

**Report of statutory auditor  
from audit of annual consolidated  
financial statement  
for period 01.01.2018 - 31.12.2018**

**DEKPOL Capital Group S.A.**

**HLB M2 AUDIT PIE Spółka z ograniczoną odpowiedzialnością**  
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Firma audytorska numer 4123  
Zarząd: Sebastian Dziadek – Prezes Zarządu.

To Shareholders, Supervisory Board and Management Board of Dekpol S.A.

## **Report of statutory auditor from audit of annual consolidated financial statement**

We audited the attached annual consolidated financial statement of Dekpol Capital Group S.A. (hereinafter: Group), in which the Parent Entity is Dekpol S.A. (hereinafter: Parent Entity) headquartered in Pinczyn, Gajowa Street 31 (postal code: 83-251 Pinczyn), which includes: consolidated statement of financial position prepared as of 31 December 2018 (showing the assets and liabilities in the amount of PLN 900 817 thousand), consolidated statement of comprehensive income (disclosing a total comprehensive income of PLN 33 949 thousand), consolidated statement of changes in equity (disclosing equity at the end of the period of PLN 191 525 thousand) and consolidated cash flow statement for the year ended on that day (disclosing cash at the end of the period in the amount of PLN 65 957 thousand) as well as additional information covering introduction to consolidated financial statement and description of used accounting principles and also additional information and explanations ("consolidated financial statement"),

In our opinion, attached annual consolidated financial statement:

- presents a true and fair view of the consolidated property and financial situation of the Group as at 31<sup>st</sup> of December 2018 and its consolidated financial result and consolidated cash flows for the financial year ended on that day in accordance with the applicable International Financial Reporting Standards approved by the European Union and adopted accounting rules (policy),
- it agrees on the form and content of the applicable laws and the statute of the Parent Entity.

This opinion is consistent with the additional report for the Audit Committee, which we issued on 30<sup>th</sup> of April 2019.

### *Basis for qualified opinion*

We conducted our audit in accordance with the International Standards of Research in the version adopted as National Standards of Research by the National Council of Statutory Auditors ("NSR") and pursuant to the Act dated 11<sup>th</sup> of May 2017 on statutory auditors, auditing companies and public supervision (the "Act on Certified Auditors" - Dz. U. 2017 r., pos. 1089) and EU Regulation No. 537/2014 of 16<sup>th</sup> of April 2014 on specific requirements regarding statutory audit of public-interest entities ("EU Regulation" - Official Journal EU L158). We did not use the option of earlier application of any published but not yet applicable NSR. Our responsibility in accordance with these standards is further described in the section of our report Auditors' Responsibility for auditing the financial statement.

We are independent of the Group companies in accordance with the Code of Professional Accountants of the International Federation of Accountants ("IFAC Code") adopted by the resolutions of the National Council of Statutory Auditors and other ethical requirements that apply to the audit of financial statements in Poland. We have fulfilled our other ethical obligations in accordance with these requirements and the IFAC Code. During the audit, the key certified auditor and the audit firm remained independent of the Group in accordance with the independence requirements set out in the Act on Certified Auditors and in the EU Regulation.

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

*Explanation incl. devoting special attention*

Without raising any objections to the correctness and truth of the audited consolidated financial statement, we draw attention to the fact that our audit of financial statements of significant subsidiaries included in the consolidated financial statement have not been formally completed by the date of issue of our opinion, nevertheless the stage of progress of the auditing process in subsidiaries allowed us to formulate this opinion.

*Key research matters*

Key audit matters are matters that, according to our professional judgment, were the most significant while auditing the consolidated financial statement for the current reporting period. They include the most significant assessed risks of material misstatement, including the assessed caused by fraud. We referred to these matters in the context of our audit of the consolidated financial statement as a whole, in forming of our opinion, and summarized our reaction to these risks and in cases where we considered appropriate we presented the key observations related to these risks. We do not express a separate opinion on these matters.

**Key audit matter**

Risk of incorrect setting of balance value of intangible assets

This issue was the subject of our attention due to the significant share of this item in the assets of the Capital Group.

**How our audit referred to this matter**

On the basis of received information, we carried out the following procedures:

- audit of audit sample concerning setting of initial value of tangible assets for tangible assets purchased in year 2018,
- we gained information from Management Board regarding using of tangible assets, including in the context of carried business activities, we performed analysis regards reasons of loss of value,
- We carried out analysis of verification of depreciation rate for 2018.

No material exceptions have been noted

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Risk related to estimating the fair value of investment properties

The company estimates investment properties at fair value, which means the risk associated with the correct estimates.

Regarding the valuation of investment in real estates:

- we have carried out an assessment of the assumptions made by property appraisers when drawing up appraisal reports and the adequacy of the adopted valuation methods,
- We verified the correctness of the recognition in the books and financial statement of the effects of revaluation of investment properties.

No material exceptions have been noted.

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Risk of impairment loss of inventories

Considering the importance of property development activities for the Group's operations, we analyzed the reasons for the impairment loss of inventories.

On the basis of received information, we carried out the following procedures:

- verification of inventories aging,
- comparative analysis of a cost of purchasing price/cost of creation of inventories to price able to get,
- Analysis of events after balance sheet date regards reasons of impairment loss.

No material exceptions have been noted.

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Risk connected with incorrect identification of revenues, its completeness and associated receivables pricing, including risk of impairment loss of trade receivables and taking into account the impact of changes in IFRS on the financial statement of the Capital Group.

Risk connected with estimates regarding construction agreements. Due to the importance of revenues from core segment for the consolidated financial statement, we have identified the risk of significant distortion in a given area.

On the basis of received information, we carried out the following procedures:

- understanding of revenues identification process and we identified key internal controls of the Company in this process,
- we performed review of accounting principles concerning identification of revenues and connected with it essential assessments and estimations,
- we carried out detailed credibility test, among other things in range of analysis of revenues during a period, as well as connected with it costs, correctness of qualification of sales corrections,
- procedure of independent balance confirmations,
- analysis of receivables aging,
- analysis of repayment of receivables after balance sheet date,
- we performed analysis of correctness of pricing of long-term construction agreements on the basis of received expenses budget and received agreements with beneficiaries.

We assessed the correctness of the presentation of this item in the financial statement.

No material exceptions have been noted

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Risk of loss of financing sources

The Group finances its operations mainly with foreign capital, therefore the analysis of this area was also significant in our research.

On the basis of received information, we carried out the following procedures:

- verification of loan agreements and conditions of bonds issue,
- verification of fulfillment of covenants,
- Verification of presentation of financial liabilities.

No material exceptions have been noted

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Risk of incorrect exclusion of results of intra-group transactions in consolidated financial statement

On the basis of received information, we carried out the following procedures:

- understanding of ratios of operating of subsidiaries, the subject of their activity and role in the Capital Group,
- evaluation of economic justification of intra-group transactions,
- verification of performed consolidating exclusions,
- analysis in the context of relevant disclosures in the consolidated financial statement regarding transactions with related parties.

No material exceptions have been noted

*Responsibility of the Management Board and Supervisory Board of the Parent Company for the consolidated financial statement*

The Management Board of the Parent Entity is responsible for preparing, on the basis of correctly kept accounting books, consolidated financial statement that presents a true and fair view of the property and financial situation and financial results of the Group in accordance with the International Financial Reporting Standards approved by the European Union, adopted accounting principles (policy) and the applicable laws and statute, as well as internal control, which the Management Board of the Parent Company considers necessary to enable the preparation of consolidated financial statement without material distortion caused by fraud or error.

While preparing the consolidated financial statement, the Parent Entity's Management Board is responsible for assessing the Group's ability to continue as a going concern, disclosing, if applicable, matters related to going concern and adopting the principle of going concern as an accounting basis, except when the Management Board intends to liquidate the Group, either abandon doing business or there is no real alternative for liquidation or discontinuation of activity.

The Management Board of the Parent Entity and members of the Parent Entity's Supervisory Board are required to ensure that the consolidated financial statement meets the requirements of the Accounting Act ("Accounting Act" – Dz. U. 2017 r., pos. 2342). The Members of the Parent Entity's Supervisory Board are responsible for supervising the financial reporting process.

### *Auditor's responsibility for auditing the consolidated financial statement*

Our objectives are to obtain reasonable assurance that the consolidated financial statement as a whole does not contain any material misstatement due to fraud or error and to issue a report containing our opinion. Reasonable assurance is a high level of assurance, but it does not guarantee that a test conducted in accordance with the NSR will always detect the existing significant distortion. Distortions may arise as a result of fraud or error and are considered material if it can reasonably be expected that, individually or in aggregate, they could influence users' business decisions made on the basis of these consolidated financial statement.

The concept of materiality is used by the auditor both in planning and conducting the audit as well as in assessing the impact of the distortions identified during the audit and the uncorrected distortions, if any, on the financial statements, as well as when formulating the auditor's opinion. In connection with the above, all opinions and statements included in the audit report are expressed with regard to the qualitative and valuable level of significance determined in accordance with the audit standards and professional judgment of the statutory auditor.

The scope of the audit does not include assurance as to the future profitability of the audited Group nor the effectiveness or efficiency of conducting the affairs of the entity by the Management Board of the Parent Entity currently or in the future.

During a study in accordance with the NSR, we apply professional judgment and we maintain professional skepticism as well as:

- we identify and assess risks of material misstatement of the consolidated financial statement caused by fraud or error, we design and conduct audit procedures that address these risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not recognizing a significant misstatement due to fraud is greater than that resulting from the error, as the fraud may involve collusion, falsification, intentional omissions, misrepresentation or circumvention of internal control;
- we gain an understanding of the internal control appropriate to the audit to design audit procedures that are appropriate under the certain circumstances, but not to express an opinion on the effectiveness of the Group's internal control;
- we assess the appropriateness of the accounting principles (policies) used and the reasonableness of accounting estimates and related disclosures made by the Management Board of the Parent Entity;
- we draw a conclusion on the appropriateness of the Parent Entity's Management Board's application of going concern assumption as an accounting basis and, based on the audit evidence, whether there is significant uncertainty related to events or conditions that may substantially doubt the Group's ability to continue as a going concern. If we conclude that there is significant uncertainty, we require that we draw attention in our auditor's report to related disclosures in the consolidated financial statement or, if such disclosures are inadequate, we modify our opinion. Our applications are based on audit evidence obtained up to the date of our audit report, however future events or conditions may cause the Group to cease its activities;

- we assess the overall presentation, structure and content of the consolidated financial statement, including disclosure, whether the consolidated financial statement presents the underlying transactions and events in a manner that ensures a fair presentation;
- we obtain sufficient relevant audit evidence regarding the financial information of entities or businesses within the Group to express an opinion on the consolidated financial statement. We are responsible for managing, supervising and conducting the Group study and we remain solely responsible for our audit opinion;

We provide the Supervisory Board of the Parent Entity with information about, among other the planned scope and time of the audit and significant findings of the audit, including any significant weaknesses of internal control that we will identify during the audit.

We submit to the Parent Entity's Supervisory Board a statement that we have complied with the relevant ethical requirements regarding independence and that we will inform them of all connections and other matters that could reasonably be considered to pose a threat to our independence and, where applicable, we report security measures applied .

From among the matters forwarded to the Supervisory Board of the Parent Entity, we determined those matters that were most significant during the audit of the consolidated financial statement for the current reporting period and therefore we considered them as the key issues of the audit. We describe these matters in our auditor's report, unless laws or regulations prohibit public disclosure or when, in exceptional circumstances, we determine that the issue should not be presented in our report because it would reasonably be expected that the negative consequences would outweigh the benefits of such a report. information for the public interest.

#### **Other information, including an activity report**

Other information include the report on the Group's activities for the financial year ended 31<sup>st</sup> of December 2018 ("Activity Report") together with the statement on corporate governance, which are separate parts of this Report and the Annual Report for the financial year ended 31<sup>st</sup> of December 2018 ("Annual report") (together "Other information").

#### *Responsibility of the Management Board and Supervisory Board of the Parent Entity*

The Management Board of the Parent Entity is responsible for preparing a report on operations in accordance with the law.

The Management Board of the Parent Entity and members of the Parent Entity's Supervisory Board are obliged to ensure that the Report on the Group's activities along with the separated part meet the requirements provided for in the Accounting Act.

#### *Responsibility of the statutory auditor*

Our opinion on the audit of the consolidated financial statement does not include other information. In connection with the audit of the consolidated financial statement, it is our duty to review other information and, in doing so, consider whether other information are not materially inconsistent with the consolidated financial statement or our knowledge gained during the audit or otherwise appear significantly distorted. If, based on the work performed, we find significant distortions in



other information, we are required to inform about it in our audit report. Our duty in accordance with the requirements of the Act on certified auditors is also to issue an opinion on whether the report on the Group's activities has been prepared in accordance with the regulations and whether it is consistent with the information contained in the consolidated financial statement. In addition, we are required to issue an opinion on whether the Group has included the required information in the corporate governance statement.

We obtained the report on the Group's activities before the date of this audit report, and the Annual Report will be available after this date. If we find a significant distortion in the Annual Report, we are obliged to inform the Supervisory Board of the Parent Entity.

#### *Opinion on the Report on activities*

Based on the work carried out during the study, in our opinion, the Report on the Group's activities:

- was drawn up in accordance with Article 49 of the Accounting Act and the Regulation of the Ministry of Finance dated 29<sup>th</sup> of March 2018 regarding current and periodic information provided by issuers of securities and requirements for recognition of information required by the law of a Non-Member state as equivalent ("Regulation on current and periodic information" – Dz. U. 2018 r., pos. 757);
- is consistent with the information contained in the consolidated financial statement.

In addition, in the light of the knowledge about the Group and its environment obtained during our audit, we declare that we have not identified significant distortions in the Report on the Group's activities.

#### *Opinion regarding declaration of application of corporate governance*

In our opinion, in the statement on the application of corporate governance, the Group has included the information set out in paragraph 70, section. 6 point 5 of the Regulation on current and periodic information. Information indicated in paragraph 70, section 6 point 5 (c-f, h and i) of this Regulation contained in the statement on the application of corporate governance are consistent with the applicable regulations and information contained in the financial statement.

#### **Report concerning other legal requirements and regulations**

##### *Opinion concerning report on services non-auditing financial statements*

According to our best knowledge and belief, we declare that we have not provided non-audit services that are prohibited under Article 5 section 1 of the EU Regulation and art. 136 of the Act on certified auditors.

#### *Selection of Auditory Company*

We have been selected to audit consolidated financial statement of the Capital Group for the year 2017 and 2018 through resolution of Supervisory Board dated 18<sup>th</sup> of August 2017. HLB M2 Audit PIE spółka z ograniczoną odpowiedzialnością (formerly operating under HLB M2 Spółka z ograniczoną odpowiedzialnością AUDIT PIE Sp. k.) audits financial statement of the Company for second time. The

Entity associated with the entity issuing this report, i.e. HLB M2 Spółka z ograniczoną odpowiedzialnością Tax & Audit Sp.k. carried out an audit of consolidated financial statements of the Capital Group constantly starting from financial year ended 31<sup>st</sup> of December 2014, i.e. for the next 3 years. Key statutory auditor audited consolidated financial statement of the Capital Group constantly starting from financial year ended 31<sup>st</sup> of December 2014, i.e. for the next 5 years.

Maciej Czapiewski

Key Statutory Auditor  
conducting audit  
on behalf of HLB M2 AUDIT PIE Spółka z  
ograniczoną odpowiedzialnością  
entered on the list of statutory auditors  
under the number 10326

Sebastian Dziadek

President of Management Board  
HLB M2 AUDIT PIE Spółka z ograniczoną  
odpowiedzialnością  
Audit Company entered on the list of  
auditory companies under number 4123

Warszawa, 30<sup>th</sup> of April 2019