus project. As part of implementing strategic assumptions, the Group’s actions will primarily focus on launching the Ursus project. In order to hasten the growth in the value of the Group’s assets, the Group divided the project in Ursus into smaller projects and started to 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.

The Group's strategy defined in this way, implemented in the demanding dynamically changing market environment, determined by the economic growth and the expected increase in inflation and interest rates, and consequently the general economic slowdown, less demand for real estate and more difficult access to capital for individual and institutional clients land, defines guidelines for individual areas of the Group's operations for the next few years and is aimed at providing Shareholders with an increase in the value of their assets and optimizing the return on investment.

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

○ INFORMATION ABOUT THE MARKETS, RECIPIENTS AND SUPPLIERS OF THE GROUP

The main market for the CPD Capital Group is Poland, in particular the Warsaw agglomeration, where nearly 99% of the investments held by the Group are located in terms of their value.

The geographical structure of the Group's revenues in 2017 reflected the strategy of concentration on the Polish market adopted by the Group. In 2017, 100% of the Group's revenues came from the domestic market. The recipients of the Company and its Capital Group are divided into two basic groups closely related to the type of projects carried out by the Group: specialized real estate funds and individual recipients. Projects for commercial use are ultimately sold to specialized institutional investors operating on the real estate market. Smaller projects are sold to individual investors. Before the sale begins, the Company commercializes the building. In relation to the above, tenants of commercial areas also constitute an indirect group of recipients.

Due to the allocation of a part of the real estate for residential development, the Group's customers are also natural persons looking for a new flat. The characteristics of the target audience depends on the type of individual projects. So far, the CPD Group has been implementing projects for individual clients with a higher purchasing potential (Wilanów Classic housing estate, apartments in a tenement at Koszykowa Street 69). After launching a residential project in Ursus by launching the sale, the Company's customer base expanded to include people looking for flats from the popular flats segment at affordable prices as well as developers looking for interesting investment areas. It should be expected that the share of this group of customers in the Company's portfolio will systematically grow.

Due to the type of business, the main suppliers for the Company and its Capital Group are general contractors, construction companies, engineering companies, design offices and architects, property management companies, real estate agencies, law offices and other external entities employed as part of ongoing investments. in the process of preparing and implementing the development process.

○ EVENTS AFFECTING THE ACTIVITY AND FINANCIAL RESULT

• TAX INSPECTION

9th of November 2017, the company belonging to the Group, Challange Eighteen Sp. z o.o. received the result of a tax audit. In the opinion of the tax authorities, the Company did not pay withholding tax due from interest on a loan contracted from EEPF AB (which was then owned by the Group). The value of arrears includes overdue tax in the amount of PLN 9.113 PLN plus interest, which as at November 27th is PLN 4,717.

In the opinion of the Management Board, this claim is unjustified. However, it can not be ruled out that it is necessary to pay this amount if tax proceedings are initiated and decisions issued by tax authorities. Based on the risk analysis at an early stage of the process, the Management Board decided not to include in this condensed consolidated financial statements a liability in this respect.

• ESTABLISHING SECURITY

Issuer's subsidiaries: IMES Poland sp. z o.o. and 18 Gaston Investments sp. z o.o. sp. k. 30st of January 2017 granted collateral as a result of the conclusion of conditional sales contracts concluded with legal entities that lead to the sale of land property rights located in Warsaw in the Ursus district, as well as cooperation agreements.

Collateral will be combined mortgages on the right to perpetual usufruct of owned real estate each time up to the full amount of a given payment, which the Buyer is to make to the Companies for each mortgage.

The companies also submitted to enforcement pursuant to art. 777 § 1 point 5 of the Code of Civil Procedure, as to the obligation to return the sum of money to the full amount of a given payment, which the Buyer is to make to the Companies, and each entity will submit a written statement in the form required by applicable law, including consent to enter Buyer's claims regarding the conclusion of the Promised Contract to the land and mortgage registers kept for the properties owned by them.

The total sale price of property rights and cooperation agreements has been set at a total of PLN 82 million net.

Conclusion of individual final contracts under the transaction was stipulated in stages between December 2017 and December 2019. The conclusion of final contracts depends on the fulfillment of a number of conditions precedent, mainly regarding right of first refusal for purchase of undeveloperd property by Warsaw City, the preparation of infrastructure and media in a manner enabling the implementation of housing projects in accordance with the adopted assumptions.

As at the balance sheet day, the Buyer made payments of PLN 66.5 million (net) plus applicable VAT on the basis of the Conditional Sales Agreements. Subsequent payments towards the agreed Total Price will be made in accordance with the schedule accepted by the Buyer and Seller in 2017-2019.

After the balance date and before the date of publication of this report, all conditions precedent for sale by the Issuer's Subsidiaries were fulfilled: IMES Poland sp. z o.o. and 18 Gaston Investments spółka z ograniczoną odpowiedzialnością sp. k. the right of perpetual usufruct of plots 98/1 and 148/2 respectively. In connection with the above, the Issuer's Subsidiaries: IMES Poland sp. z o.o. and 18 Gaston Investments spółka z ograniczoną odpowiedzialnością sp. k. and Buffy Holdings no 1 Ltd on 29th of March 2018 signed final agreements for the sale of perpetual usufruct right to parcels 98/1 and 148/2 respectively, and 100% shares in Bolzanus Limited, which owns the right of perpetual usufruct to the plot of land 119. On the other hand, on the perpetual usufruct right to the 98/2 plot, a joint mortgage is still established up to the full amount of the payment made by the Buyer to the Company for this mortgage. In addition, Imes will continue to be subject to execution pursuant to art. 777 § 1 point 5 of the Code of Civil Procedure, as to the obligation to repay the full amount of a given payment, which the Buyer has made to the Company.

The remaining provisions of the Agreements concluded by the Seller do not differ from the standards commonly applicable to this type of contracts.

- **CONCLUSION OF A CONDITIONAL CONTRACT BY CPD S.A. AND ITS SUBSIDIARIES**

On 22nd of February 2017, an investment agreement was signed for a joint venture implementation of a complex of multi-family buildings with services and infrastructure accompanying Warsaw, in the Ursus district.

The contract was concluded between CPD Spółka Akcyjna, Challange Eighteen limited liability company, 4/113 Gaston Investments spółka z ograniczoną odpowiedzialnością spółka komandytowa, Lakia Enterprise Ltd and Unibep Spółka Akcyjna, Unidevelopment Spółka SA.

The subject of the Agreement is the joint investment on a property belonging to a company from the CPD Capital Group ie. 4/113 Gaston Investments spółka z ograniczoną odpowiedzialnością spółka komandytowa, being perpetual user of plots No. 113/1, 113/2, 113/4, 113/5 no. 2-09-09, with an area of 4.944 ha and located at Traktorzystów Street in Warsaw (Warsaw - Ursus district).

On the part of the Real Property with an area of approx. 1.36 ha, construction of a complex of multi-family buildings with services together with accompanying infrastructure will be implemented in two stages, the general contractor of which will be Unibep S.A. and Unidevelopment S.A. will provide services of investor's replacement for the Venture. As part of the venture, Unidevelopment S.A. he will join the limited partnership as a limited partner. The contract also includes activities consisting in marketing activities related to the sale of premises created as part of the Project, and then on the total sale of the usable floor space of the Project and the principles for the distribution of profit from the implementation of the Project.

Participation of companies from the CPD Capital Group. in the implementation of the Project it relies, among others on:

a) implementation of a Real Estate Project belonging to a limited partnership,

b) providing Gaston Investments sp. o.o. financial and operational control services over undertaking and supervision over Unibep SA as a general contractor.

The contract was to enter into force under condition that all annexes to the Agreement were agreed (accepted) by March 31, 2017. In addition, as regards the accession of Unidevelopment S.A. to the limited partnership - the contract was to enter into force under the condition of obtaining the consent of the President of the Office of Competition and Consumer Protection for concentration of entrepreneurs or issuing a decision by the President of UOKiK on discontinuation due to the fact that the transaction is not subject to the obligation to report to the President of UOKiK or the statutory deadline to issue the aforementioned consent, if before the expiry of that period, the President of UOKiK does not issue any decision, or issue a ruling by the Antimonopoly Court regarding consent to concentration as a result of an appeal - whichever occurs first.

The above Agreement meets the criterion of considering it as a significant agreement, as its value exceeded the criterion for determining significant contracts used by the Issuer, i.e. 10% of the Issuer's equity, which as of the end of the third quarter of 2016 amounted to PLN 452 224 000.

- **FULFILLING THE CONDITION OF THE CONDITIONAL AGREEMENT CONCLUDED BY CPD S.A. AND SUBSIDIARIES**

On 1st od March 2017, all annexes to the Investment Agreement were agreed (accepted), which was a condition for entry into force of the Investment Agreement between CPD Spółka Akcyjna, Challange Eighteen limited liability company, 4/113 Gaston Investments limited liability, Lakia Enterprise Ltd and Unibep SA , Unidevelopment SA.

The Agreement was to enter into force under the condition:

i) obtaining the consent of the President of the Office for Competition and Consumer Protection (President of UOKiK) for concentration of entrepreneurs or

ii) issuing a decision by the President of UOKiK on discontinuation due to the fact that the transaction is not subject to the obligation notification to the President of UOKiK or

iii) the expiration of the statutory deadline for issuing the above consent, if before the deadline the President of UOKiK does not issue any decision, or

iv) issuing a ruling by the Antimonopoly Court regarding consent to concentration as a result of appeal - depending on which of these events was to take place earlier.

The agreement entered into force on the basis of the Annex to the Investment Agreement signed by the Parties, signed on August 2, 2017, which is hereby disclosed in the further part of this report.

- **RECEIPT OF REPLACEMENT STATEMENTS OF SERIES A FOR SERIES G SERIES**

On March 20, 2017, the Company received from the bondholders of series A bonds convertible into series G shares issued by CPD S.A. On September 26, 2014, a statement on the conversion of the Bonds, i.e. 90 convertible bonds into G series shares of the Company, ie 5,292,720 series G shares of the Company.

The conversion price (issue price) was determined in accordance with Resolution No. 3 of the Extraordinary General Meeting of the Company dated August 5, 2014 and the terms of issue of the Notes at the level indicated therein, in the amount of PLN 4.38 per Share.

Rights from Series G Shares will arise upon the entry of shares on the securities accounts of authorized persons.

The company submitted relevant applications to the National Depository for Securities S.A. and to the S.A. Warsaw Stock Exchange. in order to register Series G Shares and their introduction to trading on the regulated market.

In exchange for 90 convertible bonds for Series G shares of the Company, the Company will issue to all entitled persons a total of 5,292,720 series G shares of the Company.

Following the share capital increase, which was to take place when the shares were issued, i.e. the moment the shares were registered on the securities accounts of the entitled persons, the structure of the Company's share capital was as follows: after the Bonds were converted into shares, the share capital of the Company was to be PLN 3,815,292.30 and be divided into 38,155,923 shares with a nominal value of PLN 0.10 each, giving a total of 38,155,923 votes at the general meeting of the Company, including:

a) 32.335.858 ordinary series B bearer shares,

b) 163,214 ordinary bearer shares of the Company, C series,

c) 76,022 ordinary bearer shares of the D series,

d) 88,776 ordinary series E bearer shares,

e) 19.3333 ordinary series F bearer shares

f) 5,292,720 ordinary series G bearer shares.

Series G shares issued to persons entitled in exchange for the Bonds on which the right to convert them to shares were exercised, were to constitute 13.87% in the Company's share capital and were to entitle to 5,292,720 votes at the General Meeting of the Company, which would total 13, 87% of the total number of votes at the general meeting of the Company.

Out of all convertible bonds issued by the Company on 26 September 2014 in accordance with Resolution No. 3 of the Extraordinary General Meeting of the Company of August 5, 2014 - 20 bonds were not converted into shares.

- **INFORMATION ABOUT TRANSACTIONS ARE OBTAINED IN ARTICLE 19 MAR**

On March 21, 2017, the Company received from:

1. The Value Catalyst Fund Limited,

2. Laxey Universal Value Lp By Laxey Partners (Gp2) As General Partner,

3. Laxey Partners Limited,

4. LP Value Ltd,

5. LP Alternative Lp By Laxey Partners (Gp3) General Partner,

entities closely related to a person discharging managerial responsibilities at CPD S.A., ie Mr. Michael Haxby - Member of the Supervisory Board of CPD S.A., notifications about transactions regarding the conversion of bonds convertible into shares, concluded on 20 March 2017, referred to in Art. 19 para. 3 of the MAR Regulation.

- **CONDITIONAL REGISTRATION OF THE SHARES IN DEPOSITORY CONDUCTED BY KDPW S.A.**

March 22, 2017 CPD SA Management Board learned about the resolution adopted by the Management Board of the National Depository for Securities No. 290/17 of 28 April 2017, issued pursuant to § 2 sections 1 and 4 and § 40 subpara. 2.3a and 4a of the Regulations of the National Depository for Securities, after considering the Company's application regarding the registration of 5,292,720 (five million two hundred ninety two seven hundred twenty) series G ordinary bearer shares with a nominal value of PLN 0.10 each issued as part of the conditional capital increase based on Resolution No. 3 of the Extraordinary General Meeting of the Company dated August 5, 2014 and marked with the PLCELPD00013 code, provided that the company running the regulated market makes decisions on the introduction of these shares to trading on the same regulated market on which other shares of the Company were introduced. marked with the code PLCELPD00013.

Registration of ordinary bearer series G CPD S.A. was to take place within three days of receipt by KDPW of documents confirming the decision by the company operating the regulated market to introduce these shares to trading on the aforementioned regulated market, however, not earlier than on the date indicated in this decision as the day of introducing these shares to trading on this regulated market.

- **SUBMITTING A REQUEST FOR ENTERING G-SERIES SHARES TO TRADING ON THE WSE**

The company submitted an application for the introduction of series G shares to trading on the Warsaw Stock Exchange.

The total number of series G ordinary bearer shares with a nominal value of PLN 0.10 each covered by the application, which was to be introduced to trading on the stock exchange following registration, is: 5,292,720 (five million, two hundred and ninety-two thousand, seven hundred and twenty).

The total number of shares that will be traded on the stock exchange after the introduction of the shares covered by the application was to be: 38,155,923 (in words: thirty eight million one hundred fifty five thousand nine hundred and twenty three).

The shares were placed on the market in May 2017 what is fully described in the following sections of the report..

- **PERMISSION AND INTRODUCTION OF THE G SERIES G-SERIES SHARES**

CPD SA Management Board was informed that the Management Board of Warsaw Stock Exchange in Warsaw SA, on the basis of the motion, adopted resolution No. 464/2017 of 11 May 2017 regarding the admission and introduction to exchange trading on the WSE Main Market of 5,292,720 ordinary bearer shares of the G series CPD SA with a nominal value of PLN 0.10 each.

The Management Board of the Warsaw Stock Exchange decided to introduce, as of 15 May 2017, in the ordinary course of exchange trading on the parallel market, shares of the Company, provided that the National Depository for Securities S.A. on May 15, 2017, register these shares and mark them with the PLCELPD00013 code.

- **THE COMMUNICATION OF NATIONAL DEPOSITS ON SECURITIES ON THE REGISTRATION OF SERIES G SERIES**

CPD SA Management Board received the Statement of the Operational Department of the National Depository for Securities SA stating that in accordance with the resolution of the KDPW Management Board No. 290/17 of 28 April 2017, on 15 May 2017, 5,222,720 series G ordinary bearer shares were registered at the National Depository marked with the ISIN code: PLCELPD00013.

- **REGISTRATION OF G-SERIES SHARES ON SECURITIES ACCOUNTS AND INCREASE OF SHARE CAPITAL**

On 15 May 2017, the Company's share capital was increased as a result of subscribing to the Company's G series shares on the accounts of authorized persons and the rights arising from these shares pursuant to art. 452 of the Code of Commercial Companies.

In connection with the above, the share capital of CPD S.A. was increased by PLN 311,682.40 to PLN 3,598.002.70 (in words: three million five hundred and ninety eight thousand two zlotys and seventy grosz). Increased share capital of CPD S.A. is divided into 35,808,027 (in words: thirty five million nine hundred and eighty thousand twenty seven) shares with a nominal value of PLN 0.10 (ten groszy) each, representing 100% of votes at the General Meeting of the Company.

Series G shares were issued as a result of the exercise of rights from series A convertible bonds issued on the basis of Resolution No. 3 of the Extraordinary General Meeting of CPD S.A. on August 5, 2014, as part of the conditional increase in the share capital of the Company, which was registered by the District Court for the Capital City of Warsaw in Warsaw, 13th Commercial Division of the National Court Register as of 16 September 2014.

- **REGISTRATION OF G-SERIES SHARES ON SECURITIES ACCOUNTS AND INCREASE OF SHARE CAPITAL**

On 17 May 2017, the share capital of the Company was increased as a result of the registration of a part of series G shares of the Company on the accounts of authorized persons and the creation of rights from these shares pursuant to art. 452 of the Code of Commercial Companies.

In connection with the above, the share capital of CPD S.A. was increased by PLN 170,543.20 to PLN 3,768,545.90 (in words: three million seven hundred sixty eight thousand five hundred and forty five zlotys ninety groszy). Increased share capital of CPD S.A. divided into 37,685,459 (in words: thirty seven million six hundred and eighty five thousand four hundred and fifty nine) shares with a nominal value of PLN 0.10 (ten groszy) each, representing 100% of votes at the General Meeting of the Company.

Series G shares were issued as a result of the exercise of rights from series A convertible bonds issued on the basis of Resolution No. 3 of the Extraordinary General Meeting of CPD S.A. on August 5, 2014, as part of the conditional increase in the share capital of the Company, which was registered by the District Court for the Capital City of Warsaw in Warsaw, 13th Commercial Division of the National Court Register as of 16 September 2014.

- **REGISTRATION OF G-SERIES SHARES ON SECURITIES ACCOUNTS AND INCREASE OF SHARE CAPITAL**

On May 19, 2017, the share capital of the Company was increased as a result of the registration of a part of series G shares of the Company on the accounts of authorized persons and the creation of rights from these shares pursuant to art. 452 of the Code of Commercial Companies.

In connection with the above, the share capital of CPD S.A. was increased by PLN 41,155.60 to PLN 3,809,711.50 (say: three million, eight hundred and nine thousand, seven hundred and eleven, and fifty groszy). Increased share capital of CPD S.A. is divided into 38,077,115 (say: thirty eight million, ninety seven thousand, one hundred and fifteen) shares with a nominal value of PLN 0.10 (ten groszy) each, representing 100% of votes at the General Meeting of the Company.

Series G shares were issued as a result of the exercise of rights from series A convertible bonds issued on the basis of Resolution No. 3 of the Extraordinary General Meeting of CPD S.A. on August 5, 2014, as part of the conditional increase in the share capital of the Company, which was registered by the District Court for the Capital City of Warsaw in Warsaw, 13th Commercial Division of the National Court Register as of 16 September 2014.

- **REGISTRATION OF G-SERIES SHARES ON SECURITIES ACCOUNTS AND INCREASE OF SHARE CAPITAL**

On May 25, 2017, the share capital of the Company was increased as a result of the registration of the last part of the G series of the Company on the accounts of authorized persons and the creation of rights from these shares pursuant to art. 452 of the Code of Commercial Companies.

In connection with the above, the share capital of CPD S.A. was increased by PLN 5,880.80 to PLN 3,815,929.30 (in words: three million, eight hundred and fifteen thousand, five hundred and ninety-two zlotys and thirty groszys). Increased share capital of CPD S.A. divided into 38,155,923 (in words: thirty eight million one hundred fifty five thousand nine hundred and twenty three) shares with a nominal value of PLN 0.10 (ten groszy) each, representing 100% of votes at the General Meeting of the Company.

Series G shares were issued as a result of the exercise of rights from series A convertible bonds issued on the basis of Resolution No. 3 of the Extraordinary General Meeting of CPD S.A. on August 5, 2014, as part of the conditional increase in the share capital of the Company, which was registered by the District Court for the Capital City of Warsaw in Warsaw, 13th Commercial Division of the National Court Register as of 16 September 2014.

- **CHOICE OF THE CURRENT AUDITOR**

The Supervisory Board of the Company adopted a resolution regarding the selection of PricewaterhouseCoopers Sp. z o.o., Al. Armii Ludowej 14, entered into the list of entities authorized to audit financial statements under the number 144, for the certified auditor entitled to:

- examination of the consolidated financial statements of CPD S.A. for the financial year ended December 31, 2017,
- examination of the separate financial statements of CPD S.A. for the financial year ended December 31, 2017,
- review of the interim consolidated financial statements of CPD S.A. on June 30, 2017,
- review of the interim separate financial statements of CPD S.A. on June 30, 2017.

Agreement with PricewaterhouseCoopers Sp. z o.o. was concluded for the period necessary to perform the works indicated therein.

- **RECEIPT OF REPLACEMENT STATEMENTS OF SERIES A FOR SERIES G SERIES**

On June 13, 2017, the Company received from two bondholders series A bonds convertible into series G shares issued by CPD S.A. On September 26, 2014, a statement on the conversion of the Bonds, ie 20 convertible bonds into Series G shares of the Company, i.e. 1,198.100 series G shares of the Company.

The conversion price (issue price) was determined in accordance with Resolution No. 3 of the Extraordinary General Meeting of the Company dated August 5, 2014 and the terms of issue of the Notes at the level indicated therein, in the amount of PLN 4.38 per Share.

Rights from series G shares arose upon the registration of shares on securities accounts of authorized persons.

The company was to submit relevant applications to the National Depository for Securities S.A. and to the S.A. Warsaw Stock Exchange. in order to register Series G Shares and their introduction to trading on the regulated market.

In exchange for 20 convertible bonds for series G shares of the Company, the Company was to issue to authorized persons a total of 1,198.100 series G shares of the Company.

After the share capital increase, which took place at the moment of issue of the shares, i.e. upon the entry of shares on authorized persons' securities accounts, the structure of the Company's share capital will look as follows: after the conversion of the Bonds into shares, the share capital of the Company was to amount to PLN 3,935,402.30 and had be divided into 39,354,523 shares with a nominal value of PLN 0.10 each, giving a total of 39,354,023 votes at the general meeting of the Company, including:

a) 32.335.858 ordinary series B bearer shares,

b) 163,214 ordinary bearer shares of the Company, C series,

c) 76,022 ordinary bearer shares of the D series,

d) 88,776 ordinary series E bearer shares,

e) 19.3333 ordinary series F bearer shares

f) 6,490,820 ordinary series G bearer shares.

Series G shares issued to persons entitled in exchange for the Bonds on which the right to convert them to shares were exercised were to constitute a total of 16.49% in the Company's share capital and were to entitle to 6,490,820 votes at the General Meeting of the Company, which would total 16 , 49% of the total number of votes at the general meeting of the Company.

All bonds convertible into shares issued by the Company on 26 September 2014 in accordance with the resolution No. 3 of the Extraordinary General Meeting of the Company of August 5, 2014 were converted into shares.

- **CONCLUSION OF THE AGREEMENT FOR SALE OF RIGHTS AND OBLIGATIONS OF KOMPLEMENTARIUS AND KOMANDYTARIUS IN THE SUBSIDIARY**

On June 28, 2017, the Issuer's subsidiaries, ie Gaston Investments sp. z o.o., as a general partner and Challange Eighteen sp. z o.o., as a limited partner, entered into a promised agreement for the sale of all the rights and obligations of the limited partner and general partner in the company 11/162 Gaston Investments spółka z ograniczoną odpowiedzialnością sp.k..

The value of the transaction was PLN 15.5 million.

11/162 Gaston Investments sp. z o.o. sp.k. has the right to perpetual usufruct of real estate located in the Warsaw - Ursus district at Posag 7 Panien street.

As a result of the transaction, neither the Issuer nor its subsidiaries have rights and obligations in 11/162 Gaston Investments sp. z o.o.

- **CONCLUSION OF THE CONTRACT FOR THE EXECUTION OF CONSTRUCTION WORKS BY A SUBSIDIARY**

On June 29, 2017, an agreement was signed for the execution of construction works under the general contracting system under the URSA PARK project, between 4/113 Gaston Investments sp. z o.o. sp. k. The investment is a joint construction project involving the implementation jointly with Unidevelopment S.A. complex of multi-family buildings with services and accompanying infrastructure.

At the same time, due to the lack of the need to obtain the consent of the President of the Office of Competition and Consumer Protection for the entry by Unidevelopment S.A. as a partner to 4/113 Gaston Investments sp. z o.o. sp. k. for the needs of the Investment. The subject of the contract is the implementation of the Investment, i.e. the construction of a housing estate comprising 3 residential buildings with an underground garage and land development. The works will be carried out in two stages, with the implementation of the first stage involving the execution of two residential buildings with an underground garage commissioned under the Agreement. In the 7-storey buildings under this stage there will be a total of 189 flats and 10 service premises and 236 parking spaces.

4/133 Gaston may at any time, but no later than 2 months before the planned commencement of construction works, decide on the implementation of the second stage of the investment by notifying UNIBEP S.A. in writing.

The commencement of the first stage is planned for the third quarter of 2017 and the completion for the fourth quarter of 2018. The completion date of construction works comprising the second stage is set for 16 months from the date of their commencement.

The remuneration for the implementation of the first stage is approximately PLN 40.2 million net. However, the remuneration for the implementation of the second stage, in the case of commissioning its implementation by the Employer, was set at approximately PLN 33.4 million net.

The contract provides for the possibility of charging UNIBEP S.A. contractual penalties due to delays in the performance of the Agreement as well as withdrawal from the Agreement by 14/119 Gaston Investments on the terms specified in the Agreement, with the penalty being calculated independently. The reservation of contractual penalties does not deprive 4/113 of the right to claim damages transferring the value of contractual penalties to the value of total damage on general principles.

The remaining provisions of the Agreement, including the possibility of withdrawal from it, do not differ from the standards commonly applicable to this type of contracts.

- **NOTIFICATION OF PREVIOUS LIABILITY FOR B SERIES B CPD S.A.**

On June 29, 2017, a resolution of the Company's Management Board was adopted regarding the early redemption of Series B bonds at the request of the Issuer.

Pursuant to the Resolution, the Company redeemed all B series bearer bonds, i.e. 30,000 (thirty thousand) shares with a par value of PLN 1,000 (one thousand) each. Earlier Redemption was carried out in the mode and on the terms provided for in point 11.4 of the Terms of Issue of Series B Ordinary Bearer Notes.

The date of Early Redemption was determined in accordance with 11.5 of the Terms of Issue, ie on July 13, 2017.

In connection with the Early Redemption, the holders of the Bonds were entitled to the following benefits from each of the Bonds:

a) cash benefit consisting in payment of the Early Redemption Amount in accordance with the Issue Terms, ie the amount constituting the product of the number of Senior Obligated Bonds and their nominal value increased by due and unpaid interest on the Bonds;

b) cash benefit consisting in payment of a premium equal to 0.5% of the nominal value of the Bonds and each full half-year (calculated as 182 days) remaining until the original redemption date, i.e. until January 13, 2019.

The bonds are recorded in the records kept by Dom Maklerski Bank Ochrony Środowiska Spółka Akcyjna with its registered office in Warsaw. Earlier Buy-out was carried out through DM BOŚ.

Earlier Buyout was effected by transferring funds to the securities account of the Bond holder through DM BOŚ and the entity maintaining the account.

- **EARLIER EDEMPTION OF B SERIES BONDS**

On 13 July 2017, the Issuer through the intermediary of Bank Ochrony Środowiska S.A. with its registered office in Warsaw, made an earlier redemption of all series B bearer bonds, i.e. 30,000 (thirty thousand) shares with a par value of 1,000 (one thousand) zlotys each.

The bonds were bought (purchased) on the basis of item 11.4 of the terms of the Bond issue, for the purpose of redemption, which results from the realization of the right of early redemption on the Issuer's request under the relevant provisions of the Emission Terms.

The average unit purchase price of one Bond is PLN 1,060.13, which is PLN 1,000.00. paid by way of nominal value, PLN 15.00 paid as premiums and PLN 45.13 paid by way of interest payment in accordance with clause 11.4 of the terms of the Bond issue.

- **CONCLUSION OF THE AGREEMENT FOR SALE OF RIGHTS AND OBLIGATIONS OF KOMPLEMENTARIUS AND KOMANDYTARIUS IN THE SUBSIDIARY**

On 26 July 2017, the Issuer's subsidiaries, ie Gaston Investments sp. Z o. o., as a general partner and Challange Eighteen sp. z o.o., as a limited partner, concluded a promised agreement for the sale of the general rights and obligations of a limited partner and general partner in the company 14/119 Gaston Investments sp. z o. o. with headquarters in Warsaw.

The value of the transaction was PLN 5 million.

As a result of the transaction, neither the Issuer nor its subsidiaries have any rights or obligations in 14/119 Gaston Investments spółka z ograniczoną odpowiedzialnością sp.k.

- **CONDITIONAL REGISTRATION OF THE SHARES IN DEPOSITORY CONDUCTED BY KDPW S.A.**

July 28, 2017, the CPD SA Management Board obtained information about the resolution adopted by the Management Board of the National Depository for Securities No. 492/17 of 27 July 2017, issued on the basis of § 2 sections 1 and 4 and § 40 subpara. 2.3a and 4a of the Rules of the National Depository for Securities, after examining the Company's application regarding the registration of 1,188,100 (one million one hundred and ninety eight thousand one hundred) series G ordinary bearer shares with a nominal value of PLN 0.10 each, issued as part of the conditional capital increase based on resolution 3 of the Extraordinary General Meeting of the Company of August 5, 2014 and marking them with the PLCELPD00013 code, provided that the company running the regulated market makes the decision to introduce these shares to trading on the same regulated market, for which other shares of the Company have been entered. PLCELPD00013 code.

Registration of ordinary bearer series G CPD S.A. occurred within three days of receipt by KDPW of documents confirming the decision by the company operating the regulated market to introduce these shares to trading on the aforementioned regulated market, however, not earlier than on the date indicated in this decision as the day of introducing these shares to trading on this regulated market.

- **SUBMITTING A REQUEST FOR ENTERING G-SERIES SHARES TO TRADING ON THE WSE**

The company submitted an application for the introduction of series G shares to trading on the Warsaw Stock Exchange.

The total number of series G ordinary bearer shares with a nominal value of PLN 0.10 each covered by the application, which was to be introduced to exchange trading following registration, is: PLN 1,198,100 (one million one hundred and ninety eight thousand one hundred).

The total number of shares that is on the stock exchange after the introduction of the shares covered by the application is: 39,354,023 (in words: thirty-nine million, three hundred and fifty-four thousand and twenty-three).

The proposed date of placing on the market was 7 August 2017.

- **ANNEX TO THE CONDITIONAL AGREEMENT CONCLUDED BY CPD S.A. AND ITS SUBSIDIARIES**

CPD SA Management Board informs about signing the Annex to the Investment Agreement.

Pursuant to the aforementioned Annex, it was confirmed that the consent of the President of the Office of Competition and Consumer Protection for the entry by Unidevelopment S.A. to 4/113

Gaston Investments spółka z ograniczoną odpowiedzialnością sp.k. and implementation of the joint venture with the capital group CPD S.A.

Having the above in mind, August 2, 2017 Unidevelopment S.A. she joined the limited partnership, in which Unidevelopment S.A. has a 50% share in profits, and the Investment Agreement has come into force as of that date.

In addition, the Company announced that on August 2, 2017, Gaston Investments sp. Z o.o. sold the general rights and obligations of the general partner in 4/113 Gaston Investments spółka z ograniczoną odpowiedzialnością sp. k. to Smart City sp. z o.o., joined the limited partnership as a general partner, and thereby changed the name of the limited partnership into Ursa Park Smart City limited liability company spółka komandytowa.

- **CONCLUSION OF THE CONTRACTED SALES AGREEMENT BY THE SUBSIDIARY OF THE ISSUER**

On August 2, 2017, the Issuer's subsidiary, ie Buffy Holdings no. 1 Ltd. with its registered office in Nicosia, Cyprus and Dobalin Trading & Investments Ltd with its registered office in Nicosia, Cyprus, entered into the promised agreement to sell 100% shares in Bolzanus Limited with its registered office in Limassol in Cyprus.

The acquired company has the right to perpetual usufruct of the real estate, consisting of plot no. 119, no. registry number 2-09-09, with an area of 22,394 m2 and located near ul. Gierdziejewski in Warsaw (Warsaw - Ursus district). According to the provisions of the Local Spatial Development Plan, the real estate is intended for the majority of services and education as well as multi-family housing.

The transaction value was PLN 4,620,000 (four million six hundred and twenty thousand zlotys).

As a result of the transaction, the structure of the Issuer has changed.

- **PERMISSION AND INTRODUCTION OF THE G SERIES G-SERIES SHARES**

The Management Board of the Warsaw Stock Exchange SA adopted resolution no. 905/2017 on August 3, 2017 regarding the admission and introduction to exchange trading on the WSE Main List of 1,198.100 ordinary bearer series G CPD S.A. with a nominal value of PLN 0.10 each.

The Management Board of the WSE decided to introduce, as of 7 August 2017, ordinary shares for public trading on the parallel market, provided that the National Depository for Securities SA. on August 7, 2017, register these shares and mark them with the code PLCELPD00013.

- **THE COMMUNICATION OF NATIONAL DEPOSITS ON SECURITIES ON THE REGISTRATION OF SERIES G SERIES**

On August 4, 2017, the Issuer's office received the Statement of the Operational Department of the National Depository for Securities stating that according to the resolution of the KDPW Management Board No. 492/17 of 27 July 2017, on August 7, 2017, the National Depository will register 1.198. 100 ordinary bearer shares of the G series of the Company marked with the ISIN code: PLCELPD00013.

- **REGISTRATION OF G-SERIES SHARES ON SECURITIES ACCOUNTS AND INCREASE OF SHARE CAPITAL**

On 8 August 2017, the share capital of the Company was increased as a result of the registration of the last part of series G shares of the Company on the accounts of authorized persons and the creation of rights from these shares pursuant to art. 452 of the Code of Commercial Companies.

In connection with the above, the share capital of CPD S.A. was increased by PLN 119.810.00 up to PLN 3,935.402.30 (in words: three million nine hundred and thirty five thousand four hundred and two zlotys and thirty groszys). Increased share capital of CPD S.A. is divided into 39,354,023 (thirty-nine million, three hundred and fifty-four thousand, twenty-three) shares with a nominal value of PLN 0.10 (ten groszy) each, representing 100% of votes at the General Meeting of the Company.

Series G shares were issued as a result of the exercise of rights from series A convertible bonds issued on the basis of Resolution No. 3 of the Extraordinary General Meeting of CPD S.A. on August 5, 2014, as part of the conditional increase in the share capital of the Company, which was registered by the District Court for the Capital City of Warsaw in Warsaw, 13th Commercial Division of the National Court Register as of 16 September 2014.

- **REGISTRATION OF INCREASE CAPITAL CAPITAL**

CPD SA Management Board He informed that he had received the decision of the District Court for the Capital City of Warsaw in Warsaw, 13th Commercial Division of the National Court Register of 5 October 2017 on the entry of an increase in the share capital of the Company.

The share capital of the Company was increased from PLN 3,266,320.30 to PLN 3,935.402.30. The share capital was increased through the conversion of 110 series A bonds into 6,490,820 ordinary series G bearer shares with a nominal value of PLN 0.10 (ten groszy) each share.

After registering the increase, the share capital of the Company amounts to PLN 3.935.402.30 and is divided into 39,354,023 ordinary bearer shares with a nominal value of PLN 0.10 (ten groszy) each, entitling to 39,354,023 votes at the general meeting of the Company.

- **PURCHASE OF OWN SHARES FOR BUILDING**

CPD SA Management Board On October 26, 2017, he announced that, as a result of the settlement of the transaction for the acquisition of CPD S.A. as a result of the invitation to submit bids for the sale of the Company's shares, which was adjusted on October 3, 2017. The company purchased through the brokerage house Pekao Investment Banking S.A. with its registered office in Warsaw, 1,417,792 shares of the Company. The total number of shares of CPD S.A. within the framework of Share Sale Offers, it amounted to 13,833,996. Since the sale offers were for a larger number of shares than the 1,400,792 shares proposed by the Company, each Share Sale Offer was partially implemented - the reduction of offers was carried out in accordance with the principles described in the Invitation.

The shares were purchased in accordance with the Resolution No. 18 of the Ordinary General Meeting of CPD of May 10, 2017 regarding the purchase of the Company's shares for redemption, which was amended by Resolution No. 3 of the Extraordinary General Meeting of CPD S.A. of June 7, 2017 amending the resolution No. 18 of the Ordinary General Meeting of May 10, 2017 regarding the purchase of the company's shares for redemption pursuant to art. 362 § 1 point 5) k.s.h. for redemption.

The purchase price for one share was PLN 12.27 (average unit purchase price).

All purchased shares are ordinary shares with a nominal value of PLN 0.10 each. Acquired CPD shares S.A. (in a number of 1,417,792 shares) constitute 3.56% of the share capital of the Company and represent 1,495,792 votes at the General Meeting of the Company (3.56% of the total number of votes at the General Meeting of the Company), however, in accordance with the applicable regulations, the Company is not entitled to exercise voting rights from own shares.

Apart from the above, the Company has no own shares.

- **INFORMATION ABOUT TRANSACTIONS ARE OBTAINED IN ARTICLE 19 MAR**

CPD SA Management Board November 2, 2017 reported that the Company received from:

1. Laxey Investors_notification MAR ART. 19

2. Laxey Partners_notification MAR art. 19

3. LP Value_ notification MAR art. 19

4. LPALP_notification MAR Article 19

5. LUV_notification MAR art. 19

6. VCF_notification MAR Article 19

7. CPD notification MAR art. 19 ie entities closely related to persons discharging managerial responsibilities at CPD S.A., notifications of transactions regarding purchase of own shares for redemption, concluded on October 26, 2017, referred to in Art. 19 para. 3 of the MAR Regulation.

- **BEGINNING THE SECOND STEP OF URSA PARK INVESTMENT**

CPD SA Management Board November 14, 2017, he informed that under a contract for the execution of construction works in the general contracting system concluded between Ursa Park Smart City, a limited liability company sp.k. (previous name 4/113 Gaston Investments spółka z ograniczoną odpowiedzialnością sp.k.) as the ordering party and UNIBEP S.A., the ordering party has decided to implement the second stage of the investment by notifying UNIBEP S.A. in writing.

The commencement of the second stage is planned for the first quarter of 2018 and completion for the third quarter of 2019.

The remuneration for the implementation of the second stage was set at approx. PLN 33.4 million net.

- **RECOMMENDATION OF THE AUDIT COMMITTEE**

November 23, 2017. The Supervisory Board of the Company, acting pursuant to art. 128 and 129 of the Act of May 11, 2017 on statutory auditors, auditing companies and public supervision (Journal of Laws of 2017, item 1089), appointed the Audit Committee composed of:

Mr. Wiesław Oleś - Chairman of the Audit Committee (independent member)

Mr. Mirosław Gronicki - member of the Audit Committee (independent member)

Mr. Andrew Pegge - a member of the Audit Committee

Until now, the tasks of the Audit Committee, pursuant to art. 128 para. 4 point 4) of the Act on statutory auditors, auditing companies and public supervision, was fulfilled by the Supervisory Board.

The Audit Committee in the indicated composition meets the independence criteria and other requirements specified in art. 129 par. 1.3.5 and 6 of the Act on statutory auditors, auditing companies and public supervision, i.e .:

a) at least one member of the Audit Committee possesses knowledge and skills in the scope of accounting or auditing of financial statements,

b) at least one member of the Audit Committee possesses knowledge and skills in the field of the Company's industry,

c) the majority of the Audit Committee members, including its chairman, are independent of the Company.

According to the detailed rule II.Z.8 of the "Best Practices of Companies Listed on the Warsaw Stock Exchange 2016", the chairman of the Audit Committee meets the independence criteria.

- **BEGINNING THE CROSS-BORDER PROCEDURE**

On 13 December 2017, the Company decided to start the procedure of cross-border merger of the Company with the company Buffy Holdings no. 1 Limites with its registered office in Nicosia, Cyprus, a limited liability company established under Cypriot law, address: Lemesou 67, Vision Tower, 2121 Aglantzia, Nicosia, Cyprus, entered into the register of companies kept by the Ministry of Energy, Trade, Industry and Tourism of the Republic of Cyprus under registration number HE 166076.

Buffy Holdings no. 1 Limites after the sale of Bolzanus does not have significant assets on Cyprus, and also extinguished the investment activity out there. An alternative to combining both companies would be liquidation. However, it is a time-consuming process (the strike-off procedure in Cyprus takes 9 months). In the opinion of the Management Board, arguments can be gathered for the existence of a business justification for the merger, and therefore for the transaction to be tax-neutral.

I. The manner of the planned merger with an indication of its legal basis:

The merger will take place through the takeover of the company BUFFY by the taking-over company in the mode specified in art. 492 § 1 point 1) k.s.h. and the definition of the word "connection" in Section 201I (c) of the Cypriot Law Companies Act, Cap. 113 with later d., i.e. by transferring all assets of the Acquired Company to the Acquirer. Due to the fact that CPD is the only shareholder of BUFFY holding 100% of shares in the share capital of BUFFY, in accordance with art. 14 section 5 of Directive 2005/56 / EC of the European Parliament and of the Council of October 26, 2005 on cross-border mergers of limited liability companies ("the Directive"), art. 51614 KSH and art. 515 in conjunction from art. 5161 Commercial Companies Code and Section 201U (5) (a) of the Companies Act, Cap. 113 the merger will be carried out without increasing the share capital of CPD, and CPD will not be issued as the only shareholder of BUFFY. In connection with the above, the merger will be carried out in a simplified procedure referred to in art. 15 para. 1 of the Directive; Art. 51615 § 1 and 2 of the Code of Commercial Companies; section 201V (1) of the Companies Act, Cap. 113.

II. Basic characteristics of the activities of entities taking part in the merger:

The core business of the Acquiring Company is the activity of financial holdings, implementation of construction projects related to construction of buildings, demolition and demolition of construction works, preparation of land for construction, other financial service activities, not classified elsewhere, excluding insurance and pension funds; rental and management of own or leased real estate, real estate brokerage, other business and management consulting, architectural activities, other technical research and analysis.

The main business of the Acquired Company is holding activity.

III. Justification for the decision on the intention to merge and information on long-term objectives to be achieved as a result of the actions taken:

The merger is part of the strategy adopted in the CPD group aimed at creating a transparent and transparent group structure, clearly separating the various activities carried out within the group, as well as simplifying the entire structure by replacing a four-level structure with a two- or three-level structure. The above will also allow for significant reduction of management and service costs of individual entities within the group.

The optimization of the group structure will be carried out by simplifying it, which will allow the centralization of tasks and functions performed, thus leading to streamlining the management process within the group. It will also have a positive impact on the ability to control projects implemented by the company.

The merger will also lead to improvement of the economic and financial condition of the consolidated entity, impossible to achieve while maintaining the existing structure of companies. It will contribute to the elimination of additional costs of conducting separate financial audit reports and will eliminate the need to translate documents exchanged between companies. The reduction of costs related to the merger will create the possibility of using the funds raised in this way for further development of the Acquiring Company, significantly increasing its market potential.

The detailed terms and conditions of the merger will be determined as a result of work and analyzes undertaken in the course of talks conducted by the Management Boards of the Acquiring Company and the Acquired Company to agree on the merger plan, which the Company will inform in accordance with the law requirements through further current reports.

- **RESIGNATION OF THE BOARD MEMBER**

December 22, 2017 Management Board of CPD S.A. he received the resignation of a Member of the Board from his function.

Mr Waldemar Majewski, who was previously a Member of the Management Board of the Company, resigned from the function, with effect as at the end of December 31, 2017.

Waldemar Majewski did not give reasons for resignation.

Following the above resignation, four persons remain in the composition of the Company's Management Board, which ensures proper representation and management of the Company's affairs, in accordance with the provisions of the Company's Articles of Association.

- **SIGNIFICATION AND SHARING OF THE CROSS-BORDER CABLING PLAN S.A. AND BUFFY HOLDINGS NO. 1 LIMITED**

On December 22, 2017, a plan to merge CPD with BUFFY was agreed and signed.

The merger plan is available to the public on the Company's website at http://www.cpdsa.pl/ in the News tab.

8. ASSESSMENT OF INVESTMENT POSSIBILITIES AND PROJECT OPPORTUNITIES

The CPD Group, realizing development projects, finances them with the use of own funds, debt securities and bank loans. In the future, the Group assumes the implementation of projects through subsidiaries or jointly controlled entities, and the financing of these construction and investment projects (targeted loans) would be obtained directly by these companies or through CPD S.A.

The value of the properties owned by the Group, including investment properties, investment properties for sale and inventories at the end of 2017 amounted to PLN 545.7 million compared to PLN 578.2 million as at the end of 2016. Real estate valuation as at the end of 2017, similar to the year the previous ones were carried out by an independent appraiser - Savills Polska Sp. z o.o.

The table below presents a list of properties belonging to the Group as at 31 December 2017.

		Type	Plot Area	Building Area – leasing, sale (sqm)	Valuation 31.12.2017 (mln PLN)	Financial value of properties for 31.12.2016 (mln PLN)
Investments properties				369 995	471,72	558,71
1	URSUS	Residential / office / retail	26,52 ha	344 841	282,84	368,65
2	SOLAR	offices	3 908 m kw	5 749	26,86	31,68
3	IRIS	offices	7 449 m kw	14 200	103,02	104,85
4	AQUARIUS	offices	15 480 m kw	5 205	24,07	25,39
5	WOLBÓRZ	logistic	10 ha	-	1,90	2,00
	Capitalized payments for perpetual usufruct of land			-	33,03	26,14
Properties for sale (Ursus)		Mieszkania /usługi	6,33ha	98 490	68,54	14,08
Zapasy (po wartości godziwej)				18 567	5,42	5,47
6	ŁÓDŹ	Residential / office / retail	1 457 m kw	3 506	2,45	2,81
7	KOSZYKOWA	Residential	744 m kw	454	1,34	0,82
8	CZOSNÓW	Agricultural sites / Building sites	15,2 ha	nd	0,48	0,50
9	JAKTORÓW	Agricultural sites	2,0 ha	nd	0,22	0,24
10	NOWA PIASECZNICA	Building sites	5 639 m kw	nd	0,18	0,17
11	ALSONEMEDI (Węgry)	warehouses /offices	42 495 m kw	14 607	0,74	0,91
PORTFOLIO IN TOTAL					545,7	578,2

- **URSUS**

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

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

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

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

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

The completed complex in the first phase consists of 4 multi-family residential buildings, offering predominantly apartments with areas ranging from 40 to 80 sq m. along with commercial premises located on the ground floor and small architecture. The offer of residential premises was addressed primarily to young, working people and families looking for their first apartment in the Warsaw agglomeration.

The sales of the first and second phase of the venture were commenced respectively in December 2015 and in April 2016. At the date of this document, 100% of residential investment was sold. Debt financing for the first and second phase from BZ WBK bank has been fully repaid. In 2017, a contribution of PLN 18 million to the company from the CPD Group was returned and Unityvelopment SA received the own contribution in Smart City Sp. z o.o. Sp.k. in the amount of PLN 11 million. In addition, in 2017, the partners of Smart City Sp. z o.o. Sp.k. paid the investment profit in the total amount of PLN 15 million (the profit was split by half for each party, i.e. companies from the CPD Group received PLN 7.5 million, Unidevelopment also received PLN 7.5 million).

The completion of the project, ie the payment of income from the investment is planned for the end of 2018.

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

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

The implemented complex I Phase II Eatpu is a complex of 3 residential buildings, of a multi-family nature with a component of services located on the ground floor of the designed facilities. Projket offers predominantly apartments with areas ranging from 40 - 80 m2. The offer of residential premises is addressed primarily to young, working people and families looking for their first apartment in the Warsaw agglomeration. Phase II of the Stage is divided into two tasks. The sale of apartments in the 1st Task Phase of Stage II was launched in May 2017. At the date of this document, 99% of apartments offered in this Task were sold. The sale of apartments in the 2nd Task Phase of Stage II was launched in December 2017. As at the date of this document, over 89% of the apartments offered in this Task were sold.

Along with residential buildings, city park will be occurred offering a place to relax and spend time together. Park will connect recreational part of area to adjacent area to Culture Center Arsus and

School of Social and Educational Society. It will create unique space offering comprehensive solutions for residents who will decide to reside II Stage of Smart City. The creation of urban fabric consists of residential, service park and education function.

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

In the complexity of revitalization of investment areas in Ursus, an announcement is made in October 2016 by the authorities of the Ursus district to start public investment in the form of an educational compilation consisting of a kindergarten and a school together with a sports hall. The investment will be started from the construction of a kindergarten facility for 150 children. The transfer of the facility is planned for 2019. The educational project will be carried out at ul. Hennel, on the terans, which were transferred by CPD SA. in the form of a donation to the capital city as a continuation of social responsibility and the need to actively participate in the creation of public urban space. The transfer of land for the district's public investments has a positive effect on the synchronized and sustainable launching of multifunctional urban investments in the above areas and at the same time will be an extremely important impulse for the economic development of the whole district.

In addition, in previous years, the Group appropriately forwarded to the State Treasury road plots, which plots in accordance with the draft zoning plan have been allocated for the construction of four-lane road arteries without collision connecting the areas revitalized with Al. Jerozolimskie through the construction of ul. June 4, 1989 and with ul. Połczyńska thanks to the construction of ul. Nowomory. The Management Board of City Road Investments in 2013 successfully completed and handed over both road arteries. Construction of ul. June 4, 1989 and ul. Nowomory is one of the most important elements of revitalization of investment areas by including revitalized areas into a homogeneous network of urban roads thanks to fast and collision-free road connections.

Another element of ordering the areas was the revitalization of selling an organized part of the enterprise under the name of Energetyka Ursus sp. O.o. and its infrastructures, respectively Innogy Warszwa, Veolia Warsaw and Woda Polska. The above sale contributed to the inactivation of the local heating plant in May 2016, which was carried out by Energetyka Ursus sp. O.o. in liquidation bankruptcy and regulation of the principles of using heating, energy and water infrastructure in the areas belonging to the CPD Capital Group, hitherto used by Energetyka Ursus sp. o.o. As a result of the above actions, the harmnonogram of gradual release of investment trains belonging to the CPD Capital Group in a part of the energy used by Energetyka Ursus sp. z o. o.

At the same time, the above activities resulted in the connection of this network to the Warsaw-wide district heating network and the Warsaw-wide general power grid, and ensured the modernization of the above technical infrastructure by the above entities at their expense.

The supplier of thermal energy in Ursus, including investment areas owned by the CPD SA Capital Group, is Veolia Energia Warszawa S.A. and Innogy Warsaw S.A.

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

The IRIS building, which is the final stage of the office and residential project located at the corner of Cybernetyki and Postępu streets in Warsaw's Mokotów district. It is a six-storey office building with the total lease area of circa 14.2 k sqm together with 233 parking spaces. For the 31 December 2017, the building is fully let. The project at the corner of Cybernetyki and Postępu streets is composed of Cybernetyki Office Park (Helion, Luminar, Solar and Iris buildings) and Mokotów Plaza office complexes, as well as Mozaika residential complex. The Group has constructed and sold 3 buildings in Cybernetyki Office Park to date: Helion, Luminar and Mokotów Plaza.

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

  The eight storey B+ class office building of 5,749 sqm of was built in 1998 and refurbished by the Group in 2008. The building is currently leased to renowned companies. On 31 December 2017, the building was leased in 70,4 %.

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

  The Aquarius Office Park consists of a five storey B class office building of 5,205 sqm, an investment site with a valid building permit for the construction of an A class office building of ca 2,500 sqm as well as an investment site of approx. 10,000 sqm intended for the construction of an office and warehouse complex. On 31 December 2017, the building was leased in 85,7 %.

- **WOLBÓRZ, MAZOWIECKIE VOIVODSHIP**

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

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

- **18 LEGIONÓW STREET, ŁÓDŹ**

  The real estate in Łódź is the building with total area of 3,506 sqm on a plot of 0.1457 ha, located on 18 Legionów street, in the vicinity of Piotrkowska street. The building was intended for sale which was completed in January 2018.

- **KOSZYKOWA 69**

  The real estate at Koszykowa 69 includes a four-storey row house (Ludwik Szanser's row house) and the outbuilding. The building was renovated and extended by Celtic Group, offering 14 apartments and commercial areas which were sold in 2011. As of 31 December 2017 Group's investment properties portfolio still included the outbuilding. The Group is currently taking actions to relocate the present lessees of the outbuilding and to commence renewal of this part of the row house.

- **CZOSNÓW**

  The land in Czosnów has been purchased by the Group as part of the acquisition of 100% shares in Antigo Investments Sp. z o.o. The land in Czosnów has a total area of 15.2 hectares, the most part of which is agricultural land.

- **JAKTORÓW**

  The land in Jaktorów of the area of 3.2 ha has been purchased by the Group as part of the acquisition of 100% shares in Antigo Investments Sp. z o.o. As of the day of publication hereof, there were still 20.4 k m^2 for sales.

- **NOWA PIASECZNICA**

  The land in Nowa Piasecznica has been purchased by the Group as part of the acquisition of 100% shares in Antigo Investments Sp. z o.o. The land in Nowa Piasecznica had a total area of 1.5 ha. As of the day of publication hereof, there were still 6.2 k m^2 for sales.

- **ALSONEMEDI, HUNGARY**

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

9. FACTORS AND UNUSUAL EVENTS AFFECTING GROUP FINANCIAL RESULTS

In the Management Board’s opinion, in the year 2017 there were no unusual events which affect the Group results.

10. FACTORS IMPORTANT FOR FURTHER GROUP DEVELOPMENT

- **MACROECONOMIC SITUATION IN POLAND**

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

In 2017, Poland's GDP growth amounted to 4.6%, which is clearly more than in 2016. For comparison, in 2016, the Polish economy grew by 2.9%. According to government forecasts, the growth rate of the Polish economy in 2018 should be at the level of 3.8%, however a better result can not be ruled out. The continuation of the moderately high growth rate should positively affect the improvement of consumer moods among both working people and among entrepreneurs, and thus the increase in demand for flats and office and commercial space.

- **SITUATION ON FINANCIAL MARKETS**

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

- **BANKS’ LOAN POLICY AND ACCESS TO MORTGAGE LOANS**

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

In 2017, the reference rate of the National Bank of Poland remained at 1.50%. Maintaining the current level of interest rates in 2018 should have a positive impact on the attractiveness of mortgage loans as well as their availability, which was significantly reduced in 2013 by the introduction of the so-called Recommendation S, which establishes more restrictive rules for calculating the creditworthiness and the maximum limit of the loan amount.

As a consequence of the increase in inflation compared to 2016, an increase in interest rates should be expected in the near future. This means an increase in mortgage rates, which will have a significant negative impact on family budget loads and a decrease in the creditworthiness of the individual customer. This may result in a decrease in the demand for flats in the group of customers who buy apartments with the participation of bank financing..

- **GOVERNMENTAL POLICY SUPPORTING CONSTRUCTION INDUSTRY**

MdM program was launched on 1 January 2014. The new government assistance program is given in the form of a single payment for their contribution in the amount of 10 to 15% of the property, subject to certain limits on the surface of the housing and the price per square meter is determined according the location of the property. Just like in the Family on its own, the aid is directed to persons under 35 years of age, buying first apartment. Due to the target group of customers for the project in Ursus, a assistance program had a positive influence on the demand for housing offered by the Group CPD. As a program will be continued only to the end of 2018, the demand for offered apartments can be influenced.

- **ADMINISTRATIVE DECISIONS ON THE HELD LANDS**

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

11. OVERVIEW OF BASIC ECONOMIC AND FINANCIAL INFORMATION

Selected items of the consolidated statement of comprehensive income

		12 months period		
		From 01.01.2017 to 31.12.2017 (PLN ths.)	**From 01.01.2016 to 31.12.2016** (PLN ths.)	***Change*** *(%)*
Revenue		19 924	20 022	*-0,5%*
Cost of sales		-2 522	-2 051	*23,0%*
	Gross profit	**17 402**	**17 971**	***-3,2%***
	Administrative expenses - property related	*-6 616*	*-7 442*	*-11,1%*
	Other administrative expenses	*-8 512*	*-7 989*	*6,5%*
	Selling and marketing costs	*-622*	*-427*	*45,7%*
	Gain (loss) on disposal of investment properties	*-72*	*-2 475*	*-97,1%*
	Other income	*223*	*3 010*	*-92,6%*
	Gain (loss) on revaluation of investment properties	*7 761*	*4 722*	*64,4%*
	Gain (loss) on disposal of subsidiaries	*7 613*	*-148*	*-5243,9%*

	Post-tax share of the profit or loss of the joint-venture accounted for using the equity method	*7 631*	*3 680*	*107,4%*
	Profit/loss from operations	**24 808**	**10 902**	***127,6%***
	Finance income	7 966	8 146	*-2,2%*
	Finance costs	-14 415	-16 575	*-13,0%*
	Profit/loss before tax	**18 359**	**2 473**	***642,4%***
Income tax		-16 121	-6 329	*154,7%*
	Profit/loss for the period	**2 238**	**-3 856**	***-158,0%***
	Earnings per share (PLN)	0,06	-0,12	*-151,0%*
	Diluted earnings per share (PLN)	0,06	-0,17	*-133,8%*

Description of financial results for the period of 12 months from January 1, 2017 to December 31, 2017.

In 2017, the CPD Group recorded an improvement in the net result by PLN 6.1 million compared to 2016. One of the main factors having a positive impact on the Group's result in 2017 was, first of all, the share in the profit of joint ventures in the amount of PLN 7.6 million. This profit was the result of handing over the flats sold to the buyers in the Ursus district.

The generated profit on the sale of subsidiaries in the amount of PLN 7.6 million had a significant impact on the Group's result improvement as compared to the result for 2017.

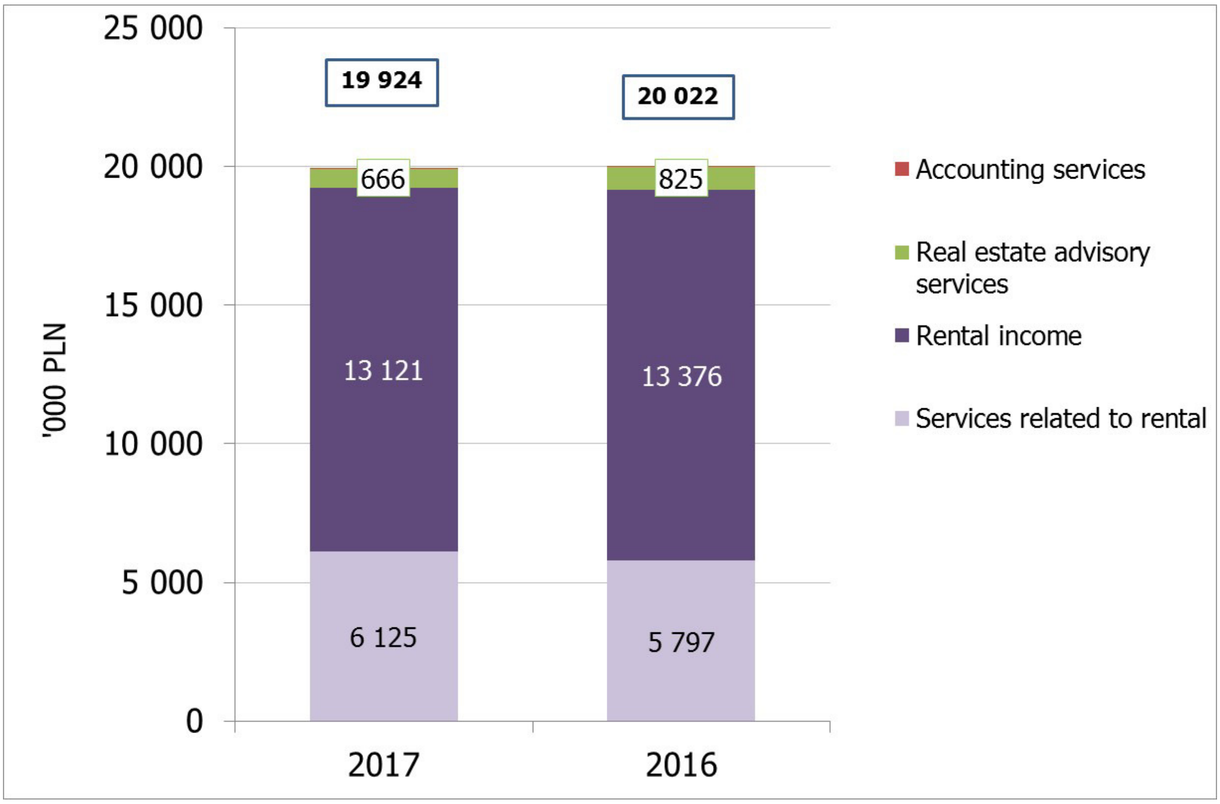
Another positive event was the positive result from the valuation of investment properties in the amount of PLN 7.8 million. With respect to the value for 12 months of 2017, the positive result from the valuation of investment properties amounted to PLN 7.8 million compared to PLN 4.7 million in the corresponding period of 2016 (an increase of 64%).

Also, a decrease in financial expenses in the amount of PLN 2.2 million (13%) contributed to a significant improvement in the net result of the CPD Group in comparison to 2016.

The CPD group also managed to reduce the administrative costs of maintaining the property by PLN 0.8 million (11%).

In 2017, the Group did not register any revenues from the sale of inventories.

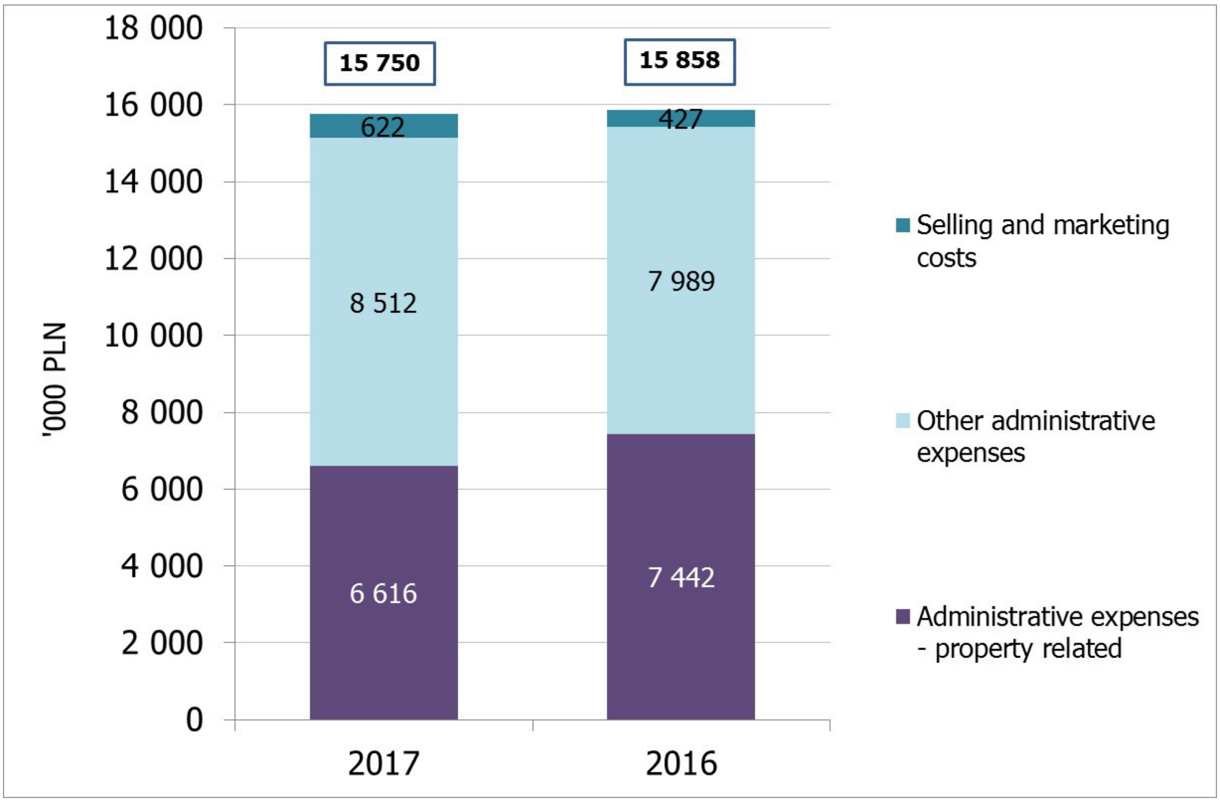
The chart below presents the structure of sales revenues in 2017 and 2016.



In turn, the main factor having a negative impact on the Group's result in 2017 was a drop in profit on sales in the amount of PLN 0.6 million (3%).

Also the increase in other administrative expenses in the amount of PLN 0.5 million (7%) had a negative impact on the results of the CPD SA Group as compared to the corresponding period of 2016. This increase was the result of the increase in the cost of consultancy services.

The chart below presents the structure of the Group's operating expenses in 2017 and 2016.



Selected items of the consolidated statement of financial position

		As at: 31.12.2017 (PLN ths.)	As at: 31.12.2016 (PLN ths.)	*Change (%)*
TOTAL ASSETS		**761 000**	**715 975**	***6,3%***
Non-current assets, including:		**536 455**	**592 502**	***-9,5%***
	Investment properties	*471 715*	*558 706*	*-15,6%*
	Investments in joint ventures accounted for using the equity method	*63 072*	*32 572*	*93,6%*
Current assets, including:		**224 545**	**123 473**	***81,9%***
	Assets held for sale	*68 539*	*14 075*	*387,0%*
	Inventory	*5 421*	*5 468*	*-0,9%*
	Trade and other receivables	*7 282*	*10 229*	*-28,8%*
	Cash and cash equivalents	*143 303*	*89 999*	*59,2%*
TOTAL EQUITY AND LIABILITIES		**761 000**	**715 975**	***6,3%***
Equity, including:		**471 719**	**446 903**	***5,6%***
	Repurchase of shares	*-17 199*	*0*	*-*
	Share capital	*3 935*	*3 286*	*19,8%*
	Reserve capital	*987*	*987*	*0%*
	Fair value of capital element at inception date	*-27 909*	*-27 909*	*0,0%*
	Translation reserve	*-5 458*	*-5 383*	*1,4%*
	Retained earnings	*517 363*	*475 922*	*8,7%*

Total liabilities, including:	**289 281**	**269 072**	***7,5%***
Non-current liabilities	*151 893*	*190 959*	*-20,5%*
Current liabilities	*137 388*	*78 113*	*75,9%*

At the end of December 2017, the value of the total assets of the Group was slightly higher than at the end of 2016 (increase by 6.3%), mainly due to the receipt of advances for the sale of plots and subsidiaries.

The value of investment property decreased primarily due to the reclassification of several plots located in the Ursus district to assets held for sale, as well as investments in joint ventures.

Noteworthy is the significant increase in the balance of cash, which was the result of receiving advance payments in 2017, including for the sale of plots and subsidiaries.

As at the end of December 2017, equity amounted to PLN 471.7 million, representing 62% of total assets of the Group, while liabilities accounted for 38% of total assets. These indicators changed slightly compared to the end of 2016 (62.4% and 37.6%, respectively).

In the 12 months of 2017, the value of liabilities increased. This was due to the receipt of payments for the sale of real estate and the recognition of deferred income tax liabilities.

The table below presents the share of individual categories of liabilities in the balance sheet total.

	31.12.2017	31.12.2016
Liabilities to total assets	**38,0%**	**37,6%**
Non-current liabilities to total assets	**20,0%**	**26,7%**
Borrowings including finance leases	14,9%	19,4%
Bonds	0,0%	4,2%
Embedded derivative	0,0%	0,0%
Deferred income tax liabilities	4,8%	2,8%
Trade and other payables	0,3%	0,3%
Current liabilities to total assets	**18,1%**	**10,9%**
Borrowings including finance leases	3,5%	1,0%
Trade and other payables	14,0%	4,9%
Payables related to assets held for sale	0,5%	0,1%
Bonds	0,0%	4,3%
Embedded derivative	0,0%	0,6%

The structure of liabilities has also changed. The share of long-term debt in the balance sheet total decreased from 26.7% at the end of December 2016 to 20% at the end of December 2017. The share of short-term debt increased from 10.9% as at December 31, 2016 to 18.1%. as at December 31, 2017,

12. RISK FACTORS AND THREATS

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

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

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

The overall macroeconomic situation of Poland, including such factors as GDP growth rate, inflation and interest rates, investment level in the economy and the level of unemployment, have a direct impact on the wealth and purchasing power of the society and on the financial standing of companies. As a result, these factors also affect the demand for products and services offered by the Company and its Capital Group and may affect their financial situation.

The growth rate of the Polish economy in 2017 amounted to 4.6% and was clearly faster than in 2016, when it amounted to 2.9%. Government forecasts for 2018 predict an increase in Polish GDP at 3.8%. If the GDP growth rate decreases, the demand for products offered by the Company and its Capital Group may fall, which may lead to a decline in residential and commercial real estate prices and negatively affect the financial condition of the Company and its Capital Group.

- **REGULATORY RISK**

In pursuing its objectives, in the current legislative situation, the CPD Group is exposed to the risk of excessive legal regulation of a specific segment of socio-economic realities limiting or changing economic freedom, the risk of insufficient regulation of a given area of socio-economic realities, leaving legal loopholes, risk of non-enforceability in practice specific legal regulations, the risk of inflation of legal acts.

- **RISK RELATED TO THE LACK OF STABILITY OF THE POLISH LEGAL AND TAX SYSTEM**

Due to frequent changes in legal regulations in Poland, the interpretations of the law and the practice of its application are also changing. Legal standards may be subject to changes in favor of entrepreneurs, but they may also have negative effects. The evolving legal provisions, as well as its different interpretations, especially with regard to tax law, standards governing business activity, labor and social insurance law or securities regulations, may have negative consequences for the Company. Changes in the interpretation of tax regulations are particularly frequent and dangerous. There is no uniformity in the practice of tax authorities and judicial decisions in the sphere of taxation. The adoption by the tax authorities of interpretations of tax law other than those applied by the Issuer may imply a deterioration of its financial situation and, as a result, negatively affect the achieved results and development prospects. Regulations regarding tax on goods and services, corporate and personal income tax, real estate tax or social security contributions are subject to frequent changes, as a result of which tax authorities treat taxpayers with inconsistency and unpredictability. Tax settlements may be subject to control by the authorities, which, if irregularities are found, are entitled to calculate tax arrears with interest. Tax declarations may be subject to control by the tax authorities for a period of five years, and some transactions carried out during this period may be questioned on the grounds of tax consequences by competent tax authorities. As a result, the amounts reported in the financial statements may change at a later date, after the final determination of their amount by the tax authorities. In order to minimize the risk described above, the Issuer monitors the changes of the law and uses professional legal assistance on an ongoing basis.

- **THE RISK OF INCREASED COSTS OF IMPLEMENTING PROJECTS IMPLEMENTED BY THE GROUP**

Implementation of development projects is a long-term undertaking. As a result, the waiting period for the first income from the sale of built premises is relatively long, as it lasts at least a several months. The Company's development projects require significant financial effort at the stage of preparation for the commencement of a given project and during its implementation. In the course of the Group's development investments, it is possible to increase investment costs, resulting from the specificity of the construction process, including the fact that: (i) the construction works are carried out over a relatively long period, during which the prices of building materials may change employment of qualified employees, (ii) the execution of construction works depends largely on the prevailing weather conditions, which, when they are unfavorable, may lead to delays in the project implementation and the need to bear the costs of securing the construction while the works are not carried out, (iii) land conditions of real estate for development projects may require additional capital expenditures and (iv) faulty construction materials must be replaced with proper materials of adequate quality. In addition, other factors that may cause an increase in investment costs include, among others: inflation, labor costs, increase in taxes and other public law liabilities, changes in legal regulations or government policy, and an increase in financing costs.

- **RISK RELATED TO COLLATERALS ESTABLISHED ON THE GROUP'S ASSETS**

The company has entered into loan agreements, the purpose of which was to obtain financing for the implemented investments. Based on the above Loans agreements The Company established a repayment guarantee for banks, including mortgages on real estate owned or utilized in perpetual usufruct of the Company. Although all loans are currently repaid in a timely manner, it can't be ruled out that in the future individual contracts may be terminated by banks due to the lack of timely repayments. As a consequence, banks would be entitled to satisfy their claims by exercising their powers related to established securities, such as, for example, taking over ownership of encumbered assets. Such a state may result in a decrease in the amount of fixed assets owned by the Group, which may have a material adverse effect on the financial position or results of the Company's operations.

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

The developer's business activity conducted by the Company and its Group requires obtaining numerous administrative decisions enabling the implementation of building projects, such as decisions on the project location, land use permits (if there is no master plan for a given area), building permits, occupancy certificates for the newly built structures, environmental decisions. The obligation to obtain the above administrative decisions entails the risk of inability to complete or delay in completing the building project implementation if the decisions are not obtained or the relevant procedures are protracted.

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

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

- **RISK RELATING TO THE COMPETITION**

The Company, while focussing on the developer activity in the housing and office sector, faces strong competition on the part of domestic and foreign developers. The competition may create obstacles for the Company in acquiring appropriate lands at attractive prices for new projects. The increasing competition might also lead to increased supply of housing and commercial real estates and, therefore, to the stagnation of, or drop in, prices of flats and lease rents. Such a situation may adversely translate into the results generated by the CPD Capital Group.

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

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

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

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

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

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

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

The concentration of the majority of property portfolio in Warsaw, including the residential project in the Ursus District, exposes the Company to a higher risk of changes in the local market and business environment than that faced by other development companies with a greater geographical diversification of their property portfolio. The Group also owns a real estate in Hungary. The Hungarian market is less politically and economically stable than the Polish market, so it cannot be excluded that the negative perception of the Hungarian economy by investors might affect the valuation of the real estate owned by the Group. However, given the size of the project, its negative influence, if any, on the Group's result is very limited.

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

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

- **RISK RELATING TO UNFAVOURABLE SOIL CONDITIONS**

This risk embraces unforeseen situations where, despite a detailed technical analysis of the land to be acquired, it might prove during the project implementation phase that there is some groundwater, the soil is unstable or archaeological findings or duds are discovered, contaminations, pollutions or any other unpredictable situation arises. Such situations may cause a material increase in the project costs, delay or even totally prevent its implementation, which, in turn, can affect the financial results of the CPD Group.

- **RISK RELATING TO UNFAVOURABLE WEATHER CONDITIONS**

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

- **RISK RELATING TO CHANGES IN SELLING PRICE OF FLATS AND LEASE RENT RATES**

The Company's profitability depends largely on the level of the prices of flats and on lease rent rates for office space in the cities where the Company operates or intends to operate as a developer, as well as on discount rates at which investors are willing to purchase commercial real estate. The Company is unable to guarantee that, should the prices of flats or lease rates drop, it will be able to sell apartments or offices at expected prices. If, in turn, the capitalization rates applied for commercial real estate valuation increase, the Company may be unable to sell the commercial real estate at the expected price, which may have a negative effect on the Group's business operations, financial position or its financial results.

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

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

- **RISK RELATING TO ENVIRONMENTAL RESPONSIBILITY**

The Company and other members of its Group are perpetual usufructuaries of post-industrial real estates which have been checked for hazardous substances and pollution/contamination, which, however, does not totally preclude the risk of liability under environmental regulations. In accordance with Polish law, the entities that use the land with hazardous substances or other pollution/contamination may be obliged to remediate the land or to pay penalties for contamination/pollution or to be otherwise held liable. It cannot be excluded that in the future the Company or its Group members will not be charged with the costs of remediation or monetary penalties in connection with the pollution/contamination of the environment in respect of the real estate used, which fact might adversely affect the business operations, financial position or development perspectives of the Company and its Group.

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

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

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

- **RISK RELATING TO LEASE AGREEMENTS**

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

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

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

- **RISK RELATING TO THE MANAGERIAL STAFF**

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

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

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

- **FOREIGN EXCHANGE RISK**

CPD Group's debt denominated in foreign currencies amounted to 31 December 2017 equivalent of PLN 107.1 million. In view of the above, the Company and the Group is exposed to the risk of depreciation of the zloty against the currencies in which they are incurred loans, which could adversely affect the Company's financial position. This risk is partly compensated by the fact that the settlement proceeds from the rental and sale of office projects carried out in foreign currencies.

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

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

In addition, a rise in inflation implying a rise in interest rates will mean an increase in mortgage rates. An increase in financing costs may cause a decrease in the creditworthiness of an individual customer, which in consequence may result in a decrease in the demand for apartments offered by the Company and its Capital Group.

- **RISK CONNECTED WITH THE LAUNCH OF THE PLUS FLAT PROGRAM**

In 2017, the government program, Mieszkanie Plus, covering 17 cities, began. The government plans to build flats as part of commercial REITs, and the poorest to pay rent subsidies. For this purpose, in 2019, PLN 200 million is to be allocated. The Ministry of Infrastructure and Development will deal with the project and will be subject to public consultation. The implementation of the Mieszkanie Plus program may cause a drop in demand for apartments offered by developers, including a drop in interest in CPD Group projects.

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

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

14. ORGANIZATIONAL OR CAPITAL RELATIONSHIPS

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

15. SIGNIFICANT AGREEMENTS

In the financial year 2017, the Company and other companies from the Capital Group concluded agreements which are significant agreements within the meaning of the Ordinance of the Minister of Finance of 19 February 2009 on current and periodic information provided by issuers of securities.

At the end of the roll-up period, the Company and its subsidiaries are parties to the following agreements deemed significant in the meaning of the Regulation:

- Loan agreement of Belise Investments sp. O.o. with Bank Zachodni WBK SA The contract is a significant contract due to its value as at December 31, 2017 of PLN 69 043 918 (according to the average EUR exchange rate published by the National Bank of Poland on December 31, 2017 amounting to PLN 4,1709 / EUR), which exceeds value of 10% of the equity of CPD SA on December 31, 2017;

- Loan agreement Lakia Investments sp. O.o. with mBank. The agreement is a significant contract due to its value as at 31.12.2017 amounting to PLN 21 427 366 (according to the average EUR exchange rate published by the National Bank of Poland on December 31, 2017 amounting to PLN 4,1709 / EUR);
- Loan agreement of Robin Investments sp. z o.o. with mBank. The agreement is a significant contract due to its value as at 31/12/2017 amounting to PLN 16,592,770 (at the average EUR exchange rate published by the National Bank of Poland on December 31, 2017, amounting to PLN 4,1709 / EUR);;

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

- Contract for the execution of construction works under the general contracting system as part of the URSA PARK project, between 4/113 Gaston Investments spółka z ograniczoną odpowiedzialnością sp.k. a UNIBEP S.A. The agreement is a significant contract due to its value at the date of signing, ie June 29, 2017, amounting to PLN 73.6 million, which exceeds the value of 10% of the equity of CPD S.A. December 31, 2017
- Investment agreement for a joint venture between CPD Spółka Akcyjna, Challange Eighteen spółka z ograniczoną odpowiedzialnością, 4/113 Gaston Investments spółka z ograniczoną odpowiedzialnością spółka komandytowa and Lakia Enterprise Ltd and Unibep Spółka Akcyjna and Unidevelopment Spółka Akcyjna. The agreement is a significant contract due to its value at the date of signing, ie February 22, 2017, amounting to PLN 130.8 million, which exceeds the value of 10% of CPD SA's equity. on December 31, 2017;
- Conditional agreements for the sale of the right to land properties as well as a cooperation agreement between IMES Poland sp. O.o. and 18 Gaston Investments spółka z ograniczoną odpowiedzialnością spółka komandytowa and a company from the Ronson Capital Group. The agreements are significant because of their value at the date of signing, ie January 30, 2017, amounting to PLN 82 million, which exceeds the value of 10% of the equity capital of CPD S.A. on December 31, 2017;
- Sale Agreement of rights and obligations of the general partner and limited partner in the companies 8/126 Gaston Investmenst spolka z ograniczona odpowiedzialnoscia spółka komandytowa, 9/151 Gaston Investmenst spolka z ograniczona odpowiedzialnoscia spółka komandytowa, 10/165 Gaston Investmenst spolka z ograniczona odpowiedzialnoscia spółka komandytowa, 15/167 Gaston Investmenst spółka z ograniczoną odpowiedzialnością spółka komardytowa, between Gaston Investmenst spolka z ograniczona odpowiedzialnoscia spółka komandytowa and Challange Eighteen spolka z ograniczona odpowiedzialnoscia spółka komandytowa and Robyg Praga Investment I sp. z o.o. and Robyg Construction Poland sp. z o.o. The agreement is a significant contract due to its value at the date of signing, ie February 16, 2018, amounting to PLN 82 million, which exceeds the value of 10% of the equity capital of CPD S.A. December 31, 2017

16. SIGNIFICANT TRANSACTIONS WITH RELATED PARTIES

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

17. LOAN AND BORROWING AGREEMENTS, SURETIES AND GUARANTEES

Till the date of publication of this report the liabilities under the following agreements of the Group were being performed in a timely manner:

- **GUARANTEE AGREEMENTS, DECLARATION OF SUBMISSION OF EXECUTION AND DECLARATION OF THE ESTABLISHMENT OF HYPOTHERS**

Issuer's subsidiaries: IMES Poland sp. z o.o. and 18 Gaston Investments limited liability company sp. k. 30 of January 2017 granted collateral as a result of the conclusion of conditional sales contracts concluded with legal entities that lead to the sale of land property rights located in Warsaw in the Ursus district, as well as cooperation agreements.

Collateral will be combined mortgages on the right to perpetual usufruct of owned real estate each time up to the full amount of a given payment, which the Buyer is to make to the Companies for each mortgage.

The companies also submitted to enforcement pursuant to art. 777 § 1 point 5 of the Code of Civil Procedure, as to the obligation to return the sum of money to the full amount of a given payment, which the Buyer is to make to the Companies, and each entity will submit a written statement in the form required by applicable law, including consent to enter Buyer's claims regarding the conclusion of the Promised Contract to the land and mortgage registers kept for the properties owned by them.

The total sale price of property rights and cooperation agreements has been set at a total of PLN 82 million net.

Conclusion of individual final contracts under the transaction was stipulated in stages between December 2017 and December 2019. The conclusion of final contracts depends on the fulfillment of a number of conditions precedent, mainly regarding the preparation of infrastructure and media in a manner enabling the implementation of housing projects in accordance with the adopted assumptions.

As at the balance sheet day, the Buyer made payments of PLN 66.5 million (net) plus applicable VAT on the basis of the Conditional Sales Agreements. Subsequent payments towards the agreed Total Price will be made in accordance with the schedule accepted by the Buyer and Seller in 2017-2019.

After the balance date and before the publication of the earlier report, all conditions precedent for sale by the Issuer's Subsidiaries were fulfilled: IMES Poland sp. z o.o. and 18 Gaston Investments sp. zo.o. sp. k. perpetual usufruct right to plots 98/1 and 148/2 respectively. On the right to perpetual usufruct of plot 98/2 is still established a joint mortgage up to the full amount of a given payment, which the Buyer has made to the Company for this mortgage. In addition, Imes will continue to be subject to execution pursuant to art. 777 § 1 point 5 of the Code of Civil Procedure, as to the obligation to return the sum of money to the full amount of a given payment, which the Buyer has made to the Company.

- **GUARANTEE AGREEMENTS, DECLARATION OF SUBMISSION OF EXECUTION AND DECLARATION OF THE ESTABLISHMENT OF HYPOTHERS**

December 6, 2016 Gaston Investments sp. z o.o. and Challange Eighteen sp. z o.o. have entered into a Conditional Preliminary Agreement for the Sale of Rights and Obligations of a general partner and a limited partner in the company 11/162 Gaston Investments sp. z o.o. sp. k. The Conditional Preliminary Agreement obliges the parties to conclude the Final Contract by 7 July 2017. On the basis of the aforementioned agreement, the companies 16/88 Gaston Investments sp. z o.o. sp. k. and 19/97 Gaston Investments sp. zo.o. sp. k. (further referred to as "Guarantors") concluded a surety agreement in the form of a notary deed, under which they granted a surety in connection with the security Creditor's claims regarding the return of the deposit, resulting from the Conditional Preliminary Agreement for the sale of rights and obligations of the general partner and limited partner in the company 11/162 Gaston Investments sp. z o.o. sp. k.

The obligation to return the deposit will be made in the event of failure to meet the deadline for payment and costs related to the possible pursuit of claims for the above-mentioned title in court and enforcement proceedings.

Guarantors also submitted to execution in the mode of art. 777 § 1 point 5 of the Code of Civil Procedure, regarding the obligation to pay a sum of money up to PLN 12,000,000.

The surety is of a timely nature until 30 June 2020.

On the day of signing the Guarantee Agreement, an application for entry to Hipotek on Real Estate was filed with the land and mortgage court, whereas on the real estate in perpetual usufruct of the company 19/97 Gaston Investments sp. z o.o. sp.k. up to the mortgage sum of PLN 8,000,000, and real estate in perpetual usufruct of the company 16/88 Gaston Investments sp. z o.o. sp.k. up to the mortgage sum of PLN 4,000,000, whereas the mortgage-backed debt is the guarantee obligation imposed by the surety agreement to return the amount of the down payment.

On 28 June 2017, the Issuer's subsidiaries, ie Gaston Investments sp. z o.o. with headquarters in Warsaw, as a general partner and Challange Eighteen sp. z o.o. with its registered office in Warsaw, as a limited partner, entered into a promised agreement for the sale of all the rights and obligations of the limited partner and general partner in the company 11/162 Gaston Investments sp. z o.o. sp.k. based in Warsaw, as described above.

- **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.

6. due to earlier redemption on 13 July 2017 by CPD S.A. all B series bearer bonds, ie 30,000, with a par value of PLN 1,000 each, by virtue of the resolution of the Company's Management Board of

29 June 2017 regarding earlier full redemption of Series B bonds at the request of the Issuer, all claims of the bondholder from series B bonds have expired.

7. consequently, by virtue of relevant documents (including, without limitation, the bondholder's consent to deleting a pledge from the register of pledges, an agreement on the termination of the surety, the bondholder's declaration of waiver of rights under the declaration of submission to execution), the bondholder confirmed the waiver of the rights all the aforementioned security measures.

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

On December 17, 2015, a loan agreement was signed between Smart City spółka z ograniczoną odpowiedzialnością spółka komandytowa, a half controlled by the Company, and Bank Zachodni WBK SA, based on which Smart City spółka z ograniczoną odpowiedzialnością sp.k. was granted a construction loan in the maximum amount of PLN 65,146,288, intended for financing the construction of a multi-family residential project Ursa Smart City Phase I, at the intersection of ul. Hennela and ul. Dyrekcyjna in Warsaw, in the Ursus district.

The repayment of the Bank's receivables under the Agreement due to loans granted are mortgage and registered pledges on the corporate rights of partners and shares in the share capital of the Borrower's general partner (Smart City sp. O.o.), which were established in 2016.

The loan was made available to the Borrower after the collateral was established and other typical terms of disclosure were met.

The liability under the loan was fully paid in 2017 and the contract expired.

- **CREDIT AGREEMENT MBANK**

On June 18, 2014, a loan agreement was signed between Robin Investments sp. O.o, which is a subsidiary of the Issuer, and mBank Hipoteczny S.A., under which Robin Investments Sp. z o.o. a loan of EUR 4,450,000 has been granted for the refinancing of the Aquarius office building, inter alia, through the total and irrevocable repayment of the existing debt of the company resulting from the loan agreement with HSBC Bank Polska S.A.,

Securing mortgage loan repayment consists of the following mortgages and pledges:

1) joint contractual mortgage up to EUR 8,900,000,

2) registered pledge on all shares in the Borrower's share capital with a total nominal value of PLN 50,000 together with a statement from LAKIA ENTERPRISES LIMITED based in Nicosia ("the Shareholder") on submission to enforcement of pledged shares, drawn up pursuant to Art. 97 of the Banking Law up to the amount of EUR 4,450,000,

3) registered pledges on receivables of the Borrower from Bank Accounts;

Other - standard for this type of agreements - credit security is a transfer for securing receivables from the Real Estate and Building insurance contract, transfer of receivables under Lease Agreements, blockade and authorization to the Borrower's bank accounts, Debt Servicing Reserve in the amount equivalent to three principal and interest installments.

The loan has been made available and used by the Borrower in the amount of EUR 4,450,000 and refinances the existing HSBC loan granted to the Shareholder.

The final repayment of the Mortgage Loan will take place no later than on June 20, 2029. The amounts due will be repaid in EUR, according to the agreed repayment schedule. Due to the loan granted, the Subsidiary will pay interest at a variable interest rate of 6M EURIBOR, increased by the Bank's margin.

- **CREDIT AGREEMENT MBANK**

On June 18, 2014, a loan agreement was signed between the subsidiary Lakia Investments sp. O.o. and mBank Hipoteczny S.A., under which Lakia Investments Sp. z o.o. a loan in the amount of EUR 5,850,000 has been granted, intended for refinancing the "Solar" office building, inter alia, through the total and irrevocable repayment of the existing debt of the company resulting from the loan agreement with HSBC Bank Polska S.A.,

Securing mortgage loan repayment consists of the following mortgages and pledges:

1) joint contractual mortgage up to the amount of EUR 11,700,000 established at:

2) registered pledge on all shares in the Borrower's share capital with a total nominal value of PLN 50,000 together with a statement from LAKIA ENTERPRISES LIMITED based in Nicosia ("the Shareholder") on submission to enforcement of pledged shares, drawn up pursuant to Art. 97 of the Banking Law up to EUR 5,850,000;

3) registered pledges on receivables of the Borrower from Bank Accounts;

Other - standard for this type of agreements - credit security is a transfer for securing receivables from the Real Estate and Building insurance contract, transfer of receivables under Lease Agreements, blockade and authorization to the Borrower's bank accounts, Debt Servicing Reserve in the amount equivalent to three principal and interest installments.

The loan has been made available and used by the Borrower in the amount of EUR 5,850,000 and refinances the existing HSBC loan granted to the Shareholder.

The final repayment of the Mortgage Loan will take place no later than on June 20, 2029. The amounts due will be repaid in EUR, according to the agreed repayment schedule. Due to the loan granted, the Subsidiary will pay interest at a variable interest rate of 6M EURIBOR, increased by the Bank's margin.

During 2017, Lakia Investments reported failure to meet one of the financial indicators agreed in the credit agreement. In order to improve the above-mentioned indicator, the Company is negotiating with several potential tenants. In case of failure of talks, one of the possible solutions considered will be partial repayment of the debt to the level guaranteeing compliance with the financial ratios agreed in the credit agreement. By the publication date bank did not send claim as above.

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

This contract was signed on August 12, 2011 between Bank Zachodni WBK S.A. and a subsidiary of Belise Investments Sp. z o.o. as a borrower and guarantors, which are CPD S.A., Lakia Enterprises Ltd. with its registered office in Nicosia (Cyprus) and East Europe Property Financing A.B. based in Stockholm (Sweden) and related to financing the construction and finishing of the Iris office building, located at ul. Cybernetics 9 in Warsaw, which was put into use in October 2012. Under the credit agreement, the following were granted:

1) the Investment Loan, up to the amount of EUR 20,077,458 granted to finance or refinance part of the project costs or costs of finishing the lease area;

On 31 May 2015, the Company signed the annex to the day credit agreement.

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

Pursuant to the aforementioned Annex, the following changes were introduced:

1) The Investment Loan up to the amount of EUR 18,500,000.00 has been granted for refinancing debt by making Conversions;

2) The deadline for the full repayment of the Credit together with interest and other costs has been agreed by the parties on the day of 31 of May 2021;

3) Conversion meant the use of funds made available under Tranche B through conversion of the Debt Amount EUR 17,000,000 in Tranche A into the Debt Amount in tranche B and the release of an additional tranche up to a maximum amount of EUR 1,500,000.

Other significant provisions resulting from the Agreement remain unchanged.

At the same time, CPD S.A. and Lakia Enterprises Limited with its registered office in Nicosia (Cyprus), in order to secure the repayment of the Loan, in connection with the Annex, they submitted to enforcement. In addition, the Company signed the Annex to the surety agreement.

- **CREDIT AGREEMENT WITH BANK MILLENNIUM S.A.**

The Issuer and its subsidiaries, after the balancing day and before the publication of this report, granted collateral in connection with the agreement of 26 February 2018 providing a renewable loan for financing a housing project between Ursa Park Smart City a limited liability company spółka komandytowa, a subsidiary of the Company (hereinafter "the Borrower") and Bank Millennium SA (hereinafter the "Bank"), based on which Ursa Park Smart City a limited liability company sp.k. a revolving loan in the amount of PLN 25,000,000 is to be granted to finance the maximum level of investment costs in the amount of PLN 42,954,660.00, intended for financing the construction of a multi-family residential project Ursa Park Smart City Stage II, at the intersection of ul. Dyrekcyjna and 48 KD-D in Warsaw, in the Ursus district ("Renewable Loan Agreement"). The investment is created with the joint participation of CPD S.A. and Unidevelopment S.A.

Collateral for repayment of the Bank's receivables under the Renewable Loan Agreement under loans granted are:

- mortgage up to PLN 40,000,000.00 (with the highest priority) for the benefit of the Bank, on the real estate on which the investment is carried out, belonging to the Borrower, located in Warsaw, described in KW WA1M/00283121/5, kept by the District Court for Warsaw-Mokotów in Warsaw, 13th Department of Land and Mortgage Registers, along with the assignment of rights under the insurance contract for buildings erected as part of a development project on fire and other random events (after construction on the insurance sum corresponding at least to the loan amount) ;

- the Borrower's declaration on submission to enforcement proceedings for the Bank in accordance with art. 777 § 1 point 5 k.p.c. for whole property as to the obligation to pay to the Bank all sums of money under obligations under the Agreement, with amendments in force at the given time, up to a maximum amount of PLN 40,000,000.00;

- registered pledge with ordinary pledge as a transitional collateral on the general rights and obligations of the General Partner: Smart City sp. z o.o. in connection with the contribution made with a nominal value of PLN 1,000.00 in the Borrower's company.
- statement by Smart City sp. z o.o. about submission to enforcement in favor of the Bank pursuant to art. 777 § 1 point 6 k.p.c. up to a maximum amount of PLN 40,000,000.00 from the property pledged with the pledge, to the Bank, in order to satisfy the monetary claim due to the Bank under the Agreement, with the changes in force at the given time;
- registered pledge with ordinary pledge as a transitional security on the general rights and obligations of the limited partner: Challange Eighteen sp. z o.o. in connection with the contribution made with a nominal value of PLN 73,108,888.62 in the Borrower's company.
- Challenge Eighteen sp. z o.o. on submission to enforcement proceedings for the Bank in accordance with art. 777 § 1 point 6 k.p.c. up to a maximum amount of PLN 40,000,000.00 from the property pledged with the pledge, to the Bank, in order to satisfy the monetary claim due to the Bank under the Agreement, with the changes in force at the given time;
- statement by CPD S.A. on submission to enforcement proceedings for the Bank in accordance with art. 777 § 1 point 5 k.p.c. for whole property as to the obligation to pay to the Bank all sums of money under obligations under the Agreement, with amendments in force at the given time, up to a maximum amount of PLN 40,000,000.00;
- accession to debt by CPD S.A. along with power of attorney to accounts maintained at the Bank.

18. ISSUES OF SECURITIES, ACQUISITION OF OWN SHARES

- **PURCHASE OF OWN SHARES FOR BUILDING**

26th of October 2017 as a result of settlement of the acquisition of shares of CPD S.A. as a result of the invitation to submit offers for the sale of the Company's shares published on 2 October 2017 (hereinafter the "Invitation"), which was adjusted on October 3, 2017, the Company purchased through the brokerage house Pekao Investment Banking S.A. with its registered office in Warsaw, 1,417,792 shares of the Company. The total number of shares of CPD S.A. within the framework of Share Sale Offers, it amounted to 13,833,996. Since the sale offers were for a larger number of shares than the 1,400,792 shares proposed by the Company, each Share Sale Offer was partially implemented - the reduction of offers was carried out in accordance with the principles described in the Invitation.

The shares were purchased in accordance with the Resolution No. 18 of the Ordinary General Meeting of CPD of May 10, 2017 regarding the purchase of the Company's shares for redemption, which was amended by Resolution No. 3 of the Extraordinary General Meeting of CPD S.A. of June 7, 2017 amending the resolution No. 18 of the Ordinary General Meeting of May 10, 2017 regarding the purchase of the company's shares for redemption pursuant to art. 362 § 1 point 5) k.s.h. for redemption.

The purchase price for one share was PLN 12.27 (average unit purchase price).

All purchased shares are ordinary shares with a nominal value of PLN 0.10 each. Acquired CPD shares S.A. (in a number of 1,417,792 shares) constitute 3.56% of the share capital of the Company and represent 1,495,792 votes at the General Meeting of the Company (3.56% of the total number of votes at the General Meeting of the Company), however, in accordance with the applicable regulations, the Company is not entitled to exercise voting rights from own shares.

Apart from the above, the Company has no own shares..

19. DESCRIPTION OF DIFFERENCES IN FORECAST FINANCIAL RESULTS

CPD Group and its dominant entity did not publish financial result forecasts for the year 2017.

20. FINANCIAL RESOURCES MANAGEMENT ASSESSMENT

The CPD Group finances its operations primarily from equity. In the financial year 2017, the Group's financial resources were used in accordance with plans, intended use and current needs. The Group has regularly met its obligations to counterparties, banks and obligatory charges to the State. Liabilities constituting 38% of the total balance sheet total of the Group do not pose a threat to the Group's financial condition.

The supplementary source of financing the Group's operations are loans and borrowings. At the end of 2017, the total value of liabilities due to loans and borrowings, including financial leasing amounted to PLN 140 million compared to PLN 146 million at the end of 2016. As part of credit and loan liabilities, the CPD Group discloses liabilities due to finance leases which are the Group's liability for perpetual usufruct of land. At the end of 2017, these liabilities amounted to PLN 33 million, which accounted for approximately 24% of the total amount of liabilities due to loans and borrowings, including financial leasing.

21. CHANGES IN MANAGEMENT POLICIES

In 2017, continuing the strategy of focusing the Group's activities on the Polish market, and in particular on the Ursus project, the structure of the Group continued to change. The liquidation procedure of the investment company Celtic Asset Management sp. O o, as well as 14/119 Gaston Investments sp. z o.o. sp. k. has been repealed.

Continuation is subject to the liquidation of a company not conducting investment or operational activity (Mandy Investments sp. O.o.,) in connection with the sale of its properties and the cessation of its operating activities. The reduction of the number of subsidiaries from 44 at the end of 2011 to 33 at the end of the settlement period contributed to the simplification of the Group's management rules. In addition to changes in the Group's structure in 2017 (described in detail in point VI.2 CAPITAL GROUP STRUCTURE of this report) and further simplification of organizational procedures, there were no major changes in the Group's management policies.

22. REMUNERATION OF THE SUPERVISORY BOARD AND THE MANAGEMENT BOARD

- **SUPERVISORY BOARD REMUNERATION**

In 2017, 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	60 000	01.2017 - 12.2017	-
Andrew Pegge	President	PLN	60 000	01.2017 - 12.2017	-
Mirosław Gronicki	Member	PLN	60 000	01.2017 - 12.2017	-
Gabriela Gryger	Member	PLN	60 000	01.2017 - 12.2017	-
Michael Haxbey	Vice President	PLN	60 000	01.2017 - 12.2017	-
TOTAL		**PLN**	**300 000**		

- ### MANAGEMENT BOARD REMUNERATION

In 2017 CPD S.A. Management Board members received cash remuneration for the function on the appointment basis in the Management Board of the Company as well as the remuneration for services provided to companies being part of the CPD Group.

Name	Function	Remuneration of Board Member of CPD (PLN)	Remuneration of Board Member of the Group (PLN)	TOTAL (PLN)	Period	Comments
Elżbieta Wiczkowska	President	60 000	634 694	694 695	01.2017 - 12.2017	-
Iwona Makarewicz	Member	60 000	385 453	445 453	01.2017 - 12.2017	-
Colin Kingsnorth	Member	60 000	-	60 000	01.2017 - 12.2017	-
John Purcell	Member	60 000	-	60 000	01.2017 - 12.2017	-
Waldemar Majewski	Member	60 000	377 065	437 066	01.2017 - 12.2017	-
Total		**300 000**	**1 397 212**	**1 697 214**		

23. AGREEMENTS WITH MEMBERS OF THE MANAGEMENT BOARD – COMPENSATIONS

CPD S.A. Management Board members are not employed under employment agreements in the Company. The Company did not conclude such agreements with members of the Management Board that provide for compensation in the event of their resignation or dismissal from their function without valid reason or if the dismissal results from the merger of the Company following an acquisition.

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

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

Name	Function	No. of shares	Nominal value of shares (PLN)	As % of total no. of shares	As % of total no. of votes
Elżbieta Wiczkowska	President	42 498	4250	0,13%	0,13%

Iwona Makarewicz	Member	4 734	473	0,01%	0,01%
TOTAL		**47 232**	**4 723**	**0,14%**	**0,14%**

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

25. AGREEMENTS CHANGING OWNERSHIP STRUCTURE

At the date of this report, the Company has not received other complaints concerning the changes in the proportion of shares held by shareholders holding not yet at least 5 % of the shares of the Company.

26. CONTROL SYSTEM FOR EMPLOYEE SHARES SCHEMES

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

27. AGREEMENT WITH AN ENTITY AUTHORISED FOR AUDITING FINANCIAL STATEMENTS

The financial statements of CPD SA and the consolidated financial statements of the Group for the years 2016 and 2017 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 year 2016 amounted to PLN 220 000 net, of which:

- PLN 65,000 was the reward for a review of the financial statements of CPD SA and the consolidated financial statements of the Group for the period from 1 January 2016 to June 30, 2016 (agreement of 14 June 2016.);
- PLN 125,000 constituted remuneration for the audit of the financial statements of CPD SA and the consolidated financial statements of the Group for the period from 1 January 2016 to 31 December 2016 (agreement of 14 June 2016.);
- PLN 15,000 constituted remuneration for the audit of financial statements of Belise Investments sp. o.o. (Agreement of 22 August 2016.);
- PLN 15,000 constituted remuneration for the audit of financial statements of Smart City sp. o.o. sp.k .;
- Financial statements of Cypriot subsidiaries Celtic Investments Ltd, Buffy Holdings No 1 Ltd and Lakia Enterprises Ltd for the period from January 1, 2016 to December 31, 2016 were audited by PricewaterhouseCoopers Ltd. auditor. The total auditor's fee for 2016 was PLN 38,700 (9,000 EUR).

The total remuneration of auditor for 2017 amounted to PLN 179 000 net, of which:

- PLN 67.000 was the remuneration for the review of the financial statements of CPD S.A. and the consolidated financial statements of the Capital Group for the period from January 1, 2017 to June 30, 2017 (agreement of June 18, 2015);
- PLN 112,000 was the remuneration for auditing the financial statements of CPD S.A. and the consolidated financial statements of the Capital Group for the period from January 1, 2017 to December 31, 2017 (agreement of June 18, 2015);

- The total remuneration of auditor PricewaterhouseCoopers Ltd for 2017 amounted to PLN 38,700 (EUR 9,000) and was the remuneration for auditing financial statements of subsidiaries Celtic Investments Ltd, Buffy Holdings No 1 Ltd and Lakia Enterprises Ltd.
- The total remuneration of the auditor of First Audit Services Ltd amounted to PLN 20,536 and constituted the remuneration for auditing the financial statements of the subsidiary Bolzanus Ltd.

28. STRUCTURE OF ASSETS AND LIABILITIES – BY LIQUIDITY

CPD Group assets structure on 31 December 2017 and changes compared with the status at the end of 2016:

The table below presents the share of particular categories of assets in the balance sheet total.

	As at:				Change
	31.12.2017 (PLN ths.)	31.12.2016 (PLN ths.)	% in total assets 2017	% in total assets 2016	2017/2016 (%)
Investment properties	471 715	558 706	62,0%	78,0%	*-15,6%*
Property, plant and equipment	734	829	0,1%	0,1%	*-11,5%*
Intangible assets, excluding goodwill	3	30	0,00%	0,00%	*-90,0%*
Investments in joint ventures accounted for using the equity method	63 072	32 572	8,29%	4,55%	*93,6%*
Non-current receivables	931	365	0,1%	0,1%	*155,1%*
Non-current assets	**536 455**	**592 502**	**70,5%**	**82,8%**	***-9,5%***
Inventories	5 421	5 468	0,7%	0,8%	*-0,9%*
Trade and other receivables	7 282	10 229	1,0%	1,4%	*-28,8%*
Bonds	0	3 702	0,0%	0,5%	*-100,0%*
Cash and cash equivalents	143 303	89 999	18,8%	12,6%	*59,2%*
Assets held for sale	68 539	14 075	9,0%	2,0%	*387,0%*
Current assets	**224 545**	**123 473**	**29,5%**	**17,2%**	***81,9%***
TOTAL ASSETS	**761 000**	**715 975**	**100%**	**100%**	***6,3%***

CPD Group liabilities structure on 31 December 2017 and changes compared with the status at the end of 2016:

The table below presents the share of individual categories of liabilities in the balance sheet total.

	As at:				Change
	31.12.2017 (PLN ths.)	31.12.2016 (PLN ths.)	% in total assets 2017	% in total assets 2016	2017/2016 (%)
Share capital	3 935	3 286	0,5%	0,5%	*19,8%*
Repurchase of shares	-17 199	0	-2,3%	0,0%	-
Other reserves	987	987	0,1%	0,1%	*0%*
Fair value of capital element at inception date	-27 909	-27 909	-3,7%	-3,9%	*0%*
Translation reserve	-5 458	-5 383	-0,7%	-0,8%	*1,4%*
Retained earnings	517 363	475 922	68%	66,5%	*8,7%*
Equity	**471 719**	**446 903**	**62,0%**	**62,4%**	***5,6%***
Trade and other payables	2 235	2 091	0,3%	0,3%	*6,9%*
Borrowings, including finance leases	113 375	138 878	14,9%	19,4%	*-18,4%*
Bonds	0	29 742	0,0%	4,2%	*-100,0%*
Defferred income tax liabilities	36 283	20 248	4,8%	2,8%	*79,2%*

Non-current liabilities	**151 893**	**190 959**	**20,0%**	**26,7%**	***-20,5%***
Trade and other payables	106 722	35 171	*14,0%*	4,9%	*203,4%*
Bonds	0	31 131	*0,0%*	4,3%	*-100,0%*
Embedded derivative	0	4 023	*0,0%*	0,6%	*-100,0%*
Borrowings, including finance leases	26 902	7 206	*3,5%*	1,0%	*273,3%*
Liabilities related to assets held for sale	3 764	582	*0,5%*	0,1%	*546,7%*
Current liabilities	**137 388**	**78 113**	**18,1%**	**10,9%**	***75,9%***
Total liabilities	**289 281**	**269 072**	**38,0%**	**37,6%**	***7,5%***
TOTAL EQUITY AND LIABILITIES	**761 000**	**715 975**	**100,0%**	**100,0%**	***6,3%***

29. CONTINGENT LIABILITIES

- ### CONCLUSION OF THE POST-AREA CONTRACT BY CPD SA AND ITS SUBSIDIARIES

On 22 February 2017, an investment agreement was signed for a joint venture in the implementation of a complex of multi-family buildings with services and infrastructure accompanying Warsaw, in the Ursus district.

The contract was concluded between CPD Spółka Akcyjna, Challange Eighteen limited liability company in Warsaw, 4/113 Gaston Investments spółka z ograniczoną odpowiedzialnością spółka komandytowa with its registered office in Warsaw, Lakia Enterprise Ltd in Nicosia and Unibep Spółka Akcyjna, Unidevelopment Spółka Akcyjna in Warsaw.

The subject of the Agreement is the joint implementation of a construction investment on real estate (hereinafter the "Real Property") belonging to a company from the CPD S.A. Capital Group. ie 4/113 Gaston Investments spółka z ograniczoną odpowiedzialnością spółka komandytowa in Warsaw, being perpetual user of plots No. 113/1, 113/2, 113/4, 113/5 No. of ews 2-09-09, with an area of 4.944 ha and located at ul. Trailers in Warsaw (Warsaw - Ursus district).

On the part of the Real Property with an area of approx. 1.36 ha, the construction of a multi-family building complex with services together with accompanying infrastructure (hereinafter referred to as "Venture") will be implemented in two stages, the general contractor of which will be Unibep S.A. and Unidevelopment S.A. will provide services of investor's replacement for the Venture. As part of the venture, Unidevelopment S.A. he will join the limited partnership as a limited partner. The contract also includes activities consisting in marketing activities related to the sale of premises created as part of the Project, and then on the total sale of the usable floor space of the Project and the principles for the distribution of profit from the implementation of the Project.

Participation of companies from the CPD S.A. Capital Group. in the implementation of the Project it relies, among others on:

a) implementation of a Real Estate Project belonging to a limited partnership,

b) providing Gaston Investments sp. o.o. financial and operational control services for the undertaking and supervision of Unibep SA as a general contractor.

The contract will come into force on the condition that all of its annexes to the Agreement are agreed (accepted) by March 31, 2017. In addition, as regards the accession of Unidevelopment S.A. to the limited partnership - the contract will come into force under the condition of obtaining the consent of the President of the Office of Competition and Consumer Protection for concentration of entrepreneurs or issuing a decision by the President of UOKiK on discontinuation due to the fact that the transaction is not subject to the obligation to report to the President of UOKiK or the statutory deadline for issuing the aforementioned consent, if before the deadline expires, the President of UOKiK will not issue any decision, or issuing the Antimonopoly Court ruling regarding the consent to the concentration as a result of the appeal - depending on which of these events will take place earlier.

The above Agreement meets the criterion of recognizing it as a significant agreement, as its value exceeds the criterion for determining significant contracts used by the Issuer, i.e. 10% of the Issuer's equity, which as at the end of the third quarter of 2016 amounts to PLN 452 224 000.

On February 22, 2017, the company announced that the first condition precedent of the Investment Agreement had been fulfilled and on August 22, 2017 it announced the fulfillment of the second condition, thus entering into force.

- **GUARANTEE AGREEMENTS, DECLARATION OF SUBMISSION OF EXECUTION AND DECLARATION OF THE ESTABLISHMENT OF HYPOTHERS**

Issuer's subsidiaries: IMES Poland sp. z o.o. and 18 Gaston Investments limited liability company sp. k. 30 January 2017 granted collateral as a result of the conclusion of conditional sales contracts concluded with legal entities that lead to the sale of land property rights located in Warsaw in the Ursus district, as well as cooperation agreements.

Collateral will be combined mortgages on the right to perpetual usufruct of owned real estate each time up to the full amount of a given payment, which the Buyer is to make to the Companies for each mortgage.

The companies also submitted to enforcement pursuant to art. 777 § 1 point 5 of the Code of Civil Procedure, as to the obligation to return the sum of money to the full amount of a given payment, which the Buyer is to make to the Companies, and each entity will submit a written statement in the form required by applicable law, including consent to enter Buyer's claims regarding the conclusion of the Promised Contract to the land and mortgage registers kept for the properties owned by them.

The total sale price of property rights and cooperation agreements has been set at a total of PLN 82 million net.

Conclusion of individual final contracts under the transaction was stipulated in stages between December 2017 and December 2019. The conclusion of final contracts depends on the fulfillment of a number of conditions precedent, mainly regarding the preparation of infrastructure and media in a manner enabling the implementation of housing projects in accordance with the adopted assumptions.

As at the balance sheet day, the Buyer made payments of PLN 66.5 million (net) plus applicable VAT on the basis of the Conditional Sales Agreements. Subsequent payments towards the agreed Total Price will be made in accordance with the schedule accepted by the Buyer and Seller in 2017-2019.

- **GUARANTEE AGREEMENTS, DECLARATION OF THE SUBMISSION OF EXECUTION AND DECLARATION OF THE ESTABLISHMENT OF HYPOTHERS**

6th of December 2016 Gaston Investments sp. o.o. and Challange Eighteen sp. o.o. have entered into a company for the 11/162 Gaston Investments limited liability company sp. k. 7 July 2017. On the basis of the aforementioned agreement, the companies 16/88 Gaston Investments limited liability company sp. k. And 19/97 Gaston Investments limited liability company sp. k. (Further referred to as "Guarantors") concluded a surety agreement in a form of a security deposit in the form of a general contract and a partner in the company 11/162 Gaston Investments limited liability company sp. k.

The obligation to pay the payment in the event of a debt or loss of payment.

Guarantors also submitted in the mode of art. 777 § 1 point 5 of the Code of Civil Procedure, regarding the obligation to pay a sum of money up to PLN 12,000,000.

The surety is of a timely nature until June 30, 2020.

On the day of signing the Guarantee Agreement, an application for entry to Hipotek on Real Estate was submitted to the land and mortgage court, while on the real estate in perpetual usufruct of the company 19/97 Gaston Investments spółka z ograniczoną odpowiedzialnością sp.k. up to the mortgage sum of PLN 8,000,000, and real estate in perpetual usufruct of the company 16/88 Gaston Investments spółka z ograniczoną odpowiedzialnością sp.k. up to the mortgage sum of PLN 4,000,000, whereas the mortgage-backed debt is the guarantee obligation imposed by the surety agreement to return the amount of the down payment.

After the balance sheet date and before the publication of the earlier report, all conditions precedent for sale by the Issuer's Subsidiaries were fulfilled: IMES Poland sp. z o.o. and 18 Gaston Investments sp. z o.o. sp. k. perpetual usufruct right to plots 98/1 and 148/2 respectively. Natomaist on the right to perpetual usufruct of plot 98/2 is still established a joint mortgage up to the full amount of a given payment, which the Buyer has made to the Company for this mortgage. In addition, Imes will continue to be subject to execution pursuant to 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 a given payment, which the Buyer has made to the Company.

- **TAX INSPECTION**

November 9, 2017, the company belonging to the Group, Challange Eighteen Sp. z o.o. she received the result of a tax audit. In the opinion of the tax authorities, the Company did not pay withholding tax due from interest on a loan contracted from EEPF AB (which was then owned by the Group). The value of arrears includes overdue tax in the amount of PLN 9.113 thousand. PLN, plus interest, which as at November 27th is PLN 4,717 thousand. zł.

In the opinion of the management board, this claim is unjustified. However, it can not be ruled out that it is necessary to pay this amount if tax proceedings are initiated and decisions issued by tax authorities. Based on the risk analysis at an early stage of the process, the Management Board decided not to include in this condensed consolidated financial statements a liability in this respect.

30. GRANTED LOANS

Data on loans granted to affiliates as at 31/12/2017						
Related entity	Currency	Main amount in thousand PLN	Interest accrued in thous. PLN	Interest	Margin	The repayment date

2/124 Gaston Investments	PLN	3 839	582	3M WIBOR	1,55%	on demand
3/93 Gaston Investments	PLN	3 531	506	3M WIBOR	1,55%	on demand
5/92 Gaston Investments	PLN	5 367	370	3M WIBOR	1,55%	on demand
6/150 Gaston Investments	PLN	1 535	343	3M WIBOR	1,55%	on demand
7/120 Gaston Investments	PLN	1 702	251	3M WIBOR	1,55%	on demand
8/126 Gaston Investments	PLN	4 759	784	3M WIBOR	1,55%	on demand
9/151 Gaston Investments	PLN	1 641	240	3M WIBOR	1,55%	on demand
10/165 Gaston Investments	PLN	2 580	309	3M WIBOR	1,55%	on demand
12/132 Gaston Investments	PLN	3 351	319	3M WIBOR	1,55%	on demand
13/155 Gaston Investments	PLN	4 042	486	3M WIBOR	1,55%	on demand
15/167 Gaston Investments	PLN	2 426	272	3M WIBOR	1,55%	on demand
16/88 Gaston Investments	PLN	652	113	3M WIBOR	1,55%	on demand
18 Gaston Investments	PLN	1 686	274	3M WIBOR	1,55%	on demand
Odpis na pożyczkę udzieloną 18 Gaston Investments		(557)	(274)			
19/97 Gaston Investments	PLN	726	119	3M WIBOR	1,55%	on demand
20/140 Gaston Investments	PLN	809	137	3M WIBOR	1,55%	on demand
Antigo Investments	PLN	4 580	352	3M WIBOR	1,55%	on demand
Odpis na pożyczkę udzieloną Antigo		(1 965)	(352)			
Belise Investments	PLN	12 960	5 571	3M WIBOR	1,55%	on demand
Buffy Holdings No 1 Ltd	PLN	156 829	40 773	3M WIBOR	0,75%	on demand
Odpis na pożyczkę udzieloną Buffy Holdings			(34 139)			
Celtic Asset Management	PLN	998	55	3M WIBOR	1,55%	
Odpis na pożyczkę udzieloną CAM		(284)	(55)			
Celtic Investments Ltd	EUR	1 899	62	3M LIBOR	0,75%	on demand
Odpis na pożyczkę udzieloną CIL		(1 899)	(62)			
Challange Eighteen	PLN	135 738	27 550	3M WIBOR	1,55%	on demand
Elara Investments	PLN	2 992	224	3M WIBOR	1,55%	on demand
Odpis na pożyczkę udzieloną Elara Investments		(1 659)	(224)			
Gaston Investments	PLN	8 790	272	3M WIBOR	1,55%	on demand
Odpis na pożyczkę udzieloną Gaston		(4 913)	(272)			

Investments						
HUB Developments	PLN	2 498	287	3M WIBOR	1,55%	on demand
Odpis na pożyczkę udzieloną HUB		(681)	(287)			
Dobalin Trading	PLN	0	6	stałe 8%		
Mandy Investments	PLN	16 107	5 514	3M WIBOR	1,55%	on demand
Odpis na pożyczkę udzieloną Mandy Investments		(16 107)	(5 514)			
Lakia Enterprises Limited	PLN	25 683	9 715	3M WIBOR	1,55%	on demand
TOTAL		**379 656**	**54 307**			

MANAGEMENT BOARD STATEMENT

V. MANAGEMENT BOARD STATEMENT

The Management Board of CPD S.A. ("Company") confirms that according to its best knowledge, the consolidated financial statements of the CPD Group ("the Group") for the financial year ending on 31 December 2017 and all comparative figures were prepared in accordance with the applicable accounting principles and give a true, fair and clear financial and assets situation of the Group and its financial results, and that the Group's annual activity report includes the true picture of Group's development, achievements and situation, including threats and risks.

The Management Board confirms that the entity authorized to audit the annual consolidated financial statements was selected in accordance with the law, and the both the entity and the chartered auditors carrying out the audit meet the conditions for issuing an unbiased and independent opinion on the audited annual consolidated financial statements, in accordance with the applicable regulations and professional standards. In 2017 financial statements of CPD S.A. and the Group were reviewed and audited by PricewaterhouseCoopers Sp. z o.o., an audit firm based in Warsaw.

ELŻBIETA WICZKOWSKA
PRESIDENT OF THE MANAGEMENT BOARD

COLIN KINGSNORTH
MEMBER OF THE MANAGEMENT BOARD

IWONA MAKAREWICZ
MEMBER OF THE MANAGEMENT BOARD

JOHN PURCELL
MEMBER OF THE MANAGEMENT BOARD

VI. INDEPENDENT CHARTERED AUDITOR'S REPORT

Independent Registered Auditor's Report

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

Report on the audit of consolidated financial statements

Our opinion

In our opinion, the attached annual consolidated financial statements of the group CPD S.A („the Group"), in which CPD S.A is the parent entity ("the Parent entity"):

- give a true and fair view of the consolidated financial position of the Group as at 31 December 2017 and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with the applicable International Financial Reporting Standards as adopted by the European Union and the adopted accounting policies;
- comply in terms of form and content with the laws applicable to the Group and the Parent Company's Articles of Association;

Our opinion is consistent with our additional report to the Audit Committee issued on the date of this report.

What we have audited

We have audited the annual consolidated financial statements of the group CPD S.A. which comprise:

- the consolidated statement of financial position as at 31 December 2017;

and the following prepared for the financial year from 1 January to 31 December 2017:

- the consolidated statement of comprehensive income;
- the consolidated statement of changes in equity;
- the consolidated statement of cash flows, and
- the notes comprising a description of the adopted accounting policies and other explanations.

Basis for opinion

Basis for opinion

We conducted our audit in accordance with the International Standards on Auditing as adopted as National Standards on Auditing by the National Council of Statutory Auditors ("NSA") and pursuant to the Act of 11 May 2017 on Registered Auditors, Registered Audit Companies and Public Oversight ("the Act on Registered Auditors" – Journal of Laws of 2017, item 1089), and Regulation (EU) No. 537/2014 of 16 April 2014 on specific requirements regarding the statutory audit of public-interest entities ("the EU Regulation" – Journal of Laws EU L158). Our responsibilities under those NSA are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report.

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

Independence and ethics

We are independent of the Group in accordance with the International Federation of Accountants' *Code of Ethics for Professional Accountants* ("the IFAC Code") as adopted by resolutions of the National Council of Statutory Auditors and other ethical requirements that are relevant to our audit of the financial statements in Poland. We have fulfilled our other ethical responsibilities in accordance with these requirements and the IFAC's Code. During the audit, the key registered auditor and the registered audit firm remained independent of the Group in accordance with the independence requirements set out in the Act on Registered Auditors and in the EU Regulation.

Our audit approach

Overview

- The overall materiality threshold adopted for the purposes of our audit was set at PLN 7.6 million, which represents 1% of total assets.

- We have audited the Parent Company and chosen positions from statement of financial position and statement of comprehensive income of particular subsidiaries in Poland.
- The scope of our audit covered chosen positions from statements of financial position and statements of comprehensive income of particular companies of the Group, in order to ensure, that untested value of each consolidated financial statements line items do not exceed the determined materiality levels.

- Material estimates relating to the recognition of deferred tax and the existence of inherent uncertainties over income tax settlements.
- Recognition of investments in joint ventures measured under the equity method.
- Classification and measurement of investment properties.

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the consolidated financial statements. In particular, we considered where the Parent Company's Management Board made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. We also addressed the risk of management override of internal controls, including among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the Group operated.

Materiality

The scope of our audit was influenced by the adopted materiality level. Our audit was designed to obtain reasonable assurance that the consolidated financial statements as a whole are free from material misstatement. Misstatements may arise due to fraud or error.

They are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the consolidated financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall materiality for the consolidated financial statements as a whole, as presented below. These thresholds, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate on the consolidated financial statements as a whole.

The concept of materiality is used by the registered auditor both in planning and conducting an audit, as well as in assessing the effect of the misstatements identified during the audit and the unadjusted misstatements (if any), on the financial statements, and also when forming the registered auditor's report. Therefore, all opinions, assertions and statements contained in the registered auditor's report have been made taking into consideration the quantitative and qualitative materiality levels determined in accordance with the audit standards and the registered auditor's professional judgement.

Overall Group materiality	PLN 7.6 million
Basis for determination	1% of total assets
Rationale for the materiality benchmark applied	We have adopted the value of assets as a basis for determining materiality, because the value of assets is, in our opinion, an indicator commonly used to assess the activities of such financial statements for this type of Group, especially in the real estate industry. We assumed significance at the level of 1%, because based on our professional judgment it falls within the scope of acceptable quantitative thresholds for materiality levels determination.

We agreed with the Parent Company's Audit Committee that we would report to them of misstatements identified during our audit of the consolidated financial statements above PLN 372 thousand, as well as any misstatements below that amount, that in our view, warranted reporting for qualitative reasons.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. They include the most significant identified risks of material misstatements, including the identified risks of material misstatement resulting from fraud. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon. We summarized our response to these risks and, when deemed appropriate, presented the most important observations relating to these risks. We do not provide a separate opinion on these matters.

Key audit matter	***How our audit addressed the key audit matter***
Material estimates relating to the recognition of deferred tax and the existence of inherent uncertainties over income tax settlements The disclosures concerning tax matters are presented in Notes 4 and 25 to the consolidated financial statements. Due to the amendments to the Income Tax Act in recent years, there is a risk that the legal regulations regarding the determination of tax-deductible costs in transactions which involve the disposal of investment properties will be interpreted differently by the tax authorities. The risk assessment is dependent on the legal status of a transaction: the sale of shares in	Our audit procedures comprised, in particular: • gaining an understanding of and evaluating the process of identification of temporary differences and the calculation of deferred income tax, including: (a) verification of the calculation of the deferred tax for 2017 for the material balances making up the current tax in the consolidated statement of comprehensive income; (b) reconciliation of the temporary differences to the values

subsidiaries or the sale of assets (investment properties).

In addition, as at the balance sheet date the Management Board of the Parent Company carried out a comprehensive analysis of the tax position of the Group entities in this regard due to the entry into force of the General Anti-Avoidance Rule ("GAAR") which is to prevent the emergence and use of artificial legal structures created in order to avoid paying taxes in Poland.

As at 31 December 2017, the Management Board of the Parent Company made a judgement as to the taxable temporary differences relating to investments in the subsidiaries and did not recognize a deferred tax liability of PLN 35.9 million. A provision was not recognized due to the fact that the Parent Company is able to control the timing of reversal of the temporary difference and it is probable that it will not be reversed in the foreseeable future, bearing in mind the Management Board's current plans concerning the legal status of the disposal of the investments.

In addition, due to the crystallization of the taxable temporary differences arising from the disposals of shares in the subsidiaries which took place after the balance sheet date, the Group recognized a deferred tax liability of PLN 7 million in the consolidated financial statements as at 31 December 2017.

Moreover, the Group is a party to proceedings before the tax authorities, with regard to which, based on a risk analysis, the Management Board of the Parent Company decided not to recognize a tax liability of PLN 14 million.

In the opinion of the Management Board, the amounts of the recognized provisions for income tax and deferred income tax correctly reflect the tax risks in the consolidated financial statements.

Bearing in mind the inherent risk of uncertainties relating to the material estimates made by the Management Board in the area of taxes and the material uncertainty over income tax settlements, as well as the existence of an uncertainty as to the interpretation of the tax regulations by the Management Board, we

recognized in the consolidated statement of financial position; (c) verification of the arithmetical correctness of the calculation of the income tax for the period and deferred income tax;

- engaging PwC tax experts in analysing tax rulings and correspondence with the tax authorities and in assessing the tax implications of the material transactions to which the Group companies were a party and their effect on the recognition of a deferred income tax provision and provisions for tax risks;
- discussing the estimates made with the Management Board of the Parent Company and making a critical assessment of: (a) the assumptions and estimates made by the Management Board with regard to the deferred income tax recognized as at the balance sheet date, and (b) the Management Board's comprehensive analysis of the tax position of the Group entities with regard to identification and assessment of the transactions and operations which might potentially come under the GAAR regulations, as well as their effect on deferred tax, the tax bases of assets and the provision for tax risk;
- reviewing the disclosures presented in the consolidated financial statements with regard to significant estimates and judgements concerning the deferred income tax recognized in connection with the amendments to the tax regulations in 2017 and the tax risks arising from the provisions of the General Anti-Avoidance Rule.

As a result of the procedures performed, based on the audit documentation collected, we did not find it necessary to make any significant adjustments concerning the recognition and required disclosures with regard to deferred income tax in the consolidated financial statements.

have concluded that this is a matter of key importance to our audit.

Recognition of investments in joint ventures measured under the equity method

Information about the accounting treatment of joint ventures is presented in Notes 4 and 10 to the consolidated financial statements.

In the consolidated financial statements as at the balance sheet date the Group presented investments in joint ventures measured under the equity method of PLN 63 million. This item comprises two legal entities established to carry out a specific development project, in which the Group holds 50% of interests in the net assets subject to the joint venture and 100% of interests in the net assets which, according to the investment agreement, were excluded from the joint venture as at 31 December 2017.

According to the Management Board's judgement, cooperation agreements with partners are treated as a joint venture, because both parties exercise common control over the investment subject to an agreement, and all decisions about the relevant activities require the unanimous consent of both parties to a joint venture in compliance with the requirements of IFRS 11. Moreover, the net assets excluded from the development investment, in which the Group holds 100% of interests, are also presented in the line "Investments in joint ventures measured under the equity method" in accordance with IFRS 10 due to the fact that, in the opinion of the Management Board, all external liabilities, including loans, may be settled against all of these entities' assets.

Bearing in mind the item's materiality in the consolidated financial statements, as well as due to the complexity of the issue and the sensitivity of the results of the analysis to the assumptions made, the question of judgement of whether a given entity is jointly controlled and its accounting treatment constitute, in our opinion, a key audit matter.

Our audit procedures comprised, in particular:

- gaining an understanding of and evaluating the arguments which, in the opinion of the Management Board of the Parent Company, are decisive factors in concluding that the Group exercises full control over the net assets excluded from the venture;
- analysing the investment agreements and assessing whether the contractual provisions as regards the terms and conditions of implementation of the venture allow one to conclude that the Group has common control over the investment in the context of the requirements of IFRS 11, including consultations with internal experts on IFRS to determine the correct and acceptable recognition of the implications of the concluded agreements in the financial statements;
- verifying the measurement of the net assets in joint ventures as at the balance sheet date, covering the measurement of investment properties as at the balance sheet date (for more information see the section: classification and measurement of investment properties) and analysing the cash flows recoverable from a given investment in the future;
- evaluating the disclosures presented in the consolidated financial statements with regard to the judgement made and the disclosures required for joint ventures.

As a result of the audit procedures performed and based on the representations obtained from management, we have concluded that the manner of recognition of the transactions by the Management Board in the financial statements is justified and supported in the documentation obtained.

Classification and measurement of investment properties

As at 31 December 2017, the carrying value of the investment properties in the Group's consolidated financial statements amounted to PLN 471.7 million.

In Note 2.5 and in Notes 4 and 5 to the consolidated financial statements, the Group presented disclosures for investment properties, including the key assumptions made for measuring investment properties at fair value.

The Group presents all land as investment properties, both freehold land and land used as part of perpetual usufruct, whose intended use the Management Board is not yet able to specify, i.e. land which is not held for sale or land which is not planned to be used for commencing a construction project (presented as inventories). Determining the correct classification of the land held as at the acquisition date requires a significant judgement to be made by the Management Board of the Parent Company. The classification determines the method of measurement of this land as at the balance sheet date: inventories are measured at the lower of the cost of purchase and the net realizable value, and investment properties are measured at fair value.

In addition, the fair value measurement of investment properties involves the existence of an inherent risk of uncertainty over the correct estimation of value and making assumptions which determine the measurement, as well as the sensitivity of the results to the assumptions which underlie these measurements. The value of investment properties is heavily dependent on the adopted measurement method and the adopted parameters and assumptions made, among other things, the adopted actual market transactions for comparison purposes, the adopted capitalization rate, the anticipated income from rent, or all types of multipliers based on a subjective assessment of unmeasurable properties, such as a property's location or its appeal to prospective customers.

Given the above and also due to the item's materiality in the Group's financial statements, we have concluded that the question of

Our audit procedures comprised, in particular:

- gaining an understanding of and evaluating the process of classification of properties, taking into account the criteria for their presentation as assets held for sale;
- carrying out detailed tests concerning the correctness of classification on the basis of a selected sample taken from the pool of properties held;
- reconciling the carrying value of all investment properties and non-current assets held for sale, presented in the consolidated financial statements, to the valuations received, prepared by independent experts;
- verifying the arithmetical correctness and methodological consistency of the material valuations of investment properties prepared by independent experts;
- a critical assessment (using PwC in-house valuation experts) of the measurement methods used and the assumptions, parameters and estimates made by the Management Board of the Parent Company, used to determine fair value, such as, among other things, the discount rate, growth rate;
- evaluating the experts' independence and professionalism;
- evaluating the correctness and completeness of the disclosures as regards the classification and measurement of investment properties at fair value.

Based on the audit procedures performed, we have concluded that the measurement methods, assumptions and parameters adopted by the experts are rational and supported in the documentation obtained. We did not find it necessary to make any material adjustments.

classification and measurement of investment properties at fair value is a key audit matter.

Responsibility of the Management and Supervisory Board for the consolidated financial statements

The Management Board of the Parent Company is responsible for the preparation of annual consolidated financial statements that give a true and fair view of the Group's financial position and results of operations, in accordance with the International Financial Reporting Standards as adopted by the European Union, the adopted accounting policies, the applicable laws and the Group's Articles of Association, and for such internal control as the Management Board determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Parent Company's Management Board is responsible for assessing the Company's Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Management Board either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

The Parent Company's Management Board and members of its Supervisory Board are obliged to ensure that the consolidated financial statements comply with the requirements specified in the Accounting Act of 29 September 1994 ("the Accounting Act" – Consolidated text: Journal of Laws of 2018, item 395, as amended). Members of the Supervisory Board are responsible for overseeing the financial reporting process.

Auditor's responsibility for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the NSA will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence economic decisions of users taken on the basis of these consolidated financial statements.

The scope of the audit does not cover an assurance on the Group's future profitability or the efficiency and effectiveness of the Parent Company's Management Board conducting its affairs, now or in future.

As part of an audit in accordance with the NSA, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Parent Company's Management Board.

- Conclude on the appropriateness of the Parent Company's Management Board's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated to the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Other information, including the Report on the operations

Other information

Other information comprises a Report on the Group operations for the financial year ended 31 December 2017 ("the Report on the operations") and the corporate governance statement which is a separate part of the Report on the operations.

Responsibility of the Management and Supervisory Board

The Management Board of the Parent Company is responsible for preparing the Report on the operations in accordance with the law.

The Parent Company's Management Board and the members of the Supervisory Board are obliged to ensure that the Report on the operations including its separate parts complies with the requirements of the Accounting Act.

Registered auditor's responsibility

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the Report on the operations and, in doing so, consider whether it is materially consistent with the information in the consolidated financial statements, our knowledge obtained in our audit, or otherwise appears to be materially misstated. If, based on the work performed, we identified a material misstatement in the Report on the operations, we are obliged to inform about it in our audit report. In accordance with the requirements of the Act on the Registered Auditors, we are also obliged to issue an opinion on whether the Report on the operations has been prepared in accordance with the law and is consistent with information included in annual consolidated financial statements.

Moreover, we are obliged to issue an opinion on whether the Parent Company provided the required information in its corporate governance statement. We obtained the Report on the operations before the date of this audit report.

Opinion on the Report on the operations

Based on the work we carried out during the audit, in our opinion, the the Report on the operations:

- has been prepared in accordance with the requirements of Article 49 of the Accounting Act and para. 92 of the Regulation of the Minister of Finance dated 19 February 2009 on current and periodical information submitted by issuers of securities and conditions for considering as equivalent the information required under the legislation of a non-Member State ("Regulation on current information" – Journal of Laws 2014, item 133, as amended);
- is consistent with the information in the consolidated financial statements.

Moreover, based on the knowledge of the Group and its environment obtained during our audit, we have not identified any material misstatements in the the Report on the operations.

Opinion on the corporate governance statement

In our opinion, in its corporate governance statement, the Group included information set out in paragraph 91(5)(4) (a), (b), (g), (j), (k) and (l) of the Regulation on current information. In addition, in our opinion, information specified in paragraph 91(5)(4)(c)–(f) and (i) of the said Regulation included in the corporate governance statement are consistent with the applicable provisions of the law and with information included in the consolidated financial statements.

Report on other legal and regulatory requirements

Statement on the provision of non-audit services

To the best of our knowledge and belief, we declare that the non-audit services we have provided to the Company and its subsidiaries are in accordance with the laws and regulations applicable in Poland and that we have not provided any non-audit services prohibited under Article 5(1) of the EU regulation and Article 136 of the Act on Registered Auditors.

During the audited period, we provided to the Company, and its controlled entities in the European Union, non-audit services which were disclosed in note 27 to the Report on the Group's operations.

Appointment

We have been appointed for the first time to audit the annual consolidated financial statements of the Group by resolution of the Supervisory Board dated 15 December 2010 and re-appointed by resolution dated 9 June 2017.We have been auditing the Group's financial statements without interruption since the financial year ended 31 December 2010, i.e. for 7 consecutive years.

The Key Registered Auditor responsible for the audit on behalf of PricewaterhouseCoopers Sp. z o.o., a company entered on the list of Registered Audit Companies with the number 144., is Piotr Wyszogrodzki.

Piotr Wyszogrodzki

Key Registered Auditor

No. 90091

Warsaw, 20 April 2018

TRANSLATORS' EXPLANATORY NOTE

The English content of this report is a free translation of the registered auditor's report of the below-mentioned Polish Company. In Poland statutory accounts as well as the auditor's report should be prepared and presented in Polish and in accordance with Polish legislation and the accounting principles and practices generally adopted in Poland.

The accompanying translation has not been reclassified or adjusted in any way to conform to the accounting principles generally accepted in countries other than Poland, but certain terminology current in Anglo-Saxon countries has been adopted to the extent practicable. In the event of any discrepancies in interpreting the terminology, the Polish language version is binding.

VII. CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR FROM 1 JANUARY TO 31 DECEMBER 2017

CPD S.A.

Consolidated financial statements

for the year ended 31 December 2017

(All amounts in PLN thousand unless otherwise stated)

Consolidated property portfolio

INVESTMENT PROPERTY (Note 5)

Property	Company	As at 31 December 2017 Fair value
Solar (Viterra)	Lakia Investments	26 861
Aquarius	Robin Investments	24 066
Ursus	2/124 Gaston investments	32 980
Ursus	3/93 Gaston investments	35 150
Ursus	5/92 Gaston Investments	45 980
Ursus	6/150 Gaston Investments	18 360
Ursus	7/120 Gaston Investments	19 630
Ursus	12/132 Gaston Investments	29 150
Ursus	13/155 Gaston Investments	27 450
Ursus	16/88 Gaston Investments	2 768
Ursus	18 Gaston Investments	3 170
Ursus	19/97 Gaston Investments	7 390
Ursus	20/140 Gaston Investments	3 560
Ursus	Imes Poland	47 270
Wolbórz	HUB Developments	1 900
IRIS	Belise Investments	103 021
Ursus	Bolzanus	9 977
Capitalised rights of perpetual usufruct of land		33 032
		471 715

INVESTMENTS PROPERTIES CLASSIFIED AS ASSETS HELD FOR SALE

		Fair value as at 31.12.2017
Ursus	8/126 Gaston Investments	22 060
Ursus	9/151 Gaston Investments	8 262
Ursus	10/165 Gaston Investments	17 550
Ursus	15/167 Gaston Investments	16 936
Capitalised rights of perpetual usufruct of land		3 731
		68 539

INVENTORIES (Note 9)

		As at 31 December 2017	
Property	**Company**	**Carrying amount**	**Fair value**
Tenement house in Łódź	Antigo Investments	2 451	2 451
Koszykowa	Elara Investments	1 340	1 340
		3 791	**3 791**
Jaktorów	Celtic Asset Management	220	220
Czosnów	Celtic Asset Management	480	480
Nowa Piasecznica	Antigo Investments	180	180
Leszniowola	Antigo Investments	14	14
Alsonemedi	Celtic Trade Park	736	736
		1 630	**1 630**
		5 421	**5 421**

Total fair value of property portfolio	**545 675**

(All amounts in PLN thousand unless otherwise stated)

Consolidated statement of comprehensive income

	Note	12 months ended 31 December 2017	12 months ended 31 December 2016
Revenue	17	19 924	20 022
Cost of sales	18	(2 522)	(2 051)
Including:			
Inventory impairment		*114*	*(1)*
Cost of services sold		*(2 636)*	*(2 050)*
GROSS PROFIT		**17 402**	**17 971**
Administrative expenses - property related	19	(6 616)	(7 442)
Administrative expenses - other	21	(8 512)	(7 989)
Selling and marketing expenses		(622)	(427)
Net loss on sale of investment property		(72)	(2 475)
Other income	20	223	3 010
Net gain from fair value adjustments of investment property		7 761	4 722
Post-tax share of the profit or loss of the joint-ventures accounted for using the equity method		7 631	3 680
Net gain / (loss) on sale of subsidiares	30	7 613	(148)
OPERATING PROFIT		**24 808**	**10 902**
Finance income	22	7 966	8 146
Finance costs	22	(14 415)	(16 575)
PROFIT BEFORE INCOME TAX		**18 359**	**2 473**
Income tax expense	23	(16 121)	(6 329)
PROFIT (LOSS) FOR THE YEAR		**2 238**	**(3 856)**
OTHER COMPREHENSIVE INCOME			
Currency translation adjustment		(75)	(72)
TOTAL COMPREHENSIVE INCOME		**2 163**	**(3 928)**
Profit (loss) attributable to:			
Equity holders of the Group		**2 238**	**(3 856)**
Total comprehensive income attributable to:			
Equity holders of the Group		**2 163**	**(3 928)**
Total comprehensive income for the period attributable to owners of the Group arises from:			
Continuing operations		2 163	(3 928)
BASIC EARNINGS PER SHARE (PLN)	34	0,06	(0,12)
DILUTED EARNINGS PER SHARE (PLN)	34	0,06	(0,17)

Elżbieta Donata Wiczkowska
Chairman of the Board

Colin Kingsnorth
Board Member

John Purcell
Board Member

Iwona Makarewicz
Board Member

(All amounts in PLN thousand unless otherwise stated)

Consolidated statement of financial position

	Note	As at 31 December 2017	As at 31 December 2016
ASSETS			
Non-current assets			
Investment properties	5	471 715	558 706
Property, plant and equipment		734	829
Intangible assets, excluding goodwill		3	30
Investments in joint ventures accounted for using the equity method	10	63 072	32 572
Non-current receivables	7	931	365
Non-current assets		**536 455**	**592 502**
Current assets			
Inventory	8	5 421	5 468
Trade and other receivables, including:	7	7 282	10 229
- receivables and loans		*5 325*	*5 169*
- prepayments		*1 957*	*5 060*
Bonds		0	3 702
Cash and cash equivalents	9	143 303	89 999
Current assets excluding assets held for sale		**156 006**	**109 398**
Assets held for sale	29	68 539	14 075
Current assets		**224 545**	**123 473**
Total assets		**761 000**	**715 975**

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

(All amounts in PLN thousand unless otherwise stated)

Consolidated statement of financial position - cont.

	Note	As at 31 December 2017	As at 31 December 2016
EQUITY			
Capital and reserves attributable to the parent Company's equity holders			
Share capital	11	3 935	3 286
Own shares for redemption		(17 199)	0
Other reserves		987	987
Embedded element at inception date	14	(27 909)	(27 909)
Translation reserve		(5 458)	(5 383)
Retained earnings/(accumulated losses)		517 363	475 922
Total equity		**471 719**	**446 903**
LIABILITIES			
Non-current liabilities			
Trade and other payables	12	2 235	2 091
Borrowings, including finance leases	13	113 375	138 878
Bonds issued	14	0	29 742
Deferred income tax liabilities	16	36 283	20 248
Non-current liabilities		**151 893**	**190 959**
Current liabilities			
Trade and other payables	12	106 722	35 171
Bonds issued	14	0	31 131
Derevatives	14	0	4 023
Borrowings, including finance leases	13	26 902	7 206
Current liabilities		**133 624**	**77 531**
Liabilities directly associated with assets held for sale	29	3 764	582
Current liabilities including liabilities directly associated with assets held for sale		**137 388**	**78 113**
Total liabilities		**289 281**	**269 072**
Total equity and liabilities		**761 000**	**715 975**

Elżbieta Donata Wiczkowska
Chairman of the Board

Colin Kingsnorth
Board Member

John Purcell
Board Member

Iwona Makarewicz
Board Member

(All amounts in PLN thousand unless otherwise stated)

Consolidated statement of changes in equity

	Note	Share capital CPD S.A.	Embedded element at inception date	Own shares for redemption	Translation reserve	Accumulated profit (loss) Reserve capital	Accumulated profit (loss) Retained earnings	Total
Balance at 1 January 2016		**3 286**	**(27 909)**	**0**	**(5 311)**	**987**	**479 778**	**450 831**
Currency translation differences		0	0	0	(72)	0	0	(72)
Profit for the year		0	0	0	0	0	(3 856)	(3 856)
Total comprehensive income		0	0	0	(72)	0	(3 856)	(3 928)
Balance at 31 December 2016		**3 286**	**(27 909)**	**0**	**(5 383)**	**987**	**475 922**	**446 903**
Balance at 1 January 2017		**3 286**	**(27 909)**	**0**	**(5 383)**	**987**	**475 922**	**446 903**
Own shares acquired for redemption	11	0	0	(17 199)	0	0	0	(17 199)
Bonds converted to share capital	11	649	0	0	0	0	39 203	39 852
		649	0	(17 199)	0	0	39 203	22 653
Currency translation differences		0	0	0	(75)	0	0	(75)
Loss of the year		0	0	0	0	0	2 238	2 238
Total comprehensive income		0	0	0	(75)	0	2 238	2 163
Balance at 31 December 2017		**3 935**	**(27 909)**	**(17 199)**	**(5 458)**	**987**	**517 363**	**471 719**

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

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

(All amounts in PLN thousand unless otherwise stated)

Consolidated cash flow statement

	Note	12 months ended 31 December 2017	12 months ended 31 December 2016
Cash flows from operating activities			
Cash generated from operations	24	27 784	14 269
Interest paid		(5 148)	(5 445)
Net cash generated from operating activities		**22 636**	**8 824**
Cash flows from investing activities			
Capital expenditure on investment property		(8 079)	(11 355)
Purchases of property, plant and equipment		(117)	(106)
Purchases of subsidiaries		(581)	0
Purchases of shares in subsidiaries		25 531	69 600
Proceeds from sale of property, plant and equipment		0	40
Proceeds from sale of investment properties		40 250	2 099
Proceeds from withdrawal of contributions in joint ventures		18 034	0
Received dividends and profits in joint ventures		7 491	0
Interest received		0	44
Loans granted		0	(347)
Cash and cash equivalents of the subsidiaries acquired		35	0
Net cash used in investing activities		**82 564**	**59 975**
Cash flows from financing activities			
Repayments of borrowings		(5 145)	(4 873)
Share redemption		(17 199)	0
Bonds repaid		(30 000)	0
Net cash used in financing activities		**(52 344)**	**(4 873)**
Net (decrease)/increase in cash and cash equivalents		**52 856**	**63 926**
Cash and cash equivalents at beginning of the year		**89 999**	**26 073**
Cash and cash equivalents at end of the year		**142 855**	**89 999**

Elżbieta Donata Wiczkowska
Chairman of the Board

Colin Kingsnorth
Board Member

John Purcell
Board Member

Iwona Makarewicz
Board Member

(All amounts in PLN thousand unless otherwise stated)

Additional notes and explanations to the consolidated financial statements

1 General information

1.1. Information about the parent entity

Information on CPD S.A. (current parent Company)

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

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

On 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.

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

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

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

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

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

On 14 December 2010, the prospectus of Celtic Property Developments S.A. with its registered office in Warsaw was approved. On 17 December 2010 the Board of the National Depository of Securities ("KDPW") granted to the Company the status of participant of KDPW, type ISSUER, registered 34,068,252 Company's ordinary bearer shares, series B with a nominal value of PLN 0.10 each and marked them with code PLCELPD00013. Three days later, the shares were admitted to trading on the parallel market. The shares were registered in the National Depository and on 23 December 2010 introduced to the continuous trading system.

(All amounts in PLN thousand unless otherwise stated)

Additional notes and explanations to the consolidated financial statements

1.1. Information about the parent entity (cont.)

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

As at the date of preparation of these consolidated financial statements, the Management Board and Supervising Bodies of the parent company consisted of:

Management Board:

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

Supervisory Board:

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

As at 31 December 2017 Company's shareholders were*:

Company	Country	No. of shares	% owned capital	% of voting rights
Coopertaive Laxey Worldwide W.A.,	Netherlands	11 406 759	28,98%	28,98%
Furseka Trading and Investments Ltd	Cyprus	6 942 424	17,64%	17,64%
The Value Catalyst Fund plc	Cayman	4 567 681	11,61%	11,61%
QVT Fund LP	Cayman Islands, USA	4 186 145	10,64%	10,64%
LP Value Ltd	British Virgin Islands	2 327 645	5,91%	5,91%
LP Alternative Fund LP	USA	2 325 927	5,91%	5,91%
Shareholders with stakes below 5%		7 597 442	19,31%	19,31%
		39 354 023	100%	100%

* The above shareholder's structure is based on own data as at 31 December 2017.

1.2. Information about Capital Group

As at balance sheet date CPD Group comprised CPD S.A. as a parent entity, 33 subsidiaries and 2 entities under common control.

Additional information concerning consolidated subsidiaries is included in Note 2.2.

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

The financial year of CPD and its entities is the calendar year, except of IMES Poland Sp. z o.o., which data were respectively adjusted.

(All amounts in PLN thousand unless otherwise stated)

Additional notes and explanations to the consolidated financial statements

1.2. Information about Capital Group (cont.)

The core business of CPD Group comprise:

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

2 Summary of significant accounting policies

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

2.1 Basis of preparation

Consolidated financial statements of CPD S.A. were prepared as at 31 December 2017 and for the period since 1 January 2017 till 31 December 2017, while comparative data are for the period since 1 January 2016 till 31 December 2016.

These consolidated financial statements of CPD S.A. have been prepared in accordance with International

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

New and amended standards and interpretations which came into force in 2017 and description of the impact of applying the amendments:

Amendments to IAS 12 **Recognition of Deferred Tax Assets** for unrealised losses on debt instruments valuations (issued on 19 January 2016).

Amendments to IAS 7 **Disclosure Initiative** (issued on 29 January 2016).

Amendments to IFRS 12 being a part of **Annual Improvements to IFRSs 2014-2016 cycle** (issued on 8 December 2016).

Additional disclosure resulting from amendemeent od IAS 7 has been presented in Note 15. Otherwise application of the above changes to the standards did not have any significant impact on these consolidated financial statements.

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

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

Additional notes and explanations to the consolidated financial statements

2.1 Basis of preparation (cont.)

IFRS 9 Financial Instruments: Classification and Measurement and hedging accounting replaces the IAS 39. The standard is effective for accounting periods beginning on or after 1 January 2018.

The standard introduces the following categories for financial assets: measured at amortised cost and measured at fair value through profit or loss or at fair value through other comprehensive income. Assets are classified on initial recognition depending on an entity's financial instrument management model and the characteristics of contractual cash flows from such instruments. IFRS 9 introduces a new impairment recognition model based on expected credit losses.

The majority of requirements under IAS 39 concerning classification and measurement of financial liabilities were incorporated into IFRS 9 unchanged. The key change is the new requirement that entities present in other comprehensive income changes in their own credit risk related to financial liabilities designated to be measured at fair value through profit or loss and the requirement that the effects of renegotiation of credit facility agreements that do not result in derecognition of the liabilities be recognised immediately in profit or loss. Changes were also made to allign the hedge accounting model with risk management.

The Group will apply IFRS 9 as of January 2018, without restating comparative data.

IFRS 15 Revenue from contracts with customers

The standard was published on 11 September 2015 and is effective for annual periods beginning on or after 1 January 2018.

The provisions of IFRS 15 will apply to all contracts giving rise to revenue. The fundamental rule provided for in the new standard is that revenue is to be recognised upon transfer of goods or services to a customer at a transaction price. Any goods or services that are sold in bundles and are distinct within the bundle should be recognised separately, and any discounts and rebates on the transaction price should be allocated to specific bundle items. Where a contract contains elements of variable consideration, under the new standard such variable consideration is recognised as revenue only if it is highly probable that the revenue will not be reversed in the future as a result of revaluation. Furthermore, in accordance with IFRS 15, the cost of obtaining and securing a contract with a customer should be capitalised and amortised over the period in which the contract's benefits are consumed.

The Group will apply IFRS 15 as of 1 January 2018, without restating comparative data

IFRS 16 Leasing

IFRS 16 "Leasing" was not adopted by the EU by the date of the consolidated financial statements, effective for annual periods beginning on or after 1 January 2019.

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

The Group will apply IFRS 16 since 1 January 2019.

2.1 Basis of preparation (cont.)

IFRS 17 Insurance Contracts

IFRS 17 Insurance Contracts, issued by the International Accounting Standards Board on 18 May 2017, is effective for annual periods beginning on or after 1 January 2021. New IFRS 17 will replace existing IFRS 4, which allows for a variety of practice in accounting for insurance contracts. IFRS 17 will substantially change the accounting of all entities that deal with insurance contracts and investment agreements.

The Group will apply IFRS 17 following its endorsement by the European Union.

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

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

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

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 and are effective for annual periods beginning on or after 1 January 2018.

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

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

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

Amendments to IAS 28 Investments in Associates and Joint Ventures

The amendments are were published on 12 october 2017 and are effective for annual periods beginning on or after 1 January 2019, but were not adopted by the EU by the date of the consolidated financial statements. Amendments to IAS 28 Investments in Associates and Joint Ventures clarify that an entity applies IFRS 9 to long-term interests in an associate or joint venture to which it does not apply the equity method. The Board has also published an example illustrating the application of IFRS 9 and IAS 28 to long-term interests in an associate or joint venture.

Amendments to IFRS 9: prepayment features with negative compensation

The amendments to IFRS 9 are effective for annual periods beginning on or after 1 January 2019, with an early adoption option. The amended IFRS 9 allows entities to measure financial assets with negative compensation prepayment features at amortised cost or fair value through other comprehensive income if a specified condition is met – instead of at fair value through profit or loss.

Not yet adopted by the EU by the date of the consolidated financial statements.

Additional notes and explanations to the consolidated financial statements

2.1 Basis of preparation (cont.)

Clarifications to IFRS 15 Revenue from Contracts with Customers

Clarifications to IFRS 15 "Revenue from Contracts with Customers" were not adopted by the EU by the date of the consolidated financial statements 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.

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 1 January 2018, or after that date.

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

IFRIC 22: transactions in foreign currency and advance considersation

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

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

IFRIC 23 Uncertainty over Income Tax Treatments

IFRIC 23 clarifies application of recognition and measurement requirements in IAS 12 when there is uncertainty over income tax treatments. The guidelines are effective for annual periods beginning on or after 1 January 2019.

Annual improvements cycle IFRSs 2015-2017

The amendments were published on 12 December 2017 and are effective for annual periods beginning on or after 1 January 2019, but were not approved by the EU until the date of the consolidated financial statements.

Amendments to IAS 19: Remeasurement at a plan amendment, curtailment or settlement

The amendments were published on 7 February 2018 and are effective for annual periods beginning on or after 1 January 2019, but were not approved by the EU until the date of the consolidated financial statements.

The impact of the new standards and amendments on the consolidated financial sytatements have been analysed as at balance sheet date.

The estimates made indicate that IFRS 9 will not have material impact on the consolidated financial statements. Of the Group. It has been concluded that it will be necessary to calculate potential adjustments related to past renegotiations of the bank loan. The effects, which so far have been accounted for through effective interest rate of the liability in order to amortise the difference between the balance sheet valuation and expected modified future cash flows over the financing period, according to IFRS 9 should be reflected in profit and loss. Resulting from the renegotiation the amended amortised cost valuation should be prepared beased on modified effective interest rate determined at the date of concluding the loan agreement. Beased on the calcaulations performed the cummulative effect is expected not to be significant.

(All amounts in PLN thousand unless otherwise stated)

Additional notes and explanations to the consolidated financial statements

2.1 Basis of preparation (cont.)

Based on the analyses performed IFRS 15 is neither expected to have material impact on the consolidated financial statements.

Remainig new standards and amendments do not relate to the Group activity, or related only remotely, as a consequence they are not expected to have significant impact on the consolidated financial statements.

2.2 Consolidation

(a) Subsidiaries

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

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

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

The surplus of the amount transferred for the acquisition, the amount of all non-controlling shares in a entity being acquired and fair value as at acquisition date of participation in a capital of an entity being acquired, over the fair value of acquired identifiable net assets is recognised as goodwill. If the acquisition cost is lower than the fair value of the net assets of the acquired entity, the different is reflected directly in the consolidated profit and loss account.

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

(b) Joint-ventures

Jointly controlled entities are consolidated using the propoerty rights method.

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

	Name	Country	Shareholder	31 December 2017	31 December 2016
1	Mandy Investments Sp. z o.o.	Poland	Lakia Enterprises Limited	100%	100%
2	Lakia Enterprises Limited	Cyprus	CPD S.A.	100%	100%
3	Lakia Investments Sp. z o.o.	Poland	Lakia Enterprises Limited	100%	100%
4	Celtic Asset Management Sp. z o.o.	Poland	CPD S.A.	100%	100%
5	Blaise Investments Sp. z o.o.	Poland	Lakia Enterprises Limited	0%	100%
			Celtic Investments Limited	100%	0%

(All amounts in PLN thousand unless otherwise stated)

Additional notes and explanations to the consolidated financial statements

	Name	Country	Shareholder	31 December 2017	31 December 2016
6	Robin Investments Sp. z o.o.	Poland	Lakia Enterprises Limited	100%	100%
7	IMES Poland Sp. z o.o.	Poland	Buffy Holdings No 1 Ltd	100%	100%
8	Hub Developments Ltd Sp. z o.o.	Poland	Lakia Enterprises Limited	100%	100%
9	Elara Investments Sp. z o.o.	Poland	Lakia Enterprises Limited	100%	100%
10	Celtic Investments Limited	Cyprus	CPD S.A.	100%	100%
11	Gaston Investments Sp. z o.o.	Poland	Lakia Enterprises Limited	100%	100%
12	Buffy Holdings No 1 Ltd	Cyprus	CPD S.A.	100%	100%
13	Challange Eighteen Sp. z o.o.	Poland	Buffy Holdings No 1 Ltd	100%	100%
14	Celtic Trade Park Kft	Hungary	Lakia Enterprises Limited	100%	100%
15	Smart City Spółka z ograniczoną odpowiedzialnością Sp.k.	Poland	Challange Eighteen Sp. z o.o.	49%	49%
			Smart City Sp. z o.o.	1%	1%
16	2/124 Gaston Investments Spółka z ograniczoną odpowiedzialnością Sp.k.	Poland	Challange Eighteen Sp. z o.o.	99%	99%
			Gaston Investments Sp. z o.o.	1%	1%
17	3/93 Gaston Investments Spółka z ograniczoną odpowiedzialnością Sp.k.	Poland	Challange Eighteen Sp. z o.o.	99%	99%
			Gaston Investments Sp. z o.o.	1%	1%
18	Ursa Park Smart City Spółka z ograniczoną odpowiedzialnością Sp.k.	Poland	Challange Eighteen Sp. z o.o.	49%	99%
			Gaston Investments Sp. z o.o.	0%	1%
			Smart City Sp. z o.o.	1%	0%
19	5/92 Gaston Investments Spółka z ograniczoną odpowiedzialnością Sp.k.	Poland	Challange Eighteen Sp. z o.o.	99%	99%
			Gaston Investments Sp. z o.o.	1%	1%
20	6/150 Gaston Investments Spółka z ograniczoną odpowiedzialnością Sp.k.	Poland	Challange Eighteen Sp. z o.o.	99%	99%
			Gaston Investments Sp. z o.o.	1%	1%
21	7/120 Gaston Investments Spółka z ograniczoną odpowiedzialnością Sp.k.	Poland	Challange Eighteen Sp. z o.o.	99%	99%
			Gaston Investments Sp. z o.o.	1%	1%
22	8/126 Gaston Investments Spółka z ograniczoną odpowiedzialnością Sp.k.	Poland	Challange Eighteen Sp. z o.o.	99%	99%
			Gaston Investments Sp. z o.o.	1%	1%
23	9/151 Gaston Investments Spółka z ograniczoną odpowiedzialnością Sp.k.	Poland	Challange Eighteen Sp. z o.o.	99%	99%
			Gaston Investments Sp. z o.o.	1%	1%
24	10/165 Gaston Investments Spółka z ograniczoną odpowiedzialnością Sp.k.	Poland	Challange Eighteen Sp. z o.o.	99%	99%
			Gaston Investments Sp. z o.o.	1%	1%
25	11/162 Gaston Investments Spółka z ograniczoną odpowiedzialnością Sp.k.	Poland	Challange Eighteen Sp. z o.o.	0%	99%
			Gaston Investments Sp. z o.o.	0%	1%
26	12/132 Gaston Investments Spółka z ograniczoną odpowiedzialnością Sp.k.	Poland	Challange Eighteen Sp. z o.o.	99%	99%
			Gaston Investments Sp. z o.o.	1%	1%
27	13/155 Gaston Investments Spółka z ograniczoną odpowiedzialnością Sp.k.	Poland	Challange Eighteen Sp. z o.o.	99%	99%
			Gaston Investments Sp. z o.o.	1%	1%
28	14/119 Gaston Investments Spółka z ograniczoną odpowiedzialnością Sp.k.	Poland	Challange Eighteen Sp. z o.o.	0%	99%
			Gaston Investments Sp. z o.o.	0%	1%
29	16/88 Gaston Investments Spółka z ograniczoną odpowiedzialnością Sp.k.	Poland	Challange Eighteen Sp. z o.o.	99%	99%
			Gaston Investments Sp. z o.o.	1%	1%
30	15/167 Gaston Investments Spółka z ograniczoną odpowiedzialnością Sp.k.	Poland	Challange Eighteen Sp. z o.o.	99%	99%
			Gaston Investments Sp. z o.o.	1%	1%
31	18 Gaston Investments Spółka z ograniczoną odpowiedzialnością Sp.k.	Poland	Challange Eighteen Sp. z o.o.	99%	99%
			Gaston Investments Sp. z o.o.	1%	1%
32	19/97 Gaston Investments Spółka z ograniczoną odpowiedzialnością Sp.k.	Poland	Challange Eighteen Sp. z o.o.	99%	99%
			Gaston Investments Sp. z o.o.	1%	1%

(All amounts in PLN thousand unless otherwise stated)

Additional notes and explanations to the consolidated financial statements

	Name	Country	Shareholder	31 December 2017	31 December 2016
33	20/140 Gaston Investments Spółka z ograniczoną odpowiedzialnością Sp.k.	Poland	Challange Eighteen Sp. z o.o.	99%	99%
			Gaston Investments Sp. z o.o.	1%	1%
34	Belise Investments Sp. z o.o.	Poland	Lakia Enterprises Limited	100%	100%
35	Antigo Investments Sp. z o.o.	Poland	Lakia Enterprises Limited	100%	100%
36	Smart City Sp. z o.o.	Poland	Lakia Enterprises Limited	100%	100%
37	Bolzanus Limited	Cyprus	Buffy Holdings No 1 Ltd	100%	0%

2.3 Change in Group structure

In the financial year ended 31 December 2017, the following changes took place in the structure of CPD Group:

- on June 28, 2017 the subsidiary 11/162 Gaston Investments Spółka z ograniczoną odpowiedzialnością Sp.k. has been disposed,
- on July 27, 2017 the Group disposed the subsidiary 14/119 Gaston Investments spółka z ograniczoną odpowiedzialnością sp.k.,
- on 2 August 2017 4/113 Gaston Investments spółka z ograniczoną odpowiedzialnością sp. k. switched into entity under common control and changed its name into Ursa Park Smart City spółka z ograniczoną odpowiedzialnością sp. k.,
- on 2 August 2017 the Group acquired 100% shares in Bolzanus Limited headquartered in Limassol, Cyprus.

2.4 Foreign currency translation

(a) Functional and presentation currency

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

(b) CPD Group Companies

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

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

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

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

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

2.5 Investment property

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

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

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

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

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

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

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

2.6 Property, plant and equipment

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

Additional notes and explanations to the consolidated financial statements

2.6 Property, plant and equipment (cont.)

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

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

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

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

2.7 Leases

(a) A group company is the lessor

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

(b) A group company is the lessee

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

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

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

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

2.8 Intangible assets, excluding goodwill

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

(All amounts in PLN thousand unless otherwise stated)

Additional notes and explanations to the consolidated financial statements

2.9 Goodwill

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

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

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

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

2.10 Impairment of non-financial assets

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

2.11 Financial assets

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

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

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

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

Additional notes and explanations to the consolidated financial statements

2.11 Financial assets - cont.

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

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

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

2.12 Inventories

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

Inventory items are stated at the lower of cost or net realisable value on a first-in, first-out basis (FIFO) or market. The net realisable value is the estimated sales price in the ordinary course of business, less the estimated costs of completion and selling expenses.

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

• costs incurred relating to projects or a phase of a project which are not available for sale (work in progress),

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

Project construction costs include:

a) land or leasehold rights for land,

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

c) planning and design costs,

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

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

f) construction overheads and other directly related costs.

2.13 Assets held for sale

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

The sale is determined to be highly probable if:

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

(All amounts in PLN thousand unless otherwise stated)

Additional notes and explanations to the consolidated financial statements

2.13 Assets held for sale (cont.)

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

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

2.14 Share capital

Ordinary shares are classified as share capital.

2.15 Trade payables

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

2.16 Borrowings

Borrowings are recognized initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortized cost.
Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

2.17 Borrowing costs

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

2.18 Complex financial instruments

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

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

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

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

Additional notes and explanations to the consolidated financial statements

2.19 Embedded derivatives

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

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

Embedded derivatives are recognised similarly as stand-alone derivatives that are not deemed as hedging instruments.
An embedded derivative is classified into assets or liabilities measured at fair value through profit or loss.

2.20 Income tax

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

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

2.21 Deferred income tax

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

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

Additional notes and explanations to the consolidated financial statements

2.22 Employee benefits

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

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

2.23 Provisions

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

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

2.24 Revenue recognition

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

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

(a) Rental income

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

(b) Service and management charges

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

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

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

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

(d) Interest Income

Interest income is recognised using the effective interest rate method.

Additional notes and explanations to the consolidated financial statements

2.25 Expenses

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

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

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

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

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

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

2.26 Dividend distribution

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

2.27 Interest expense

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

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

2.28 Share-base payments

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

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

(All amounts in PLN thousand unless otherwise stated)

Additional notes and explanations to the consolidated financial statements

3 Financial risk management

3.1 Financial risk factors

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

(a) Market risk

(i) Currency risk

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

	Year ended at 31 December 2017	**Year ended at 31 December 2016**
Debt in foreign currencies - EUR	106 766	152 855
Assumed change in PLN/EUR exchange rate	+/-1%	+/-1%
FX gains/losses due to change in FX rate	1 068	1 529
Tax shield	203	290
Effect on net profit/(loss)	865	1 238

(ii) Price risk

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

(iii) Interest rate risk

Interest rate risk is the risk the CPD Group is exposed to in connection with changes in market interest rates. In the case of CPD Group, the risk of changes in interest rates is related to long-term bank loans (Note 13). Variable interest rate loans expose CPD Group to the risk of fluctuations in future cash flows. The Management Board keeps track of fluctuations in interest rates and responds adequately. The variable interet rate applicable to 80% of the bank credit received by subsidiary Belise has been fixed with IRS contract. As at the year end CPD Group does not use other interest rate hedges.

	Year ended at 31 December 2017	**Year ended at 31 December 2016**
Variable interest rate loans	106 766	118 980
Cost of interest in the period	5 263	7 948
Assumed change in interest rates	+/-1pp	+/-1pp
Effect of the change on the cost of interest	1 068	1 190
Tax shield	203	226
Effect on net profit/(loss)	865	964

(All amounts in PLN thousand unless otherwise stated)

3.1 Financial risk factors - cont.

(b) Credit risk

Credit risk arises on cash and cash equivalents and receivables. It is mitigated by depositing cash with highly reliable banks(mainly ING Bank Śląski, mBank, BZ WBK). The Company uses banks and other financial institutions with the following long-term IDR ratings from an independent rating agency (Fitch):

- ING Bank Śląski - A
- BZ WBK - BBB+
- mBank - BBB

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

Not all receivables of the Group are secured with deposits or guarantees. The Group revises the value of receivables taking into account the likelihood of their payment and recognises adequate impairment charges.

(c) Liquidity risk

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

Exept of liabilities related to assets classified as held for sale, as at 31 December 2017 short-term liabilities amounted to PLN 133.624 thousand (including borrowings of PLN 26.902 thousand) and are lower than current assets (excluding assets held for sale) by PLN 22.382 thousand. A detailed description of the situation regarding borrowings presented in the financial statements at 31 December 2016 as borrowings, including finance lease, and the evaluation of risks by the Board are presented in note 13 "Borrowings, including finance leases".

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

As at 31.12.2017	Within 1 year	1 – 5 years	More than 5
Loans and leases	28 527	74 103	121 464
Trade payables and other payables	84 752	2 235	0
	113 279	76 338	121 464

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

General decrease as compared to prior yearis attributable mainly to conversion and redemption of own bonds, supported by bank loans repayment and transfer of financial leases to liabilities held for sale. On the same time the balance of prepaid prices of future sales of asset belonging to the Group has increased.

(All amounts in PLN thousand unless otherwise stated)

Additional notes and explanations to the consolidated financial statements

3.2 Financing structure management

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

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

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

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

	31 December 2017	31 December 2016
Total loans, including finance leases (Note 13)	140 277	146 084
Liability under bonds issued (note 14)	0	64 896
Trade payables and other payables (Note 12)	108 957	37 262
Less: cash and cash equivalents (Note 9)	-143 303	-89 999
Net debt	**105 931**	**158 243**
Equity	471 719	446 903
Total capital	**577 650**	**605 146**
Financing structure ratio	**18,3%**	**26,1%**

4 Major accounting estimates and judgments

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

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

Estimations of Fair Value of Embedded Derivatives

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

The fair value of the embedded derivative was estimated at level 2 using a combination of two approaches: binomial trees in the share price variation part and the Monte Carlo approach adopted for the purposes of analysis of volatility of exchange rates. The value of the instrument is determined as a difference between fair value of a bond and bond value excluding the embeded element calculated based on amortised cost using effective interest rate.

Following the conversion of the convertible bonds int equity during 2017 the embeded derivative has been derecognised.

(All amounts in PLN thousand unless otherwise stated)

Additional notes and explanations to the consolidated financial statements

4 Major accounting estimates and judgments (cont.)

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

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

The fair value of the contract hedging the interest rate is datermined as a difference in discounted interest cash flows based on fixed and floating interest rates. Market interest rates are the entry data for the valuation.This represent level 2 of the fair value hierarchy.

As at 31 December 2017 the IRS is valued at PLN 479 thousand.

Accounting treatment of joint ventures

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

At the same time, the parties stipulated in the investment agreement that a part of lands (and all related costs and income) belonging to Smart City would be 100% controlled by CPD Group. These plots, according to the local spatial development plan, are destinated for the construction of public roads and for educational purposes.

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

On 22 February 2017 next investment agreement was signed by CPD S.A. and its subsidiaries (Challange Eighteen Sp. z o.o., 4/113 Gaston Investments z ograniczoną odpowiedzialnością Sp.k., Lakia Enterprises Ltd), of the one part, and entities not associated with the Group, i.e. Unidevelopment S.A. and Unibep S.A., of the other part. The agreement stipulates a joint venture created for construction of a complex of multiple residential units with services and related infrastructure at a property belonging to 4/113 Gaston Investments Spółka z ograniczoną odpowiedzialnością Sp.k.

The investment agreemeent stipulated that the joint venture will be realised on a part of land owned by 4/113 Gaston Investments Spółka z ograniczoną odpowiedzialnością Sp.k. while other plots belonging to the subsidiary (and all related costs and income) would be 100% controlled by CPD Group.

Following the stipulations of the investment agreement Unidevelopment SA became a limited partner in 4/113 Gaston Investments Spółka z ograniczoną odpowiedzialnością Sp.k. on 2 August 2017, thus turning the subsidiary into joint venture. At the same time Gaston Investments transferred all general partner rights and obligations to Smart City Sp. z o.o., resulting in change in the name of the company into Ursa Park Smart City Spółka z o ograniczoną odpowiedzialnością Sp. k.

4 Major accounting estimates and judgments (cont.)

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

- assets and liabilities under the investment agreement were recognized as the joint venture and were valued in the consolidated financial statements according to the property rights method and the joint ventuire partners have equal 50% share in profits, assets and liabilities,

- land excluded by the investment agreemeent from the joint ventures as well as related assets and liabilities were included in the joint ventures accountedd for based on property rights method, with CPD group entitled to 100% of profits, assets and liabilities related to these plots, while Unidevelopment Group has no respective rights.

Further details of the valuation of the joint ventures were presented in Note 10.

Determination of fair value of real estate

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

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

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

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

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

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

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

Additional notes and explanations to the consolidated financial statements

4 Major accounting estimates and judgments (cont.)

Non-developed land and land developed with tenement houses were valued using the comparative method (comparison in pairs). The comparative method determines the value of a real estate assuming that such value is equal to prices obtained for similar properties traded in the market. The value of real properties is adjusted according to their differentiating features and stated taking into account volatility of prices in time. The comparative method is used, if prices of real properties similar to the property valued are known. The price per square meter is the variable affecting the valuation result the most.

The income approach (investment method) was applied to properties generating income. The income approach defines the value of a real property based on the assumption that the buyer will pay the price depending on the anticipated income to be earned on the same real property provided that such price will not exceed that of another property featuring the same profitability and risk that it could buy.

Assuming rental or lease market rates can be defined market value of the the real property generating rent income is determined based on direct capitalization, as the quotient of a stable yearly income flow obtainable from the real property valued and the capitalization rate.

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

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

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

The land for residential and retail development was valued based on the following assumptions:
- the planned useful area of apartments to be built amounts to 454.147 sq.m.;
- the planned useful area of shops to be built on ground floors of the houses amounts to 41.428 sq.m.;
- the planned useful area of offices to be built amounts to 39.758 sq.m.

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

(All amounts in PLN thousand unless otherwise stated)

Additional notes and explanations to the consolidated financial statements

4 Major accounting estimates and judgments (cont.)

The table below includes information about methods used for and assumptions underlying the valuations of the investment class properties at fair value along with information about major unnoticeable entry data - 31 December 2017.

Investment property	Valuation method / fair value valuation level	Capitalization rate/ construction cost per sqm	Anticipated rent rates per sqm/ sales price per sqm	Discount rate
Office buildings	income method / level 3	7,75% - 9,00%	8,83 - 11,75	9% - 10%
Land in Ursus designed for housing, commercial and public purposes	residual method / level 3 and comparative method / level 2	3 650	5 850	3,00%

The table below includes information about methods used for and assumptions underlying the valuations of the investment class properties at fair value along with information about major unnoticeable entry data - 31 December 2016.

Investment property	Valuation method / fair value valuation level	Capitalization rate/ construction cost per sqm	Anticipated rent rates per sqm/ sales price per sqm	Discount rate
Office buildings	income method / level 3	7,75% - 9,00%	9,36-11,75	9% - 10%
Land in Ursus designed for housing, commercial and public purposes	residual method / level 3 and comparative method / level 2	3 600	5 700	3,00%

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

Valuation method	Fair value	Judgemental variable	Assumed changed in judgemental veriable	Impact on valuation
income	153 948	capitalisation rate	+/- 0,25 pp	-2 695 / 3 165
		discount rate	+/- 0,25 pp	-2 695 / 3 123
		rent rate	+/- 5%	6 852 / -7 297
residual	239 040	discount rate	+/- 0,25 pp	-1 409 / 1 537
		construction cost per 1 m2	+/-1,4%	-16 263 / 16 263
		sales price per 1 m2	+/- 0,9%	8 964 / -8 999
other methods	78 727	incencitive for judgemental variables	n/a	n/a
	471 715			

(All amounts in PLN thousand unless otherwise stated)

Additional notes and explanations to the consolidated financial statements

4 Major accounting estimates and judgments (cont.)

Income tax

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

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

Due to changes in the income tax act over the years, there is a risk of a different interpretation of the law by the tax authorities as regards the fixing of the costs of income related to the sale of investment property Risk assessment in large part depends on the legal form of the transaction, i.e.. whether the transaction is a sale of shares in subsidiaries or sale of assets (investment property).

As of 31 December 2017 the Group has not recognized deferred tax liability for taxable temporary differences associated with investments in subsidiaries, as in line with management’s assessment both IAS 12 par. 39 conditions are satisfied ie. CPD is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. This management’s assessment relates to the investments in subsidiaries owing the plots of land located in Ursus and in particular management’s intention related to the legal form of future transactions regarding disposal deals. The amount of unrecognized deferred tax liability for taxable temporary differences associated with investments in subsidiaries holding Ursus land as of 31 December 2017 amounted to PLN 35.956 thousand.

With respect to taxable temporary differences associated with investments in subsidiaries which are probable to reverse in the foreseeable future, the Group recognized deferred tax liability as of 31 December 2017 in the amount of PLN 7.270 thousand (see note 15) (as at 31 December 2016 - no deferred tax was recognized as reversal in foreseeable future was not probable).

Moreover, with reference to General Anti-Avoidance Clause (GAAR), aimed at prevention from creating and using artificial legal structures in order to avoid tax in Poland, the Management has analysed the whole tax position of the Group entities, intented to identify and access transactions and operations that could potentially be subject to GAAR and judge the impact on those interim condensed consolidated financial statements. In the Management's opinion the related risk has been properly reflected in these interim condensed consolidated financial statements, however interpretation of tax regulations bears inherent uncertianity, which may impact future recoverbility of deferred tax assets or tax payables related to past periods.

(All amounts in PLN thousands unless otherwise stated)

Additional notes and explanations to the consolidated financial statements

5 Investment properties

	12 months ended 31 December 2017	12 months ended 31 December 2016
At the beginning of the period	**558 706**	**651 094**
Capital expenditure	8 079	11 355
Acquisition	4 390	0
Change in the balance of capitalized financial liability concerning the property acquired	4 065	0
Disposal of investment property	(62)	(4 574)
Transfer to inventory	(16 644)	0
Transfer to joint venture	(33 160)	(16 012)
Change in the balance of capitalized financial liability concerning the property disposed in course of joint venture	(1 037)	(519)
Fair value of properies disposed in course of sale of subsidiary	0	(68 746)
Change in the balance of capitalized financial liability concerning the property disposed	(17)	(4 829)
Change in the balance of capitalized financial liability concerning the properties transferred to assets held for sale	(3 731)	(581)
Change in the balance of capitalized financial liability concerning the properties transferred from assets held for sale	87	0
Change in the balance of capitalized financial liability	7 528	(44)
Transfer to assets held for sale	(64 530)	(13 160)
Transfer from assets held for sale	280	0
Net gain from fair value adjustment on investment property	7 761	4 722
	471 715	**558 706**

Investment properties which belong to the CPD Group were valued by an independent international professional appraiser, Savills Sp. z o.o. as at 31 December 2016 and as at 31 December 2015 in accordance with RICS Valuation – Professional Standards incorporating the International Valuation Standards published by the Royal Institution of Chartered Surveyors (RICS) and effective from 30 March 2012 and as at 31 December 2011 in accordance with the following standards and regulations: Practice Statements of the Royal Institution of Chartered Surveyors' (RICS) Appraisal and Valuation Standards (the "Red Book") published in February 2003, effective from 1 May 2003.

As at Dec 31, 2017, the total fair value of real properties owned by the Group and disclosed under the 'Investment Properties' header in the consolidated financial statements was lower than at the end of 2016 by PLN 87.0 million. The decline in the value of the property occurred mainly as a result of the transfer of investment property belonging to 4/114 Gaston Investments Sp. z o. o. sp.k. to inventory and joint ventures (the value of the property transferred to inventory amounted to PLN 16.6 million and to joint ventures - PLN 33.2 million), as well as in connection with the reclassification of properties belonging to the companies: 8/126 Gaston Investments Spółka z ograniczoną odpowiedzialnością sp.k., 9/151 Gaston Investments Spółka z ograniczoną odpowiedzialnością sp.k., 10/165 Gaston Investments Spółka z ograniczoną odpowiedzialnością sp.k. and 15/197 Gaston Investments Spółka z ograniczoną odpowiedzialnością sp.k. (part) to the assets held for sale. In 2017, the Group recognized a gain from fair value adjustment of investment properties in the amount of PLN 7.8 million.

On February 22, 2017 the Group has concluded an investment agreement for a joint venture aimed at construction of complete complex of multi-family buildings with services and infrastructure.

(All amounts in PLN thousands unless otherwise stated)

Additional notes and explanations to the consolidated financial statements

5 Investment properties (cont.)

The Agreement assumes joint construction investment on the property (the "Property") owned by the Group CPD SA i.e. the subsidiary Ursa Park Smart City Sp. z ograniczoną odpowiedzialnością spółka komandytowa (previous name 4/113 Gaston Investments Sp. z ograniczoną odpowiedzialnością spółka komandytowa) in Warsaw, which is the perpetual usufructuary of plots No. 113/1, 113/2, 113/4, 113/5 no. rpm. reg. no. 2-09-09, with an area of 4,944 ha and is located at Traktorzystów Street in Warsaw. The construction of the complex with services, together with the accompanying infrastructure on the part of the Property of area of approx. 1.36 ha, will be performed in two stages. Unibep SA will be a general contractor and Unidevelopment SA a substitute investor.

In the first quarter of 2017 a part of investment property of PLN 16.644 thousand related to the implementation of stage I of the project was transferred to inventory. In the third quarter part of the property related to stage II of PLN 33 160 thousand was contributed to the joint venture. The total value of investment property related to a joint ventury was PLN 49.804 thousand. Further details are presented in Note 10.

The capital expenditure on investment properties in 2017 amounted to PLN 8.1 million and related mainly to capital expenditures in Ursus.

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

As at 31 December 2017, all investment properties of the CPD Group were registered in the land and mortgage register.

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

	31 December 2017	31 December 2016
Investment property according to external valuation	428 706	532 569
Investment property according to sales price	9 977	0
Liabilities in respect of perpetual usufruct	33 032	26 137
Investment property presented in the statement of financial position	**471 715**	**558 706**

Direct operating expenses relating to investment properties:

	12 months ended 31 December 2017	12 months ended 31 December 2016
- generating income from rent	4 550	4 096
- other	213	245
	4 763	**4 341**

6 Fair value of security

	31 December 2017	31 December 2016
Aquarius	24 066	25 394
Ursus	47 270	80 660
Cybernetyki 7b	26 861	31 676
IRIS	103 021	104 849
	201 218	**242 579**

(All amounts in PLN thousands unless otherwise stated)

Additional notes and explanations to the consolidated financial statements

6 Fair value of security (cont.)

Properties: Aquarius, Cybernetics 7B (Solaris) and IRIS aremortgaged to collateralise bank loans as decribed further in note 13.
Some of the properties in Ursus were mortgaged as collateral for conditional sales agreements.

7 Trade receivables and other receivables

	31 December 2017	31 December 2016
Trade receivables	1 610	1 715
Prepayments and accruals	1 957	5 060
Receivables from the state budget	3 482	3 368
Receivables from related entities	233	86
Short-term trade receivables and other receivables	**7 282**	**10 229**
Long-term receivables	931	365
Total trade receivables and other receivables	**8 213**	**10 594**

The estimated fair value of trade receivables and other receivables is a discounted amount of expected future inflows which the CPD Group will receive, and it approximates the carrying amount of such inflows. Most rent receivables are secured. The CPD Group requires security from its tenants in the form of an equivalent of a one to three months' rent. Receivables in respect of rent are mainly secured with bank deposits.
VAT receivables are the biggest trade receivables and other receivables item, followed by prepayments and accruals. The later mainly includes the balance of linear settlement of rental income related to rent incentives consisting of rent free periods or significant periodical rent discountss. The total resulting balance as at 31 December 2017 amounted to PLN 1.4 million split in to PLN 0,9 million of long-term portion and PLN 0,5 million of short-term portion.

The CPD Group recognized a loss of PLN 28 thousand in resulting from impairment and write-off of receivables in the year ended 31 December 2017 (year ended 31 December 2016: PLN 185 thousand). The loss was recognized under "other administrative expenses" header in the consolidated comprehensive income.

Trade receivables	31 December 2017	31 December 2016
Current	1 610	1 715
Overdue, with recognized impairment (provided for in full)	239	319

Other receivables	31 December 2017	31 December 2016
Overdue, with recognized impairment (provided for in full)	107	313

Impairment of receivables	31 December 2017	31 December 2016
- trade receivables:		
Opening balance	632	684
- increases	28	185
- decreases	(314)	(237)
Closing balance	**346**	**632**

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

(All amounts in PLN thousands unless otherwise stated)

Additional notes and explanations to the consolidated financial statements

8 Inventories

	31 December 2017	31 December 2016
Work in progress	2 451	2 810
Finished goods	1 340	820
Goods for resale	1 630	1 838
	5 421	**5 468**

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

	31 December 2017	31 December 2016
At the beginning of the period	**5 468**	**5 296**
Capital expenditure	3 058	31
Transfer from investment properties	16 644	0
Contribution into joint venture (Note 10)	(19 686)	0
Impairment loss	114	(1)
Foreign exchange differences	(177)	142
As at the balance sheet date	**5 421**	**5 468**

In the first quarter of 2017, the Group transferred to inventories an investment property related to the implementation of the first and second stage of the Ursa Park investment, related to construction of a residencial complex with accompanying infrastructure.

Resulting from the investment agreemeent regarding Ursa Park Smart City Sp. z o.o. sk., in the third quarter of 2017, the Group has contributed the above property together with the land designated for the future stages of the project into the joint venture.

9 Cash and cash equivalents

	31 December 2017	31 December 2016
Cash in hand and at bank	35 745	11 145
Restricted cash	3 131	3 324
Short-term bank deposits	104 427	75 530
	143 303	**89 999**

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

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

10 Joint ventures

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

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

On February 22, 2017 the group concluded another joint ventures agreement concerning construction of complete complex of multi-family buildings with accompanying services and infrastructure.

(All amounts in PLN thousands unless otherwise stated)

Additional notes and explanations to the consolidated financial statements

10 Joint ventures (cont.)

The subject of the Agreement is the joint implementation of a construction investment on a property belonging to a company from the CPD S.A. Capital Group. i.e. Ursa Park Smart City Sp. z ograniczoną odpowiedzialnością spółka komandytowa (previous name 4/113 Gaston Investments spółka z ograniczoną odpowiedzialnością spółka komandytowa) in Warsaw, being perpetual user of plots no. 113/1, 113/2, 113/4, 113/5 No. of ews 2-09-09, with an area of 4.944 ha and located at Traktorzystów Str. in Warsaw.

The construction of a complex of multi-family buildings with services together with accompanying infrastructure will be implemented in two stages, on a part of the property with an area of approx. 1.36 ha. The general contractor will be Unibep S.A. and Unidevelopment S.A. it will act as a substitute investor.

As a result of the implementation of the provisions of the investment agreement of 22 February 2017, on 2 August 2017, Unidevelopment joined 4/113 Gaston Investments sp. z o.o. sp.k. as a limited partner. At the same time, Gaston Investments sold all the rights and obligations of the general partner to another subsidiary, ie Smart City sp. z oo, and consequently 4/113 Gaston Investments sp. K. Limited liability company changed its name to Ursa Park Smart City limited liability company sp. k.

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

		31 December 2017	31 December 2016
a)	Smart City Spółka z ograniczoną odpowiedzialnością sp.k.	16 486	32 572
b)	Ursa Park Smart City Spółka z ograniczoną odpowiedzialnością sp.k.	46 586	0

a) Smart City Spółka z ograniczoną odpowiedzialnością sp.k.

	31 December 2017	31 December 2016
Opening balance as at 1 January	**32 572**	**14 512**
Group's share of the net profit or loss of the joint ventures presented in theses interim consolidated financial statements	7 855	3 680
Group's share in reduction of the partners' contribution	(16 266)	0
Group's participation in profit distributions	(7 491)	0
Transfer of the educational land and liabilities to the joint venture	0	14 511
Other adjustments	(184)	(131)
Closing balance as at 31 December	**16 486**	**32 572**
- including net assets not covered by the investment agreemeent with 100% CPD rights	16 486	32 572

b) Ursa Park Smart City Spółka z ograniczoną odpowiedzialnością sp.k.

	31 December 2017	31 December 2016
Opening balance as at 1 January	**0**	**0**
Group's share in net assets as at the date of starting joint venture	48 395	0
Group's share of the net profit or loss of the joint ventures presented in theses interim consolidated financial statements	(1 809)	0
Closing balance as at 31 December	**46 586**	**0**
- including net assets not covered by the investment agreemeent with 100% CPD rights	31 760	0

The financial information of individually material joint ventures of the Group as at 31 December 2017 and for the period from 1 January 2017 to 31 December 2017 is presented in the below table:

(All amounts in PLN thousands unless otherwise stated)

Additional notes and explanations to the consolidated financial statements

10 Joint ventures (cont.)

a) Smart City Spółka z ograniczoną odpowiedzialnością sp.k.

Financial information from statement of financial position	31 December 2017	31 December 2016
Total non-current assets, including	**14 015**	**14 121**
Fixed assets	17	22
Investment property	13 998	14 099
Total current assets, including:	**10 522**	**79 590**
Inventory	9 702	56 267
Trade receivables and other receivables	8	5 293
Cash and cash equivalents	812	18 030
Total assets	**24 537**	**93 711**
Total current liabilities, including:	**3 528**	**28 767**
Trade payables and other liabilties	1 495	25 829
Provisions	2 033	2 938
Total non-current liabilities	**0**	**12 230**
Bank loans	0	12 230
Total liabilities	**3 528**	**40 997**
Net assets	**21 009**	**52 714**
% share in net assets not covered by the investment agreemeent	***100%***	***100%***
	11 965	12 599
Group share in net assets not covered by the investment agreement		
% held by the Group	***50%***	***50%***
Group share of net assets of the joint venture	4 521	20 058
Purchase price allocation adjustments	0	(19)
Consolidation adjustments	0	(66)
Carrying amount of investment in joint venture presented in the consolidated financial statements	**16 486**	**32 571**

Financial information from statement of comprehensive income	31 December 2017	31 December 2016
Revenue	70 951	45 311
Interest income	58	72
Interest cost	14	0
Result from continued operations	15 810	11 121

The Group recognized a profit on the joint venture in Smart City Spółka z ograniczoną odpowiedzialnością Sp.k. in the amount of PLN 9.440 thousand.

b) Ursa Park Smart City Spółka z ograniczoną odpowiedzialnością sp.k.

Financial information from statement of financial position	31 December 2017	31 December 2016
Total non-current assets, including	**31 834**	**0**
Intangible assets	74	0
Investment property	31 760	0
Total current assets, including:	**42 517**	**0**
Inventory	32 839	0
Trade receivables and other receivables	7 666	0
Cash and cash equivalents	2 012	0
Total assets	**74 351**	**0**

(All amounts in PLN thousands unless otherwise stated)

Additional notes and explanations to the consolidated financial statements

10 Joint ventures (cont.)

Total current liabilities, including:	**12 939**	**0**
Trade payables and other liabilties	12 939	0
Total liabilities	**12 939**	**0**
Net assets	**61 412**	**0**
% share in net assets not covered by the investment agreemeent	***100%***	***0%***
Group share in net assets not covered by the investment agreement	31 760	0
% held by the Group	***50%***	***0%***
Group share of net assets of the joint venture	14 826	0
Carrying amount of investment in joint venture presented in the consolidated financial statements	**46 586**	**0**

Financial information from statement of comprehensive income	31 grudnia 2017	31 grudnia 2016
Revenue	67	0
Interest cost	1	0
Result from continued operations	(1 954)	0

The Group recognized a loss on the joint venture in Ursa Park Smart City Spółka z ograniczoną odpowiedzialnością Sp.k. in the amount of PLN 1.809 thousand.

11 Share capital

	Number of shares in thousands		Value of shares	
	31 December 2017	31 December 2016	31 December 2017	31 December 2016
Ordinary shares series B	32 336	32 336	3 233	3 233
Ordinary shares series C	163	163	16	16
Ordinary shares series D	76	76	8	8
Ordinary shares series E	89	89	9	9
Ordinary shares series F	199	199	20	20
Ordinary shares series G	6 491	0	649	0
Total	**39 354**	**32 863**	**3 935**	**3 286**

On 5 August 2014 the Extraordinary Shareholders Meeting resolved on: the issuance of bonds of series A convertible to the Company's shares of series G, the deprivation of the existing shareholders of the preemptive rights with respect to the convertible bonds of series A, the contingent increase of the share capital of the Company, the deprivation of the existing shareholders of the preemptive rights with respect to the shares of series G and on the amendment of the Statute of the Company, dematerialization of the shares of series G and the application for introduction to trading on the regulated market of the shares of series G. The contingent share capital increase was to be performed by issuance of up to 9.791.360 series G ordinary bearer share of CPD of par vale of PLN 0,10 and total value of up to PLN 979 thousand. 110 series A bonds have been issued of par value of EUR 50 thousand and total value of EUR 5.500 thousand.

On 20 March 2017 the bondholders of the series A bonds convertible into shares series G issued by CPD Sa on 26 September 2014 notified the Management of CPD SA about intention to convert 90 bonds into 5.292.720 series G shares of CPD SA. The conversion price has been determined at PLN 4,38, as specified in Extraordinary Shareholders Meeting resolution number 3 of 5 August 2014 and bonds' issuance conditions.

(All amounts in PLN thousands unless otherwise stated)

Additional notes and explanations to the consolidated financial statements

11 Share capital (cont.)

On 13 June 2017 the bondholders of the series A bonds convertible into shares series G issued by CPD SA on 26 September 2014 notified the Management of CPD SA about intention to convert 20 bonds into 1.198.100 series G shares of CPD SA. The conversion price has been determined at PLN 4,38, as specified in Extraordinary Shareholders Meeting resolution number 3 of 5 August 2014 and bonds' issuance conditions.

On 5 October 2017 KRS registered increase of the CPD SA share capital resulting from conversion of the series A bonds. After the registration share capital of the Company amounts to PLN 3.935 thousand represented by 39.354.023 ordinary bearer shares with a par value of PLN 0,10 each.

Based on resolutions of 10 May and 7 June 2017concerning acquisition and redemption of own shares Extraordinary Shareholders Meeting has entitled the Management Board to acquire up to 14.314.928 CPD shares of par value of PLN 0,10.

On 26 October 2017 CPD SA acquired through Dom Maklerski Pekao Investment Banking S.A. 1.401.792 of own shares, following the invitation for share purchase bids issued on 2 October 2017.

The weighted average purchase price of each share amounted to PLN 12,27. The acquired stage consisted of ordinary shares representing 3,56% of share capital and 3,56% of number of votes on Shareholder Meetings. However legal regulations prevent CPD SA from execution of the voting rights. Except of the above CPD SA does not hold any other own shares.

As of the date of these consolidated financial statements share capital amounts to PLN 3.935 thousand. There have been no changes in share capital since the end of the year until the date of these consolidated financial statements.The shares issued are not priviledged. Each of the issued shares has a nominal value of PLN 0,10 and has been fully paid.

12 Trade payables and other payables

Long-term trade payables and other payables

	31 December 2017	31 December 2016
Deposits of tenants	2 235	2 091

Short-term trade payables and other payables

	31 December 2017	31 December 2016
Trade payables	655	1 451
Other liabilities	219	8 448
Avanced sales payments	79 250	5 000
Output VAT and other tax liabilities	12 179	6 795
Deposits of tenants	272	352
Accruals and deferred income	14 147	13 125
Total	**106 722**	**35 171**

Trade payables bear no interest and are payable within one the year.

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

The received advance payments results from preliminary agreements for sale of shares in Bolzanus Limited, properties owned by 18 Gaston Investments Spółka z ograniczoną odpowiedzialnością sp.k., IMES Polska Sp. z o.o and Antigo Investments Sp. z o.o. as well as auxilliary services related to disposed properties.

The provision for potential tax risks amounting to PLN 9.8 million was the biggest part of accruals as at 31 December 2017.

(All amounts in PLN thousands unless otherwise stated)

Additional notes and explanations to the consolidated financial statements

13 Loans and borrowings (including finance lease)

	31 December 2017	31 December 2016
Long-term		
Bank loans	80 176	112 094
IRS derivative	167	647
Finance lease liabilities	33 032	26 137
	113 375	**138 878**
Short-term		
Bank loans	26 590	6 886
IRS derivative	312	320
	26 902	**7 206**
Total loans and borrowings	**140 277**	**146 084**

As of 31 December 2017 bank credits consist of:
- payable of PLN 37.722 thousand to mBank Hipoteczny S.A. (PLN 21.893 thousand being short-term and PLN 15.829 thousand long-term),
- payable of PLN 69.044 thousand to Bank Zachodni BZ WBK (PLN 4.697 thousand being long-term and PLN 64.347 thousand as short-term).

On 18 June 2014 the subsidiaries Lakia Investments and Robin Investments entered into loan agreements with mBank Hipoteczny. The above mentioned loan was granted to refinance a loan with HSBC Bank Poland from 2006, which was used to finance the office investments located in Cybernetics 7b and Połczyńska 31a. Mortgage credit in the mBank was launched on 1 July 2014. As at balance sheet date Lakia's involvement amounted to EUR 5.137 thousand, and Robin's - EUR 3.978 thousand. According to the terms and conditions of the loan agreement with mBank Hipoteczny, the companies are obliged to repay the entire loan until 20 June 2029.

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

During 2017 Lakia Investments reported non-compliance with one of the agreed covenants, which allows the bank to require immediate repayment of the whole loan amount. Which however has not happened until the date of these conolidated financial statements. Consequentlly the whole value of Lakia Investments loan (PLN 21.258 thousand) has been classified as a short-term payable.

On 12 August 2011 the subsidiary Belise Investments Sp. o.o. entered into a bank loan agreement with BZ WBK SA to finance or refinance part of the cost of finishing the surface of the office building IRIS. According to the annex to the credit agreement signed in May 2015 deadline for full repayment of the Loan, together with interest and other costs, follows on the date of 31 May 2021.

The loan is collateralised by mortgage on Belise Investments property, pledge on it's share, cash deposit as well as guarantees granted by CPD SA and Lakia Enterprises.

The interest rate on loans taken by the subsidiaries is variable and is as follows:
- loan from BZ WBK SA margin 2.15% + EURIBOR 1M
- loans from mBank Hipoteczny SA margin 2,80% + EURIBOR 6M.

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

(All amounts in PLN thousands unless otherwise stated)

Additional notes and explanations to the consolidated financial statements

13 Loans and borrowings (including finance lease) (cont.)

The value of hedging derivatives - the IRS as at the balance sheet date was estimated at PLN 479 thousand. The method of valuation of IRS transactions is presented in note 4.

Finance lease liabilities relate to the right to perpetual usufruct and are recognized due to the increase in the fair value of investment property for accounting purposes (note 5).

	31 December 2017	31 December 2016
Repayment of the principal amount of lease liabilities based on the effective interest rate due within:		
1 year	11	10
from 1 to 5 years	53	277
after more than 5 years	32 968	25 850
	33 032	**26 137**

	31 December 2017	31 December 2016
Par value of minimum lease payments due:		
within 1 year	1 625	1 970
from 1 to 5 years	6 501	7 881
after more than 5 years	108 890	133 983
	117 016	**143 834**
Future financial costs	(83 984)	(117 697)
	33 032	**26 137**

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

	31 December 2017	31 December 2016
up to 6 months	24 204	3 473
from 6 months to 1 year	2 386	3 413
from 1 to 5 years	67 602	79 460
more than 5 years	12 574	32 634
	106 766	**118 980**

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

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

	31 December 2017	31 December 2016
EUR	106 766	118 980

Lakia Enterprises Ltd established a registered pledge on all shares in the capital of Lakia Investments and Robin Investments amounting to up to EUR 5.9 million (Lakia) and EUR 4.4 million (Robin) for the benefit of mBank in connection with the credit taken from mBank Hipoteczny in 2014.

Lakia Enterprises Ltd and CPD SA respectivelly established a registered pledge on all shares in the capital of Belise Investments and accepted voluntary execution up to PLN 30.2 million each for the benefit of BZ WBK in connection with the credit taken from BZ WBK.

(All amounts in PLN thousands unless otherwise stated)

Additional notes and explanations to the consolidated financial statements

14 Bonds issued

	31 December 2017	31 December 2016
a/ Bonds series A		
Beginning balance	33 875	38 040
Accrued interest	610	2 553
Valuation of the embedded derivative	6 893	(7 612)
Valuation as at balance sheet date/conversion	(1 526)	894
Conversion of bonds and interest into shares	(39 852)	0
Bonds value as at balance sheet date	**0**	**33 875**

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

The nominal value of one bond is EUR 50,000 (fifty thousand euros). The issuing price of one bond is EUR 50,000. The bonds bear interest according to the fixed interest rate of 10% (ten percent) per year from the Bond Issue Date. In the first half of 2017 CPD received from the series A bond holders notifications concerning conversion of 110 series A bonds into series G shares.

As described further in note 11 the series A bonds has been converted into equity of CPD SA.

	31 December 2017	31 December 2016
b/ Bonds series B		
Beginning balance	31 021	30 915
Accrued interest	1 451	2 738
Paid interest	(2 730)	(2 738)
Redemption	(30 000)	0
Valuation using the effective interest rate method	56	106
Unamortised part of bonds issuance costs	202	0
Bonds value as at balance sheet date	**0**	**31 021**

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

The issuer did not specify the purpose of the issue within the meaning of the Bonds Act or the undertaking to be financed from the issue of the Bonds. The issued Bonds are series B collteralised bearer bonds with the nominal value of PLN 1 thousand each and do not have the form of an instrument.
The total nominal value of all issued bonds is maximum PLN 30.000 thousand.

The nominal value and issuing price of one Bond was PLN 1 thousand.

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

On 13 July 2017 CPD SA executed early redemption of all the series B bearer bonds, i.e. 30.000 bonds od PLN 1 thousend par value each. The redemption price amounted to PLN 1.060,13, consisting of PLN 1.000 of par value, PLN 15,00 of premium and PLN 45,13 of bond interest.

(All amounts in PLN thousands unless otherwise stated)

Additional notes and explanations to the consolidated financial statements

14 Bonds issued (cont.)

	31 December 2017	31 December 2016
Long-term		
Bonds issued	0	29 742
Short-term		
Bonds issued	0	29 852
Derevatives	0	4 023
Bonds issued - interest	0	1 279
	0	**64 896**

15 Changes of indebtedness

	Bank loans	Bonds	Capitalised financial lease	IRS derivative	Total
31 December 2016	**118 980**	**64 896**	**26 137**	**967**	**210 980**
Accrued interest	2 360	2 061	0	0	4 421
Principal repaid	(5 145)	(30 000)	0	0	(35 145)
Interest repaid	(2 377)	(2 730)	0	0	(5 107)
Other non-cash changes, including:	(7 052)	(34 227)	6 895	(488)	(34 872)
- Conversion into shares	*0*	*(39 852)*	*0*	*0*	*(39 852)*
- Embeded derivative	*0*	*6 893*	*0*	*0*	*6 893*
- Balance sheet reclassifications	*0*	*0*	*(4 682)*	*0*	*(4 682)*
- Other changes	*0*	*0*	*11 577*	*0*	*11 577*
- Balance sheet valuation	*(7 052)*	*(1 268)*	*0*	*(488)*	*(8 808)*
31 December 2017	**106 766**	**0**	**33 032**	**479**	**140 277**

	Bank loans	Bonds	Capitalised financial lease	IRS derivative	Total
31 December 2015	**119 893**	**68 955**	**32 110**	**0**	**220 958**
Accrued interest	2 684	5 291	0	0	7 975
Principal repaid	(4 873)	0	0	0	(4 873)
Interest repaid	(2 707)	(2 738)	0	0	(5 445)
Other non-cash changes, including:	3 983	(6 612)	(5 973)	967	(7 635)
- Embeded derivative	*0*	*(7 612)*	*0*	*1 034*	*(6 578)*
- Balance sheet reclassifications	*0*	*0*	*(4 383)*	*0*	*(4 383)*
- Other changes	*0*	*0*	*(1 546)*	*0*	*(1 546)*
- Balance sheet valuation	*3 983*	*1 000*	*(44)*	*(67)*	*4 872*
New indebtedness	**118 980**	**64 896**	**26 137**	**967**	**210 980**

16 Deferred income tax

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

(All amounts in PLN thousands unless otherwise stated)

Additional notes and explanations to the consolidated financial statements

16 Deferred income tax (cont.)

	31 December 2017	31 December 2016
Deferred tax assets before offset	**6 113**	**20 191**
Offset against deferred tax liability	(6 113)	(20 191)
Deferred tax assets	**0**	**0**
Deferred income tax liabilities before offset	**42 396**	**40 439**
Offset against deferred tax asset	(6 113)	(20 191)
Deferred income tax liabilities after offset	**36 283**	**20 248**
- to be paid after more than 12 months	27 264	13 825
- to be paid within 12 months	9 019	6 423

	12 months ended 31 December 2017
Change in deferred tax assets	(14 078)
Change in deferred tax liabilities	1 957
Amount charged/(credited) to profit or loss	**(16 035)**

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

Deferred income tax liabilities (before offset)

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

	2016	Charged to profit/(loss)	Charged to other comprehensive income	2017
Property valuation at fair value	16 559	5 919	0	22 478
Accrued interest on loans	17 400	761	0	18 161
Provision for income	6 423	(4 674)	0	1 749
Foreign exchange differences	57	(49)	0	8
Total	40 439	1 957	0	42 396

As of 31 December 2017 the Group has recognized a deferred tax liability for taxable temporary differences associated with investments in subsidiaries (that were disposed of in February 2018) in the total amount of PLN 7.270 thousand.

(All amounts in PLN thousands unless otherwise stated)

Additional notes and explanations to the consolidated financial statements

16 Deferred income tax (cont.)

Deferred income tax assets (before offset)

	2015	Charged to profit/(loss)	Charged to other comprehensive income	2016
Accrued, interest unpaid	1 289	780	0	2 069
Foreign exchange differences	616	4	0	620
Provisions	42	82	0	124
Other	15 608	(447)	0	15 161
Tax losses	2 607	(390)	0	2 218
	20 162	29	0	20 192

	2016	Charged to profit/(loss)	Charged to other comprehensive income	2017
Accrued, interest unpaid	2 069	(1 428)	0	641
Foreign exchange differences	620	(589)	0	31
Provisions	124	(29)	0	95
Other	15 161	(13 574)	0	1 587
Tax losses	2 217	1 542	0	3 759
	20 191	(14 078)	0	6 113

	31 December 2017	31 December 2016
Tax losses	19 784	11 668
Deductible temporary differences on loans and borrowings (foreign exchange differences and accrued interest)	3 374	10 889
Other deductible temporary differences	9 016	83 711
Total	32 174	106 268
Deferred tax assets before offset	**6 113**	**20 191**
Offset of deferred tax assets and liabilities within individual companies	(6 113)	(20 191)
Net deferred tax assets	**0**	**0**

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

Expiry of tax losses as at 31.12.2017

	2018	2019-2020	2021-2022	Total
- Losses on which deferred tax was recognized	3 512	15 919	377	19 808
- Losses on which deferred tax was not recognized	5 838	8 923	9 610	24 371

Expiry of tax losses as at 31.12.2016

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

(All amounts in PLN thousands unless otherwise stated)

Additional notes and explanations to the consolidated financial statements

17 Revenues

Revenues by category:	12 months ended 31 December 2017	12 months ended 31 December 2016
Rental income	13 121	13 376
Real estate advisory services	666	825
Rent related services	6 125	5 797
Accounting services	12	24
	19 924	**20 022**

In 2017 rental income was predominant in sales. Revenues from rent related services were another major item of revenues (PLN 6.125 thousand).

In 2016 rental income was predominant in sales. Revenues from rent related services were another major item of revenues (PLN 5.797 thousand).

The Group leases properties under operating lease.

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

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

• specified rental period without a possibility of early termination.

Future cummulated uncancallable minimum rent revenues:

	12 months ended 31 December 2017	12 months ended 31 December 2016
up to 1 year	11 083	12 687
from 1 to 5 years	21 802	23 411
more than 5 years	2 138	5 533
	35 023	**41 631**

18 Cost of sales

	12 months ended 31 December 2010	12 months ended 31 December 2009
Changes in impairment write-downs of inventories	(114)	1
Cost of services provided	2 636	2 050
	2 522	**2 051**

In the current year the change in impairment inventory write-downs was mainly due to an increase in the value of the Koszykowa (by PLN 520 thousand) decrease in the value of the property in Łódź (PLN 375 thousand).

In 2016 the change in impairment inventory write-downs was due to an increase in the value of the Koszykowa (by PLN 260 thousand) and Nowa Piasecznica (PLN 50 thousand) properties offset by decrease in the value of the properties in Łódź (PLN 161 thousand) and Czosnów (PLN 150 thousand).

(All amounts in PLN thousands unless otherwise stated)

Additional notes and explanations to the consolidated financial statements

19 Administrative expenses – relating to properties

	12 months ended 31 December 2017	12 months ended 31 December 2016
Employee expenses	1 164	1 305
Property maintenance	4 613	4 111
Real estate tax	734	1 067
Perpetual usufruct	(134)	723
Depreciation and amortization	239	236
	6 616	**7 442**

20 Other income

	12 months ended 31 December 2017	12 months ended 31 December 2016
Provision released	49	107
Sale of PPE	3	4
Contractual penalties received	51	2 519
Other	120	380
	223	**3 010**

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

21 Administrative expenses - other

	12 months ended 31 December 2017	12 months ended 31 December 2016
Advisory services	5 941	5 006
Audit fee	219	274
Transport	23	12
Taxes	162	275
Office maintenance	1 296	1 450
Other services	197	221
Costs of not deductible VAT	344	393
Receivables impairment	111	185
Other costs	219	173
	8 512	**7 989**

In 2017 the administrative expenses increased by PLN 523 thousand as compared to 2016 resulting mainly from higher advisory services accompanied by falling other cost lines.

(All amounts in PLN thousands unless otherwise stated)

Additional notes and explanations to the consolidated financial statements

22 Financial income and costs

	12 months ended 31 December 2017	12 months ended 31 December 2016
Interest expenses:		
- bank loans	(2 512)	(2 881)
- interest on finance lease	(2 228)	(2 405)
- interest on bonds	(2 061)	(4 932)
- other interest expenses	(690)	(135)
Net foreign exchange loss	0	(5 149)
Loss on bonds revaluation	(5 367)	(106)
Result of changing subsidiary into joint venture	(735)	0
Amortised cost valuation	(109)	0
Other financial costs	(713)	0
Derivative (IRS) valuation	0	(967)
Financial costs	**(14 415)**	**(16 575)**
Interest income:		
- bank interest	1 193	59
- interest from unrelated entities	13	40
Embeded derivative valuation	0	7 612
Derivative (IRS) valuation	488	0
Amortised cost valuation	0	435
Net foreign exchange gain	6 272	0
Financial income	**7 966**	**8 146**
Financing activities, net	**(6 449)**	**(8 429)**

23 Income tax expense

	12 months ended 31 December 2017	12 months ended 31 December 2016
Current tax	86	6 435
Deferred tax (Note 15)	16 035	(106)
	16 121	**6 329**

Polish subsidiaries are subject to Polish corporate income tax, which is accrued at the rate of 19% on the profit or loss adjusted for tax purposes. Under certain conditions the tax rate may be reduced to 15%. Cypriot subsidiaries are subject to Cypriot income tax calculated on taxable profit at the tax rate of 12,5%. Realized gains on the sale of shares and other titles are exempt from taxation in Cyprus. In some circumstances, interest can be additionally taxed at the rate of 5%. In such cases, 50% of interest can be exempt from corporate income tax, therefore, the effective tax rate amounts to approximately 15%. In some cases, dividends received from abroad can be subject to additional taxation at the rate of 15%.

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

(All amounts in PLN thousands unless otherwise stated)

Additional notes and explanations to the consolidated financial statements

23 Income tax expense (cont.)

	12 months ended 31 December 2017	12 months ended 31 December 2016
Profit before tax	**18 359**	**2 473**
Estimated tax liability at 19% tax rate	(3 488)	(470)
Tax impact of:		
- various tax rates applicable to Group companies	28	796
- reassesment of prior years deferred tax assets recoverability	2 808	0
- loss of companies where the asset was not recognized	(129)	(3 014)
- use of prior years losses, where the assets was not recognised	5 519	1 913
- temporary differences in foreign companies	1 324	(2 307)
- subsidiaries shares valuation	(9 120)	(6 390)
- taxable deffered revenue	(3 230)	0
- valuation of investment properties	(9 641)	729
- valuation of the embedded derivative	(1 379)	1 446
- other	1 187	968
Income tax expense	**(16 121)**	**(6 329)**

24 Cash generated from operations

	12 months ended 31 December 2017	12 months ended 31 December 2016
Profit before income tax	18 359	2 473
Adjustments for:		
- depreciation of tangible fixed assets	212	206
- amortisation of intangible assets	27	30
– currency translation adjustments	102	(215)
- foreign exchange differences	(8 251)	5 019
- gains (losses) on revaluation to fair value of investment property	(7 761)	(4 722)
– share of the profit or loss of the joint ventures	(7 631)	(3 680)
– loss on change of a subsidiary into joint venture	738	0
– result on embedded derivatives	6 893	(7 612)
- interest expenses	4 463	7 833
- interest income	(8)	(50)
- impairment of inventories	(114)	1
method	(190)	106
- result in investment property disposal	72	2 475
- result of sale of tangible non-current assets	0	(4)
- result of sale of subsidiaries	(7 613)	(148)
- result on derivatives valuation	(488)	967
- other adjustments	(319)	100
Movements in working capital:		
- change in receivables	2 817	(1 327)
- change in inventories	(3 058)	(31)
- change in trade payables and other payables	29 534	12 848
	27 784	**14 269**

(All amounts in PLN thousands unless otherwise stated)

Additional notes and explanations to the consolidated financial statements

25 Contingencies

According to the general Polish regulations, the tax authorities may perform an inspection of books and records at any time within 5 years after the end of the reporting period and assess additional tax and penalties if any irregularities are found.

On 9 November 2017 Challange Eighteen Sp. z o.o., the Group subsidiary, received the results of concluded tax control. The Polish tax authorities are claiming that the sunsidiary should have remitted withholding tax on the interest settled to EEPF AB (a former member of CPD Group). The total value of this tax claim consists of outstanding tax of PLN 9.113 thousand increased by penalty interest. Management Board stands on the position that this claim is illegitimate. Nevertheless in case of commencement of the tax proceeding and issuing decision by the tax authority, the Entity may by required to pay the tax arreas estimated by the tax authority. Based on risk assessment analysis, Management Board decided not to create a provision for this tax claim.

According to the best knowledge of the Management Boards of the CPD Group companies, except of the above, there are no circumstances which could result in any significant liabilities arising in this respect.

26 Contractual liabilities (commitments)

As at balance sheet date the Group subsidiaries are parties to the conditional property disposal agreements, owned by IMES Poland sp. z o.o. and 18 Gaston Investments spółka z ograniczoną odpowiedzialnością sp. k. as well as share disposal agreement concerning Bolzanus Limited, whose major asset is a plot in Ursus. As a t the balance sheet date the properties subject to those transactions totalling to PLN 57.527 thousand were presented as investment properties at fair value. Related received sales price prepaymens are included in payables.

After the balance sheet date the transaction has been partially realised and part of the ownership transferred. Futher information included in Note 30.

27 Transactions with related entities and transactions with employees

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

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

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

The CPD group concluded the following transactions with related parties:

	12 months ended 31 December 2017	**12 months ended 31 December 2016**
a) Transactions with key managers		
Remuneration of the Management Board members	300	261
Cost of work and services provided by members of the Management Board	1 373	939
Cost of remuneration of members of the Supervisory Board	360	330
Sales to Board Members	19	0
Total receivables	19	0
Payables to the Management Board members	0	203

(All amounts in PLN thousands unless otherwise stated)

Additional notes and explanations to the consolidated financial statements

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

		12 months ended 31 December 2017	12 months ended 31 December 2016
b) Transactions with other related parties			
Revenues			
Smart City Spółka z ograniczoną odpowiedzialnością Sp.k.	*- services*	464	503
Ursa Park Smart City Spółka z ograniczoną odpowiedzialnością Sp.k.	*- services*	194	0
Laxey Cooperative	*- services*	6	9
Costs			
Kancelaria Radców Prawnych Oleś i Rodzynkiewicz	*- costs of legal services*	56	99
Laxey Cooperative	*- interest*	0	42
Laxey Partners (UK) Ltd	*- services*	1 007	0
Liabilities			
Kancelaria Radców Prawnych Oleś i Rodzynkiewicz	*- trade payables*	12	0
Receivables			
Smart City Spółka z ograniczoną odpowiedzialnością Sp.k.	*- trade receivables*	24	86
Ursa Park Smart City Spółka z ograniczoną odpowiedzialnością Sp.k.	*- trade receivables*	209	0
c) Transactions with shareholders			
Laxey Cooperative	*- loan receivable*	319	334
Laxey Cooperative	*- loan receivable allowance*	(319)	(334)

28 Seasons of activity and unusual events

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

29 Assets and liabilities held for sale

As at 31 December 2017 the following groups were classified as held for sale:
- 8/126 Gaston Investments Spółka z ograniczoną odpowiedzialnością Sp.k.
- 9/151 Gaston Investments Spółka z ograniczoną odpowiedzialnością Sp.k.
- 10/165 Gaston Investments Spółka z ograniczoną odpowiedzialnością Sp.k.
- 15/167 Gaston Investments Spółka z ograniczoną odpowiedzialnością Sp.k.

(a) Assets held for sale

	31 December 2016	31 December 2015
Investment properties	64 530	13 742
Capitalised financial leases from perpetual usufruct	3 731	0
Trade and other receivables	128	234
Cash and cash equivalents	150	99
	68 539	**14 075**

(b) Liabilities classified as held for sale

	31 December 2016	31 December 2015
Borrowings, including finance leases	3 731	581
Trade and other payables	33	1
	3 764	**582**
Net assets held for sale	**64 775**	**13 493**

(All amounts in PLN thousands unless otherwise stated)

Additional notes and explanations to the consolidated financial statements

30 Sale of subsidiaries

In 2017 the Group disposed of 11/162 Gaston Investments Spółka z ograniczoną odpowiedzialnością Sp.k. oraz 14/119 Gaston Investments Spółka z ograniczoną odpowiedzialnością Sp.k., for total remmuneration of PLN 20.531 thousand, generating profit of PLN 7.613 thousand.

31 Events after the balance sheet date

On 16 February 2018 Gaston Investmenst sp. z o. o. oraz Challange Eighteen sp. z o.o. sold their rights and obligations in 8/126 Gaston Investmenst spółka z ograniczoną odpowiedzialnością s. k., 9/151 Gaston Investmenst spółka z ograniczoną odpowiedzialnością s. k., 10/165 Gaston Investmenst spółka z ograniczoną odpowiedzialnością s. k., 15/167 Gaston Investmenst spółka z ograniczoną odpowiedzialnością s. k., whose main assets related to land in Ursus. Total sales price amounted to PLN 82,0 million.

The related assets and liabilities are presented as held for saleas at balance sheet date.

On 26 February 2018 Ursa Park Smart City spółka z ograniczoną odpowiedzialnością s. k. agreed with Bank Millenium financing of second stage of the residencial project. At the same time as a collateral CPD SA joint the related debt, rights of Challange Eighteen sp. z o.o. and Smart City sp. z o.o. in Ursa Park Smart City spółka z ograniczoną odpowiedzialnością s. k. were pledged, CPD SA, Challange Eighteen sp. z o.o. and Smart City sp. z o.o. agreed for execution up to PLN 40million each.

On 29 March 2018 the group concluded final agreemenet trnsferring ownership to land owned by 18 Gaston Investments spółka z ograniczoną odpowiedzialnością sp. k., part of land of IMES Poland sp. z o.o. and as well as shares in Bolzanus Limited.

On 3 April 2018 CPD issued the first shareholders announcement on intention to merge witha group subsidiary Buffy Holdings No 1 Ltd.

As part of social responsibility and building a sustainable urban fabric based on the local social identity, the CPD Group intends to hand over the area of 1,7 ha to City of Warsaw in 2018. ha, which according to the Local Spatial Development Plan is provided for educational investments. As part of the planned agreement, the capital city of Warsaw will undertake to implement the school-to-school complex by 2020.

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

32 Auditor remmuneration

Remuneration paid or payable to the Group auditor is as follows:

	12 months ended 31 grudnia 2017	12 months ended 31 grudnia 2016
Auditor's fee	219	274

33 Dividend distribution

The Group did not pay nor declared any dividend or interim dividend in the current nor previous financial years.

34 Earnings per share – basic and diluted

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

(All amounts in PLN thousands unless otherwise stated)

Additional notes and explanations to the consolidated financial statements

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

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

	12 months ended 31 December 2017	12 months ended 31 December 2016
Profit (loss) attributable to the shareholders in the parent company	2 238	(3 856)
Weighted average number of ordinary shares (in '000)	37 429	32 863
Earnings per share	0,06	(0,12)
Diluted profit (loss) attributable to shareholders	2 238	(7 230)
Weighted average number of ordinary shares (in '000)	39 100	42 654
Diluted earnings per share	0,06	(0,17)

Losses were diluted in prior years due to bonds convertible into shares issued by CPD SA. Following the conversion current year profits are not diluted any more. Weighted average number of shares reflects timing of subsequent portions of the conversion.

35 Reporting segments

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

The split of external operating income is presented in Note 17.

At the end of the year, the CPD Group’s parent company had its registered office in Warsaw, and did not hold any fixed assets in the current year nor in the previous year.

In both current and prior financial year all the Group third party revenues were generated in Poland.

Similarly non-current assets, including investment properties, PPE and intangibles are located in Poland.

36 Subsidiary acquisition

On 2 August 2017 the Group acquired 100% shares of Bolzanus Limited headquartered in Limassol, Cyprus. The subsidiary holds a perpetual usufruct right for a property related around Gierdziejewskiego Str. in Warsaw's district Ursus. Based on the zoning plan the property is mainly destinated for services, education and multifamily residential construction.

in PLN thousand	Acquired net assets
Investment property	4 390
Trade and other receivables	4 620
Cash and cash equivalents	35
Trade and other payables	(4 425)
Net assets	**4 620**

As at the date of obtining control the subsidiary had no poerting activity and in Management opinion did not qualify as a business based on criteria contained in IFRS 3. As a consequence the transaction has been treated as acquisition of assets and related liabilities, which were assigned fractions of the purchase price as shown above, without goodwill recognition.

Additional notes and explanations to the consolidated financial statements

These consolidated financial statements were prepared and approved by the CPD SA Management Board on 20 April 2018 and signed by:

Elżbieta Donata Wiczkowska
Chairman of the Board

Colin Kingsnorth
Board Member

John Purcell
Board Member

Iwona Makarewicz
Board Member