



**Management Board report  
on the operations of  
Dekpol S.A.**

**IN H1 2015**

**Pinczyn, 31 August 2015**

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## 1 Selected financial data

	01.01.2015 – 30.06.2015		01.01.2014 – 30.06.2014	
	PLN	EUR	PLN	EUR
Net revenue from the sale of products, goods and materials	138,483,833.53	33,497,939.95	103,829,168.64	24,849,025.62

Profit (loss) on operations	7,926,874.07	1,917,436.46	7183728.37	1719253.39
Profit (loss) before tax	6,116,315.23	1,479,479.27	5,766,659.09	1,380,111.79
Net profit (loss)	5,022,884.23	1,214,988.57	4,702,229.09	1,125,365.95
Total assets	283,486,962.25	67,587,011.79	181,730,918.07	43,675,867.74
Total liabilities	165,892,619.20	39,550,977.30	115,885,667.68	27,851,106.17
of which short-term liabilities	103,812,151.87	24,750,179.26	67,440,242.47	16,208,090.19
Equity	107,430,404.45	25,612,818.15	60,845,714.52	14,623,210.01
Share capital	8,362,549.00	1,993,741.42	6,410,000.00	1,540,532.10
Number of shares	8,362,549	8,362,549	6,410	6,410
Book value per share (PLN/EUR)	12.85	3.06	9.49	2.28
Net profit (loss) per ordinary share (PLN/EUR)	0.60	0.15	0.73	0.18
Net cash flows from operations	- 49,360,067.63	- 11,939,737.22	- 7,862,585.81	- 1,881,721.67
Net cash flows from investment activities	- 5,965,139.51	- 1,442,911.28	- 5,193,355.38	- 1,242,905.27
Net cash flows from financial activities	59,953,214.23	14,502,119.99	5,395,629.77	1,291,314.80
Change in cash	4,628,007.09	1,119,471.49	- 7,660,311.42	- 1,833,312.13

In the period covered by the semi-annual abridged financial statements and the comparative period, the average PLN/EUR exchange rates, as published by the National Bank of Poland, were as follows:

Financial year	Average exchange rate	Exchange rate
	in the period*	at the end of the period
H1 2015	4.1341	4.1944
2014	4.1893	4.2623
H1 2014	4.1784	4.1609

\* Average of exchange rates for the last day of each month in the given period.

## **2 Principles of producing semi-annual abridged financial statements**

The accounting principles adopted for producing the semi-annual abridged financial statements are in accordance with the Accounting Act of 29 September 1994 (JoL. of 2013, item 330). The principles of valuing assets and liabilities and determining the financial result in the presented periods are in accordance with the Accounting Act.

In 2014, the amortization/depreciation rates and methods were verified, which resulted in introducing changes in this respect as of 1 January 2015. The changes affected the value of amortization/depreciation in H1 2015, which amounted to PLN 1,448,000. If amortization/depreciation was continued under the previous principles, the amount in H1 2015 would be PLN 1,807,000.

In the semi-annual abridged financial statements of Dekpol S.A. for the period of six months ending on 30 June 2015, the same accounting principles (policies) and calculation methods were followed as in the previous stand-alone annual financial statements. In H1 2015, there were no changes to the accounting principles (policies) followed. In H1 2015, there were no major changes in estimated values.

The semi-annual financial statements for the period of six months ending on 30 June 2015 has been reviewed by a statutory auditor.

## **3 Information about the Company**

### **3.1 The Company's operations**

Dekpol S.A. carries out its operations in three areas:

- Property development: construction, finishing works, and sale of apartments and premises for commerce/services;
- Acting as a general contractor in terms of industrial, warehousing, commercial, and services facilities, including external infrastructure such as roads, yards, parking lots, including their infrastructure;
- Manufacture and installation of steel structures and manufacture of equipment (buckets) for construction machines.

### **3.2 Organization of the Company's Corporate Group**

As of 30 June 2015, Dekpol S.A. had a Corporate Group. However, the Company did not produce consolidated financial statements due a lack of any major effect of consolidation on the results of Dekpol S.A. in H1 2015 (Article 56.3 in conjunction with Article 58 of the Accounting Act).

As of 30 June 2015, the Corporate Group was composed of Dekpol S.A. as the parent entity and two subsidiaries.

The direct subsidiaries of Dekpol S.A. are:

- a) Dekpol 1 Sp. z o.o.,
- b) Dekpol 1 Sp. z o.o. S.K.A.

Dekpol S.A. holds 100% of the shares in the share capital of Dekpol 1 Sp. z o.o. and 100% of the shares in the share capital of Dekpol 1 Sp. z o.o. S.K.A. (Dekpol 1 Sp. z o.o. is the sole general partner of Dekpol 1 Sp. z o.o. S.K.A.).

As of the date of this report, the Corporate Group is composed of Dekpol S.A. as the parent entity and four subsidiaries:

- Direct subsidiaries of Dekpol S.A.:
  - a) Dekpol 1 Sp. z o.o.,
  - b) Dekpol 1 Sp. z o.o. S.K.A.
- Indirect subsidiaries of Dekpol S.A. (via Dekpol 1 Sp. z o.o. S.K.A.):
  - a) Dekpol Royalties Sp. z o.o.,
  - b) Almond Sp. z o.o.

Dekpol 1 Sp. z o.o. S.K.A. holds 100% shares in Dekpol Royalties Sp. z o.o. and Almond Sp. z o.o.

### 3.3 Specification of changes in the structure of the business entity

On 17 April 2015, the Company acquired 100% of the shares in the share capital of Heron 3 Sp. z o.o. S.K.A. (currently: Dekpol 1 Sp. z o.o. S.K.A.) and 100% of shares in the share capital of Heron 3 Sp. z o.o. (currently: Dekpol 1 Sp. z o.o.). Dekpol 1 Sp. z o.o. is the sole general partner of Dekpol 1 Sp. z o.o. S.K.A. In H1 2015, the above companies did not carry out any operations and had no major influence on the operations and the financial results of the Dekpol Corporate Group. In connection with the above, the Company did not produce consolidated financial statements for H1 2015. The consolidated financial statements will be produced for Q3 2015. The acquisition of shares in Dekpol 1 Sp. z o.o. and Dekpol 1 Sp. z o.o. S.K.A. was one of the stages of actions intended to increase the efficiency of the functioning of the Dekpol Corporate Group.

In July 2015, Dekpol 1 Sp. z o.o. S.K.A. incorporated Dekpol Royalties Sp. z o.o., in which it hold 100% of shares, and acquired 100% of the shares in Almond Sp. z o.o. The incorporation of a new company and the acquisition of shares are the next stage of the actions intended to increase the efficiency of the functioning of the Dekpol Corporate Group.

On 30 July 2015 (an event after the balance-sheet day), a transaction was carried out, consisting in the Issuer taking up series B shares in the increased share capital of Dekpol 1 Sp. z o.o. S.K.A., with a total nominal value of PLN 0.5 M and a total issue price of PLN 51.51 M. The shares were covered with a contribution in kind in the form of the right of perpetual usufruct of a real property located in Gdańsk, at ul. Toruńska 12, covering a plot of 0.34 hectares, including the right of ownership of the building under construction on the plot. Dekpol 1 S.K.A. will be responsible for finishing the investment project carried out by the Company on the said real property: the construction of the Almond Hotel.

On 30 July 2015, another transaction was also carried out, consisting in the Company taking up series C shares in the increased share capital of Dekpol 1 S.K.A., with a total nominal value of PLN 0.5 M and a total issue price of PLN 56.36 M. The shares were covered with a contribution in kind in the form of economic rights to a work, as defined in Article 1 of the Act of 4 February 1994 on Copyrights and the Related Rights, in the form of the “dekpol” word/image mark, in all of the graphic and colour variants used by the Company, including the accompanying descriptors (the “Work”).

Prior to 30 June 2015, the share capital of Dekpol 1 S.K.A. amounted to PLN 50,000.

### 3.4 Standpoint of the Management Board regarding the possibility of achieving the forecast results

The Company did not publish forecasts of financial results for 2015.

## 4 Share capital

### 4.1 Structure of the share capital

As of 30 June 2015 and as of the day of publishing this report, the share capital of Dekpol S.A. amounts to PLN 8,362,549.00 (eight million three hundred thousand five hundred and forty-nine) and is divided into:

- a) 6,410,000 series A ordinary bearer shares with a nominal value of PLN 1.00 (one) each;
- b) 1,952,549 series B ordinary bearer shares with a nominal value of PLN 1.00 (one) each.

On 7 January 2015, the District Court for Gdańsk-Północ in Gdańsk, Division VII (Economic) of the National Court Register (the “Court”), issued a decision on registering the increase of the share capital of Dekpol S.A. by means of issuing series B shares. In connection with the registration of the share capital increase by means of issuing series B shares, the Company’s share capital amounts to PLN 8,362,549 and is divided into 8,362,549 ordinary bearer shares. The number of votes carried by all of the shares is 8,362,549. The Court registered the following wording of § 8 of the Articles of Association of Dekpol S.A.: “§ 8.1. The share capital shall be not less than PLN 6,410,001.00 (six million four hundred and ten thousand and one) and not more than PLN 8,710,000.00 (eight million seven hundred and ten thousand), divided into: a) PLN 6,410,000.00 in series A ordinary bearer shares with a nominal value of PLN 1.00 (one) each; b) not more than PLN 2,300,000.00 in series B ordinary bearer shares with a nominal value of PLN 1.00 (one) each. 2. Series A and series B shares shall carry equal right to dividend. 3. The shares have been fully paid for with cash contributions, with series A shares having been taken up and covered in the process of transforming Dekpol Spółka z ograniczoną odpowiedzialnością of Pinczyn, registered under National Court Register number 0000271884. 4. The Company’s shares shall be exclusively bearer shares. Conversion of shares into registered shares shall not be permissible”.

## 4.2 Shareholding structure

Shareholders of Dekpol S.A. holding more than 5% of the total number of votes at the Company's General Meeting, as of the day of publishing the report and as of 15 May 2015, i.e. as of the day of publishing the report for Q1 2015:

Shareholder	Number of shares/number of votes	Share in the share capital and the general number of votes (%)
Mariusz Tuchlin	6,409,000	76.64%
ING Otwarty Fundusz Emerytalny	737,500	8.82%

## 5 The Company's governing bodies

### 5.1 The Management Board

The Issuer's Management Board is composed of one or more Members appointed and removed from office by the Supervisory Board. The Supervisory Board entrusts one of the Members of the Management Board with the function of the President of the Management Board. Other Members of the Management Board may be entrusted with the function of Vice Presidents of the Management Board. The term of office of the Members of the Management Board is 5 (five) years and is not joint.

As of the day of this report, the Issuer's Management Board is composed of:

1. Mariusz Grzegorz Tuchlin (President of the Management Board)
2. Krzysztof Andrzej Łukowski (Vice President of the Management Board)
3. Rafał Glaza (Member of the Management Board)
4. Adam Olżyński (Member of the Management Board)
5. Andrzej Maciej Kuchtyk (Member of the Management Board)
6. Rafał Szczepan Dietrich (Member of the Management Board)

The Members of the Management Board were appointed under a resolution of the Shareholders Meeting of Dekpol Sp. z o.o. regarding the appointment of the Members of the Management Board of a transformed company (i.e. the Issuer) of 1 April 2014. The term of office of each of the Members of the Management Board ends on 1 April 2019. Each of the Members of the Management Board previously served as a Member of the Management Board of Dekpol Sp. z o.o.

Until the date of producing this report, the composition of the Management Board has not changed.

### 5.2 The Supervisory Board

The Articles of Association of Dekpol S.A. provide that the Supervisory Board is composed of between three and five Members, and in the event of the Issuer becoming a public company, between five and seven Members. The appointment and removal from office of the Members of the Supervisory Board takes place by means of a resolution of the General Meeting. The General Meeting also appoints the Chairman of the Supervisory Board and may entrust the

function of a Deputy Chairman to another Member of the Supervisory Board. The term of office of the Members of the Supervisory Board is five years and is not joint.

As of the day of this report, the Issuer's Supervisory Board is composed of:

1. Roman Suszek (Chairman of the Supervisory Board)
2. Piotr Stobiecki (Member of the Supervisory Board)
3. Jacek Grzywacz (Deputy Chairman of the Supervisory Board)
4. Krzysztof Czerkas (Member of the Management Board)
5. Jacek Kędzierski (Member of the Management Board)

Jacek Kędzierski and Krzysztof Czerkas meet the requirements for being independent of the Issuer and his affiliates, as specified in the Articles of Association. The term of office of Jacek Kędzierski and Krzysztof Czerkas will end on 30 June 2019. The term of office of Roman Suszek, Piotr Stobiecki, and Jacek Grzywacz will end on 1 April 2019.

### 5.3 Ownership of shares by persons performing managerial and supervisory functions

Ownership of shares by the Members of the Management Board and the Supervisory Board of Dekpol S.A. as of the day of this report and as of 15 May 2015, i.e. as of the day of the report for Q1 2015:

Owners	Number of shares as of 15 May 2015	Changes	Number of shares as of the day of this report
Mariusz Tuchlin	6,409,000	–	6,409,000
Other Members of the Management Board and the Supervisory Board	0	–	0

According to the best knowledge of the Company, the Members of the Management Board and the Supervisory Board are not authorized to hold the shares of the Issuer.

## 6 Proceedings pending before a court, an arbitration body, or a public administration authority

In H1 2015, no proceedings was pending before government authorities, courts, or arbitration bodies that could have a substantial effect on the financial situation or the profitability of the Issuer, in particular in terms of receivables or liabilities with a value exceeding 10% of the Issuer's equity. At the same time, it needs to be considered that the specificity of the Issuer's operations involves multiple proceedings related to claims regarding completed projects. It also happens that the Issuer is the defendant. This is usually related to projects carried out as part of property development operations. The Company has not created any provisions for liabilities, waiting for the outcome of the pending proceedings. These outcomes will determine the Issuer's further decisions in this respect.



At the same time, with respect to the information provided in the Prospectus, the Company hereby informs that on 2 March 2015, a session of the District Court in Wejherowo was held in connection with the Company's request for a settlement with Iwona, Arkadiusz, Dariusz, and Wioletta Okoniewscy (the "Debtors").

The court concluded that a settlement had not been reached in the case before the District Court in Wejherowo under the request made by the Issuer to the Debtors for the payment of PLN 3.95 M plus statutory interest, on account of the outstanding portion of remuneration resulting from the construction works agreement concluded on 15 March 2012.

The request for settlement was filed by the Company in connection with Iwona Okoniewska, who operates a business under the name of Iwona Okoniewska PPHU "Michaś", failing to pay PLN 3.95 M gross, i.e. the outstanding portion of the Company's remuneration on account of a construction works agreement concluded by Iwona Okoniewska upon consent from her husband, Arkadiusz Okoniewski, with a surety granted by Mr. and Mrs. Okoniewski. As of 30 June 2014, this receivable was recorded in the Company's books as an overdue receivable.

On 29 April 2015, an assignment agreement was concluded, under which the Company transferred to the acquirer (a natural person) the above claim to the Debtor, in the amount of PLN 3.95 M, including additional amounts due, i.e. interest for delay, in exchange for an amount of PLN 3.6 M.

The Company received the above amount in H1 2015.

## **7 Transactions with affiliates**

In H1 2015, the Company did not conclude any major transactions with affiliates other than arm's length transactions.

As of the balance-sheet date, the Company's affiliates are Dekpol 1 Sp. z o.o. and Dekpol 1 Sp. z o.o. S.K.A.

## **8 Sureties and guarantees granted**

In H1 2015, the Company did not grant any major sureties or guarantees.

## **9 Factors that may influence the Company's results in at least the next quarter**

The factor that may influence the Company's results in the next periods will be winning new contracts and carrying out the existing ones. Apart from carrying out the agreements concluded in the previous periods, in H1 2015, and after H1 2015, the following major contracts are being carried out:

- Construction of a production and warehousing facility with offices, rest and refreshment rooms, and a technical section in Tczew, for Pan Link Sp. z o.o. (PLN 17.4 M net);
- Construction of an offices and warehousing facility in Sosnowiec for 7R Logistics (PLN 15.2 M net);
- Construction of a logistics centre for 7R Logistic Kokotów (PLN 21.8 M net);
- Construction of a powder coating plant for one of the manufacturers of wooden and wooden and aluminium windows in Poland (PLN 14.7 M).

The factors that occurred in Q1 2015 and after its end that have or may have influence on the Company's results in the next periods also include:

- Obtaining capital as a result of issuing series B shares;
- Acquiring the right of perpetual usufruct of a 1 hectare plot located in ul. Jaglana in Gdańsk, for which a construction permit has been issued with respect to erecting a multi-family residential building with a section intended for offering services;
- Extending loan agreements with Bank PEKAO S.A.;
- Conclusion of loan agreements with respect to financing projects.

Influence on results in the perspective of at least the next quarter will also be exerted by macroeconomic factors affecting the entire construction market in Poland, such as the general condition of Polish economy, inflation, GDP growth dynamics, tax policy, the level of interest rates, the job market and unemployment, level of investment, demand on the internal markets, FX rates.

The Issuer's future results will depend on successful implementation of the development strategy and the investment plan specified for issue purposes:

- Planned expansion of the orders portfolio in 2015 (working capital financing as part of general contractorship);
- Expansion of the plant manufacturing accessories for construction machines, including a development of the sales network/network for winning clients;
- Creating a land bank for property development operations + financing of the initial stages of property development projects.

## **10 Risks and threats**

Considering the future of the Issuer's operations, the major risk factors related to its functioning are as follows:

### **Risks related directly to the Issuer's operations:**

– Risk related to the construction process

The main feature of construction activity is the necessity of engaging substantial funds over the entire period of carrying out an investment project, up until handing the facility over to the

client. The services offered by the Issuer are provided under individual agreements drafted in the given circumstances and using the available procedures and technologies. Regardless of the length of the entire construction process, various changes of the initially agreed conditions may occur. The entire production and execution process poses a number of risks. During that period, the following threats may occur: ongoing design and execution changes at almost any stage of the process; incorrect initial estimate of the costs of the project; substantial change of costs during project implementation; errors in managing the entire construction process; errors related to technical and technological solutions used. All of the above may prolong the process of creating the product, resulting in increased costs and delaying the payment, which in turn leads directly to lowering the Issuer's result and disrupts the financial equilibrium.

– Risk related to atmospheric conditions

By carrying out operations on a broadly understood construction market, the Issuer is particularly dependent on atmospheric conditions. They not only affect the progress of construction projects, but also result in a seasonal nature of the revenue on sales. Traditionally, revenue on this type of operations is the largest in summer, decreasing in winter, especially in Q1. Abnormal weather conditions may have a negative influence on observing project completion deadlines. Extending deadlines may result in increased project costs and claims from clients on account of failure to observe contractual terms and conditions. In preparing project completion schedules, the Issuer assumes typical weather conditions for particular seasons. The Issuer attempts to prepare the schedule in such a way so as to make sure that finishing works inside of buildings and tasks possible to complete in sub-zero temperatures are carried out in winter. In spite of taking actions intended to make the revenue structure lean, one needs to consider the differences between financial results in the particular quarters of the year.

– Risk of changes of prices and availability of materials, raw materials, and goods

In the event of the Issuer's operations, due to the length of the entire production process, the risk of increases in the prices of materials is important, since this risk may upset the investment project's budget and its profitability. The same applies to the availability of materials and raw materials. Limits in their availability would result in upsetting the entire production process and delays in the completion of projects. Further, the risk of increases in fuel prices, which are an important factor in the determination of prices, needs to be taken into account. In the event of an increase in the general number of investment projects, there is a risk of longer waiting times for the necessary materials. The occurrence of such a situation may have a negative influence on the Issuer's financial result and his development prospects. This is why actions are being taken in order to minimize this type of risk by concluding long-term agreements with the key suppliers. This makes it possible to offset the negative factors and plan costs in more detail, which directly translates to the Issuer's profitability.

– Risk related in underestimating the costs of contracts

The carrying out of the Issuer's agreements is based on cost estimates previously produced for such agreements. There is a risk of omitting certain works or valuing them partially or incorrectly in the process. Due to the flat-fee nature of the remunerations for works and the necessity of the Issuer to incur the costs of the works himself, there is also a risk of the Issuer suffering a loss on a project. This may negatively affect the operations, financial situation, or the results of the Issuer. It also needs to be explained that the Issuer exercises due diligence in preparing offers and employing qualified and experienced cost estimators and verifies, in the course of the project, the costs actually incurred vs. the costs estimated.

– Risk related to contracts, including faults and defects

As the construction process is highly complex, it itself may be a source of risk for the Issuer. In spite of cooperation with reputed and reliable contractors and suppliers and exercising ongoing supervision over the construction works, the Issuer cannot guarantee a complete lack of faults or defects in the projects. The manifestation of faults or defects may have a negative influence on the Issuer's market image and his financial result due to the necessity of incurring additional costs related to removing the fault or defect. Further, if the removal of faults and defects is prolonged in time, this may result in failure to observe the deadlines for project completion, which will again negatively affect the Issuer's financial situation due to the obligation to pay potential liquidated damages to the clients or to pay amounts resulting from claims for damages. There is also a chance that the materials used to carry out construction works will have hidden defects that may affect the quality of the project. In connection with the above, the Issuer uses various forms of protection against such risk. These include primarily the procedures intended to minimize delays in project completion. Agreements are concluded with regular and reliable suppliers and subcontractors in order to provide the Issuer with high quality and punctuality of works, as well as with deferred payments. Efficient procedures of ongoing internal control and monitoring of particular orders are also important. It needs to be emphasized that so far, in the Issuer's operations, such events have occurred only occasionally.

– Risk related to concentrating operations on the local market

Most of the Issuer's projects in terms of general contractorship and property development are located in the Pomorskie Province. Concentrating operations on the local market results in being dependent on the economic situation on this market. As a result, the Issuer needs to compete against a large number of business entities, both domestic and foreign, operating on the property development and construction markets. Such local limitations mean that the Issuer's revenue largely depends on the activity of investors in the region that need the Issuer's services and on the demand on the housing market. A substantial decrease of the level of local investment or a large number of competing housing projects may reduce the Issuer's revenue. This translates directly to the Issuer's financial result and his development prospects. To mitigate this risk, new contracts are sought for on a broader market, which will allow for more independence of the situation on the local market and will contribute to the Issuer's development. The Issuer also focuses on strengthening his market position and

increasing the competitive edge by providing high quality services on time and offering comprehensive solutions both for private investors and investors representing international corporations expanding their operations in Poland.

– Risk related to changes in market tendencies

One of the major risks is the possibility of changes in market tendencies. A number of variables that are beyond the control of the Issuer affect investment goods. In turn, demand and supply for construction services have a direct effect on the revenue on operations. There is a risk of the situation on the construction market deteriorating due to a reduced number of investment projects, which may translate to the level of margins and, consequently, the Issuer's profitability. Furthermore, the Issuer's revenue largely depends on the activity of investors in the region. A decrease in the number of investment projects may have a negative effect on the Issuer's financial results and his development prospects. In order to mitigate this risk, the Issuer is looking for new contracts on a broader market. This is intended to mitigate the risk of concentrating operations exclusively on the local market. Additionally, in the event of adverse market changes, the Management Board will implement actions intended to adapt the Issuer to the changing market situation, e.g. by means of actions intended to limit costs.

– Risk related to clients failing to pay the amounts due

Agreements for construction works usually contain clauses concerning payment for particular milestones and provisions guaranteeing partial invoicing for the completed works. Because of that, the risk related to non-payments for the services provided is small. However, there is a risk that, in spite of completing a given milestone, the client will fail to make (or will be late with) the agreed payments, which may limit the Issuer's liquidity and, in an extreme case, result in financial losses. The Issuer attempts to mitigate the above risk by concluding agreements with reliable business partners. However, he is unable to guarantee that he will not suffer such losses in the future. Furthermore, all of the clients interested in trade credit are verified and the Issuer carries out ongoing monitoring of the status of the receivables. It is also important that this type of risk is limited to a certain extent by the provisions of the Polish Civil Code regarding the guarantee of payment for construction works.

– Risk related to financing current operations

One of the sources of financing the Issuer's operations are the funds obtained through bank loans. As of the day of producing this document, there are no reasons for which the Issuer would be unable to perform his obligations under loan agreements. However, the risk of this type of problems occurring in the future cannot be fully eliminated. In an extreme case, in order to perform his obligations, the Issuer may be forced to sell some of his assets, which could negatively affect his financial situation and development prospects.

– Risk related to carrying out property development projects

The property development cycle is a long one (24+ months), with the necessity of incurring substantial financial outlays and a full return of such outlays only after a minimum of two years. The following elements may have a major impact on the financial results in terms of property development operations: the necessity to incur additional costs; postponement of the project completion date; delay in obtaining the construction permit; delays in completing the documentation necessary to conclude notarial deeds of sale.

– Risk related to changes of the price of premises (property development operations)

The profitability of property development operations depends on the prices of the premises sold, over which the Issuer has no direct control. The current level of prices is determined primarily by the affluence of society, availability of loans, and the interest rates. In a period of lower prices, the Issuer may significantly reduce the sales of ready premises and, in extreme cases, halt the implementation of selected projects. Such a situation, should it occur, will have a negative impact on the Issuer's financial result.

– Risk related to using abusive clauses in agreements concluded as part of property development operations

The Issuer operates inter alia in the property development industry, selling most of the premises to consumers. In relations with consumers, the Issuer usually uses ready agreement templates. There is a risk of a claim made to the Issuer that the templates used contain abusive clauses, which, in accordance with Article 385<sup>1</sup> § 1 of the Polish Civil Code, are such non-individually agreed clauses that shape the rights and obligations of the consumer in discordance with good customs, grossly violating his interests. This may negatively affect the operations, financial situation, or the results of the Issuer. It needs to be explained that the Issuer discusses the agreements with the clients, enabling individual negotiation of their provisions. So far, no proceedings have been instigated with respect to the Issuer in connection with any of the templates being classified as abusive.

– Risk of accidents at the construction site

The Issuer, as a general contractor, is responsible for his employees in connection with carrying out construction works as part of particular undertakings. Responsibility for the employees of the subcontractors is excluded, except for cases of culpable actions or inactions of the Issuer. Mitigating the above risk is done by means of proper work organization and strict observance of health and safety regulations. However, the risk related to potential claims for damages cannot be excluded in the case of an accident at the construction site. Such an accident may also affect the completion of works on time.

– Risk related to subcontractors

One of the factors having significant influence on the correct implementation of contracts is the cooperation with subcontractors. In the process of carrying out contracts, the Issuer, apart from using his own resources, employs the services of subcontractors, at the same taking over from them the risk related to improper agreement performance or late completion of the subject matter of an agreement by the subcontractors. This may result in the Issuer violating the provisions of the agreement with the investor, resulting in claims being made to the Issuer and the risk of losing the status of a solid contractor, which will negatively affect the Issuer's financial result. The Issuer attempts to mitigate this risk by means of intensifying the actions intended to build his own base of qualified employees. Additionally, the Issuer, in drafting the agreements with subcontractors, specifies the terms and conditions in such a way so as to protect himself against non-performance or improper performance of the agreement by subcontractors. The risk related to improper carrying out of the works by subcontractors is additionally mitigated by means of proper selection of subcontractors, i.e. by choosing reliable subcontractors that have been working with the Issuer for many years and that have the relevant certificates and experience. Limited availability of external subcontractors may also result in an increase of the amounts paid to subcontractors, therefore negatively affecting the financial results and the situation of the Issuer, who attempts to limit the effects of this phenomenon by expanding his own workforce. It also needs to be pointed out that when the Issuer employs the services of subcontractors without approval from the investor or contractor, he bears the risk of agreement termination. Furthermore, in such cases the provision of Article 647<sup>1</sup> of the Polish Civil Code will not apply. This Article provides for joint and several liability of entity concluding the agreement with the subcontractor, the investor, and the contractor for the payment of the remuneration for the services rendered by the subcontractor. The Issuer, being aware of this risk, attempts in each individual case to obtain the relevant approvals from the investors and/or contractors.

– Risk related to liability for the members of the consortium

In carrying out agreements under a consortium, the Issuer is liable not only for his own actions and the actions for his subcontractors, but also, in principle, bears joint and several liability for the actions of the other members of the consortium. Considering the specificity of the Issuer's operations, carrying out contracts through consortiums is and will continue to be an important element of these operations. In the event of the investor making claims to the consortium, it cannot be ruled out that the Issuer will be obliged to pay liquidated damages or other damages also for the actions that occurred through the fault of a consortium partner. Considering the risk of the potential recourse claims being ineffective, e.g. in the event of bankruptcy of the consortium partner, it cannot be ruled out that the Issuer will not be able to recover all or some of the amounts paid on that account. This may have a negative impact on the operations, financial situation, or the results of the Issuer.

– Risk related to winning new contracts

The nature of the Issuer's business operations means that a large number of contracts are won in tenders. The Issuer's Management Board prepares offers, specifies and potentially negotiates the terms and conditions of bids, and prepares the Company to carry out these contracts, but has no control over the criteria of bid evaluation being the basis for selecting the winning bid. One of the basic factors contributing to the Issuer's success is the consistent implementation of the development strategy focused around winning clients with the highest profitability. The Issuer has developed an effective system of valuing contracts that, in connection with a strict control of costs, results in the Issuer currently carrying out contracts with profitability as assumed and achieving good financial results. The Issuer pays attention to restructuring and minimizing all costs elements, both at the particular stages of contract implementation and in terms of the Company's overheads. It cannot be ruled out that for instance the changing market conditions will negatively affect the Issuer's ability to win new contracts and achieve satisfactory margins. In order to mitigate this risk, the Issuer attempts to continuously improve the project management system that covers for instance the processes of submitting bids and budgeting contracts. Furthermore, high activity in tender procedures contributes to continued increase of efficiency in winning new contracts.

– Competition risk

A number of business entities, both domestic and foreign, including the major European groups/companies, operate on the Polish construction market. In terms of competition, the Issuer on the one hand deals with small companies offering their services on local markets and on the other hand, with strong corporate groups carrying out large and complex construction undertakings. The Issuer erects industrial facilities as a general contractor. The Issuer focuses on strengthening his market position and increasing the competitive edge by providing high quality services on time and offering comprehensive solutions both for private investors and investors representing international corporations expanding their operations in Poland. In order to mitigate the risk related to competition, the Issuer carries out his works exercising utmost diligence and building the best possible relations with the clients. Furthermore, the Issuer mitigates the said risk by means of diversifying his operations (general contractorship, property development, steel structures and elements of construction machines).

**Risks related to the area in which the Issuer carries out his operations:**

– Risk related to the macroeconomic situation

The Issuer's results depend on the macroeconomic situation and the economic growth on the markets on which operations are carried out. Due to the fact that the Issuer operates primarily on the Polish market, the development of the economic and political situation in Poland has a major impact on the financial results and the implementation of the strategy. Adverse changes, in particular a slowdown of the economic growth, may negatively affect the level of investment outlays in the economy, leading to a slump in the construction sector, including due to a decrease in supply of projects for general contractors, and resulting in slower development and lower profitability of the Issuer.



– Risk of lack of stability of the Polish tax system

The Polish tax system is often amended and features inconsistency and no uniform interpretation of tax regulations. These inconsistencies result in the major risk related to the tax environment in which the Issuer carries out his operations. The fact of tax authorities questioning the Issuer's tax settlements in connection with divergences or changes in the interpretation of tax law regulations by various tax administration bodies may result in relatively high penalties or other sanctions being imposed on the Issuer. Considering the relatively long prescription period for tax obligations, estimating the tax risk is particularly difficult. However, the risks specified above may have a major negative impact on the operations, financial situation, or the results of the Issuer.

– Risk related to the lack of stability of the Polish legal system

The Polish legal system is subject to numerous changes that have immense impact on the Issuer's operations. From the point of view of the Issuer, the most important changes are made in the following: construction law; commercial law; tax law; labour and social insurance law; laws passed by local governments. Legal changes may result in risk related to interpretation problems, lack of a body of rulings, and adverse interpretations adopted by courts or public administration authorities. It also needs to be remembered that currently, legal regulations are interpreted not only by Polish courts and public administration authorities, but also by the courts of the European Community. These changes may be a reason for problems directly related to a lack of a uniform interpretation of the law. Since the knowledge of the body of rulings of Community courts is not universal in Poland and since Polish courts not always adjudicate in line with it, it may happen that a ruling issued in Poland will be quashed as being in discordance with European law. Changes of legal regulations or various interpretations of them may pose some risk. Inconsistency, lack of a uniform interpretation of legal regulations, frequent amendments, and the conflicts between statutory and secondary legislation entail serious risk for business operations. Potential amendments of legal regulations may lead to negative effects for the Issuer's operations. The fact of new legal regulations in terms of trading coming into effect may cause interpretational problems, inconsistent court rulings, adverse interpretations adopted by public administration authorities, etc. The related changes in law may also affect the legal environment for business, including in terms of the Issuer's operations. In order to mitigate the above risk, the Issuer constantly monitors changes to legal regulations and employs the services of professional attorneys.

– Risk related to construction law regulations

In connection with the nature of the Issuer's operations, the main legal acts are construction law and general contractorship regulations. The main duties to be carried out by the Issuer in the course of an investment project and prior to its commencement and after its completion are specified in the Construction Law of 7 July 1994 (JoL. of 2013, item 1409). Furthermore, the provisions of the Polish Civil Code that regulate the issue of construction works and agreements in this respect provide for additional restrictions related to the Issuer acting as a

general contractor or an investor. These are contained in Title XVI of the Polish Civil Code, which specifies the form and scope of the agreement, the scope of works, the payment guarantee and its amount, the obligation to inform about obstacles and damage occurring at construction site, the form of partial acceptance of works, and the risk of destruction of the facility under construction. Improper performance of duties is related to the risk of a delay of the given undertaking, its halting or non-performance, and may also negatively affect the Issuer's financial result and his operations or organizational situation. According to the Issuer's knowledge, the agreements for construction works the Issuer is a party to are in accordance with the provisions of the Polish Civil Code.

## **Risks related to financial instruments:**

### – FX risk

The Issuer carries out its operations primarily in Poland. In terms of export operations, the Issuer bears the risk of FX differences. The fact of the Polish currency strengthening itself in comparison with the currencies of the countries to which the Issuer's products are exported will lead to a decrease in the income from sales, which, in turn, will have a negative effect on the Issuer's financial results.

### – Interest rate risk

The Issuer finances his operations using, inter alia, floating rate instruments (including working capital facilities and bonds). This generates interest rate risk. In the event of high interest rates, the Issuer's financial results may be worse due to an increase in financial costs. Additionally, high exposure related to this risk and incorrect evaluation of this risk may negatively affect the Issuer's financial results.

### – Risks related to bonds issued

In connection with the bonds issued, the Issuer's assets may be decreased, as failure to repay obligations, including in terms of interest, entitles bond holders to enforce their early redemption, which may significantly reduce the Issuer's current assets. Further, it cannot be ruled out that, due to non-performance of obligations, the creditors will exercise their right to file a court request for a declaration of bankruptcy. As of 30 June 2015, the Issuer has no problems with repaying his debt on account of bonds on time. As of the day of approving this report, the Issuer has not identified any real risks related to the bonds issued. However, considering all of the risks related directly to his operations, the Issuer does exclude the possibility of future problems related to repaying obligations on account of bonds on time.

### – Risks related to loan agreements concluded

In connection with loan obligations, the Issuer's assets may be reduced, as failure to repay the obligations entitles the banks to terminate loan agreements and commence enforcement of their repayment or to satisfy themselves from the assets being the object of security. Further, it cannot be ruled out that, due to non-performance of obligations, the banks will exercise their right to file a court request for a declaration of bankruptcy. The Issuer's failure to repay loan obligations will result in increasing interest, thus contributing to increased indebtedness.

## **11 Other significant information necessary for the evaluation of the Company's situation**

Apart from those presented above, there is no other information that, in the opinion of the Company, is significant for the evaluation of its situation in terms of human resources,

property, and finance and changes in this respect, or any other information that is necessary to evaluate the Company's ability to meet its obligations.

## **12 Contact information**

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### **Signatures of all Members of the Management Board**

Mariusz Tuchlin, President of the Management Board

Krzysztof Łukowski, Vice President of the Management Board

Rafał Glaza, Member of the Management Board

Adam Olżyński, Member of the Management Board

Andrzej Kuchtyk, Member of the Management Board

Rafał Dietrich, Member of the Management Board