Attachment no. 1
To current report no. 19/2021 of Dekpol S.A.
- correction of points 8 - 10 to Introduction to the consolidated financial statement of Dekpol S.A. for the period from 1st of January 2018 to 31st of December 2018 published on 30th of April 2019 (pages 12 - 30)

I. Content before correction

8. Rules for the valuation of assets and liabilities and financial results, adopted in the preparation of the financial statement

Whenever the Company is indicated below, it applies to the whole DEKPOL S.A. Capital Group.

Property, plant and equipment

- *Principles of evaluation of property, plant and equipment are mainly included in IAS 16 "Property, plant and equipment".*
- *Property, plant and equipment are subject to initial recognition at the acquisition price or production cost.*
- *The acquisition price or production costs are subject to an increase by costs of disassembly and removal of an item of property, plant and equipment and renovation of the place of using it, if the Company is obliged to do so.*
- *The acquisition price or production costs are not subject to adjustment by foreign exchange differences related to liabilities financing the acquisition of an asset accrued up to the date of putting an asset into use, unless it results from the policy adopted in the scope of hedge accounting.*

- *The acquisition price or production costs are subject to an increase by costs of interest on liabilities financing the acquisition of an asset accrued up to the date on which an asset is ready for use.*
- *After the initial recognition, the Company evaluates property, plant and equipment at the acquisition price or production cost less depreciation write-offs, pursuant to the model specified in § 30 of IAS 16.*
- *With regard to each item of property, plant and equipment, the Company determines a period of economic useful life. If it is justified in relation to significant component parts of property, plant and equipment to apply various periods of economic useful life and depreciation rates/methods, the Company applies various depreciation rates/methods in relation to each significant component part of property, plant and equipment.*
- *Property, plant and equipment are subject to depreciation in a period of economic useful life from the day on which an asset is ready for use until the date on which it is excluded from recognition or it is intended for sale.*
- *The Company accepts that the final (residual) value of used property, plant and equipment is usually insignificant and will not be determined, unless the residual value is significant in relation to a given item of property, plant and equipment. The residual value constituting at least 20.0% of the initial value of an item of property, plant and equipment is deemed significant.*
- *The Entity applies a straight-line deprecation method of property, plant and equipment, unless other methods (degressive method, method based on production units) better reflect the consumption of economic benefits. The Company may apply other methods and rates in order to establish tax income.*
- *A depreciation period, depreciation method and residual value (if determined) are subject to periodic verification at least at the end of each financial year. If a significant change is found as compared to previous estimates, the entity changes amortization rates and/or method starting from the first day of the reporting period.*
- *Property, plant and equipment of the initial value not exceeding PLN 3,500.00 are written off in the month in which they are put into use. Property, plant and equipment of the initial value below PLN 1,000.00 are recognized exclusively in off-balance sheet records and are charged as a single entry to costs of "purchase of tools and equipment" recorded on account 411-09.*
- *Costs of improvement of property, plant and equipment increase their initial value, provided that improvement consists in extending a period of economic useful life or improving parameters of property, plant and equipment measured by means of costs of operation, productivity, quality of manufactured products or scope of functionality.*
- *Costs of current renovations and inspections of property, plant and equipment are recognized as costs of the period in which they are incurred, unless they result in extending a period of economic useful life as compared to the initially assumed period.*
- *If property, plant and equipment are excluded from use, the Company does not discontinue depreciation, unless an item of property, plant and equipment is held*

for sale within 12 months. In such a case, property, plant and equipment are evaluated at the initial value less revaluation write-offs or at the fair value less selling costs, whichever is lower, and are not subject to depreciation - according to IFRS 5 "Non-Current Assets Held for Sale and Discontinued Operations".

Lease

- *The Company recognizes and evaluates leased assets pursuant to IAS 17 "Leases".*
- *The Company classifies assets as being the subject matter of financing or operating lease agreements on the basis of the criteria specified in § 7-19 of IAS 17.*
- *Assets which are the subject matter of a financing lease have to be disclosed as user's assets; assets which are the subject matter of an operating lease have to be disclosed as lessor's assets.*
- *In the case of a financing lease, the Company recognizes the discounted value of a liability (without an interest part) broken down into long-term and short-term liabilities. An interest part of lease instalments is recognized as costs of the period. If the Company does not plan to use the option of purchase of the subject matter of a financing lease, it determines a period of economic useful life not longer than the term of a lease agreement.*
- *If the Company performs a leaseback transaction, any possible profit from the sale of an asset to a lessor is not recognized as revenue and is accounted for over time, unless a leaseback is an operating lease and the transaction has been concluded at the fair value.*
- *Non-current assets in progress are non-current assets that are constructed, assembled or improved. They are measured at the total costs directly related to their acquisition or construction less impairment losses.*

Intangible assets (IA)

- *A definition of IA has been specified in §12 of IAS 38 "Intangible Assets" and criteria for their recognition in §21 of IAS 38.*
- *The Company initially recognizes IA acquired in separate transactions at acquisition prices, while IA produced by the Company at a production cost.*
- *If software licenses or similar assets are acquired, costs of implementation of software incurred until the date of bringing it to the assumed fitness for purpose specified by the Company's Management Board should be recognized under the IA initial value. The implementation costs do not include costs of employee trainings which encumber profit or loss on the date they are incurred.*
- *Only IA meeting the criteria specified for development works in §57 of IAS 38 may be classified as IA produced by the Company. Goodwill, trademarks etc. are not classified as IA, if produced by the Company.*

- *After the initial recognition, the Company evaluates IA at the purchase price or cost of production less amortization write-offs, pursuant to the model specified in § 74 of IAS 38.*
- *With regard to each IA, the Company determines a period of economic useful life. A period of economic useful life may be unlimited. A period of economic useful life resulting from legal titles may not be longer than a period of validity of such titles.*
- *IA is subject to amortization in a period of economic useful life from the day on which an asset is ready for use until the date on which it is excluded from recognition or it is intended for sale.*
- *The Entity applies a straight-line amortization method of IA, unless other methods (degressive method, method based on production units) better reflect the consumption of economic benefits. The Company may apply other methods and rates in order to establish tax income.*
- *An amortization period and method are subject to periodic verification, at least at the end of each financial year. If a significant change is found as compared to previous estimates, the entity changes amortization rates and/or method starting from the first day of the reporting period.*
- *IA with an indefinite period of economic useful life and goodwill are not subject to amortization, but they are tested for impairment loss at the end of each financial year and when there are premises that impairment loss of IA has occurred. Moreover, the correctness of the assumption that IA has an indefinite period of useful life is verified on an annual basis and, if needed, IA is reclassified to amortized IA. Goodwill is not subject to reclassification.*
- *IA of the initial value not exceeding PLN 1,000.00 are charged as a single entry to costs of "purchase of tools and equipment" recorded on account 411-09 and recognized under off-balance sheet records. IA of the initial value from PLN 1,000.00 to PLN 3,500.00 are recognized in IA itemized records and amortized as a single entry in the month following the month in which IA are ready for use as expected by the management.*

Investment property

- *Principles of recognition and evaluation of investments in property are regulated in IAS 40 "Investment property"*
- *The Company classifies real properties held to generate rent income or an increase in their value as investment properties. If the real property is also used for own needs of the Company, while the separately used part may not constitute a separate ownership unit, the real property is treated as a fixed asset, if the use for own needs prevails, or as investment in the real property, if the investment character prevails.*
- *The Company evaluates real properties at fair values. Fair values of all real properties are determined as of 30 November of each financial year. Effects of*

reevaluation to fair values are subject to recognition in profit or loss of the financial year.

Shares in subsidiaries

The Dekpol S.A. Capital Group as of the balance sheet date is composed of Dekpol S.A. as the parent entity and twenty two subsidiaries.

All of the above companies are subject to full consolidation.

Direct subsidiaries of Dekpol S.A.:

1) Dekpol 1 Sp. z o.o. - general partner of DEKPOL 1 Sp. z o.o. SKA,

2) Dekpol 1 Sp. z o.o. S.K.A. - is responsible in the DEKPOL Group for the management of subsidiaries appointed to perform specialized tasks as well as intangible and intellectual values in the DEKPOL Group,

3) Dekpol Inwestycje Sp. z o.o. – general partner in special purpose entities implementing individual development projects in the Dekpol Capital Group (Dekpol Inwestycje Sp. z o.o. Pastelowa Sp.k.; Dekpol Inwestycje Sp. z o.o. Rokitki Sp.k.; Dekpol Inwestycje Sp. z o.o. Development Sp. k., Dekpol Inwestycje Sp. z o.o. Braniborska Sp. k., Dekpol Inwestycje Sp. z o.o. Myśliwska Sp. k., Dekpol Inwestycje Sp. z o.o. WBH Sp. k., Dekpol Inwestycje Sp. z o.o. Osiedle Zielone Sp. k., Dekpol Inwestycje Sp. z o.o. Grano Resort Sp. k., Dekpol Inwestycje Sp. z o.o. Sol Marina Sp. k., Dekpol Inwestycje Sp. z o.o. Sobieszewo Development Sp. k.),

4) Dekpol Pszenna Sp. z o.o. – the general partner of the special purpose entity for the implementation of the development investment on Pszenna street in Gdańsk,

5) UAB DEK LT Statyba – company established to support the Company's operations in Lithuania, as well as to manage future contracts in the General Contractor implemented in Lithuania,

6) Smartex Sp. z o. o. - owner of a plot of land in Wrocław at Braniborska street, where the Company, together with a privat person who owns 37.7% of shares in Smartex, intends to jointly implement a development project. Dekpol S.A. holds a 62.3% stake in Smartex and the right to acquire a 37.7% shares in Smartex. A special purpose entity was established for the implementation of the project - Dekpol Inwestycje Sp. z o.o. Braniborska Sp. k.,

7) Betpref Sp. z o.o. – a company established to ensure the continuity of deliveries of precast concrete products used in the performance of contracts in general contracting, *8) Nordic Milan Sp. z o.o. - the company operates in the development industry; owns a land property in Milanówek, where the property development project is being implemented,*

9) Dekpol Deweloper Sp. z o.o. - the purpose of the creation was to separate an organized part of the Dekpol S.A. covering the property development activity and transferring it in kind to this company,

Indirect subsidiaries of Dekpol S.A. (via Dekpol 1 Sp. z o.o. S.K.A.):

1) Dekpol Royalties Sp. z o.o. - a company responsible in the DEKPOL Group for brand service in the context of image and product promoti (The Management Board plans to liquidate the Company in 2019),

2) Almond Sp. z o.o. - company owning the property in Gdańsk at Toruńska street 12 (Hotel Almond),

Indirect subsidiaries of Dekpol S.A. (via Dekpol Inwestycje Sp. z o.o.):

1) Dekpol Inwestycje Sp. z o.o. Pastelowa Sp.k. – a special purpose entity for the implementation of a development investment under the name Pastelowa in Gdańsk,

2) Dekpol Inwestycje Sp. z o.o. Rokitki Sp.k. – special purpose entity for the implementation of development investments in Rokitki and Śliwiny near Tczew,

3) Dekpol Inwestycje Sp. z o.o. Development Sp. k. – special purpose entity to carry out smaller development investments, including in Jurata and Hel,

4) Dekpol Inwestycje Sp. z o.o. Braniborska Sp. k. – a special purpose entity for the implementation of a development investment in Wrocław,

5) Dekpol Inwestycje Sp. z o.o. Myśliwska Sp. k. – a special purpose entity for the implementation of a development investment named Forest in Gdańsk,

6) Dekpol Inwestycje Sp. z o.o. Grano Resort Sp. k. - a special purpose entity for the implementation of a development investment in Gdańsk on the Sobieszewska Island,

7) Dekpol Inwestycje Sp. z o.o. WBH Sp. k. - a special purpose entity for the implementation of a development investment in Warsaw,

8) Dekpol Inwestycje Sp. z o.o. Osiedle Zielone Sp. k. - a special purpose entity for the implementation of a development investment in Gdańsk,

9) Dekpol Inwestycje Sp. z o.o. Sol Marina Sp. k. - a special purpose entity for the implementation of a development investment in Wiślinka,

10) Dekpol Inwestycje Sp. z o.o. Sobieszewo Development Sp. k. - special purpose entity to carry out smaller development investments in Gdańsk on the Sobieszewska Island,

Indirect subsidiaries of Dekpol S.A. (via Dekpol Pszenna Sp. z o.o.):

1) Dekpol Pszenna Sp. z o.o. Sp.k. – a special purpose entity for the implementation of a development investment named Grano Residence in Gdańsk at Pszenna street.

As at 31st of December 2018, Dekpol S.A. holds 100% shares in: Dekpol 1 Sp. z o.o., UAB DEK LT Statyba, Dekpol Inwestycje Sp. z o.o., Dekpol Pszenna Sp. z o.o., Betpref Sp. z o.o., Nordic Milan Sp. z o.o., Dekpol Deweloper Sp. z o.o. and 100% shares in Dekpol 1 Sp. z o.o. S.K.A.

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.

Dekpol Inwestycje Sp. z o.o. is the general partner of the following companies: Dekpol Inwestycje Sp. z o.o. Pastelowa Sp.k .; Dekpol Inwestycje Sp. z o.o. Rokitki Sp.k .; Dekpol Inwestycje Sp. z o.o. Development Sp. k., Dekpol Inwestycje Sp. z o.o. Myśliwska Sp. k., Dekpol Inwestycje Sp. z o.o. WBH Sp. k., Dekpol Inwestycje Sp. z o.o. Osiedle Zielone Sp. k., Dekpol Inwestycje Sp. z o.o. Grano Resort Sp. k., Dekpol Inwestycje Sp. z o.o. Sol Marina Sp. k., Dekpol Inwestycje Sp. z o.o. Sobieszewo Development Sp. k.), having 0.5% shares in profits in these companies, and Dekpol S.A. has a 99.5% share in profits being a limited partner of these companies. Dekpol Inwestycje Sp. z o.o. is the general partner of Dekpol Inwestycje Sp. z o.o. Braniborska Sp. k., having in this company 0.1% share in profits, and 49.9% share in profits has Dekpol S.A. being a limited partner of this company. Dekpol Pszenna Sp. z o.o. is the general partner of Dekpol Pszenna Sp. z o.o. Sp.k. having a 0.5% share in profits in this company, while Dekpol S.A. being the limited partner of this company owns 99.5% share in profits, with the proviso that the profit to be divided among the companies from the Dekpol Group is reduced by PLN 500, attributable to the other limited partner of the company.

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

- *general contracting for the construction of industrial facilities, public utilities, sports and recreation facilities, environmental protection facilities, as well as sanitary, road and hydrotechnical works;*
- *property development - construction, finishing and sale of housing estates, single-family housing estates, luxury apartment buildings, condo hotels and commercial and service areas;*
- *production of equipment for construction machines.*

Financial instruments

- *For the valuation of financial assets, the Company applies the principles set out in IAS 27 "Separate financial statements" and IFRS 9 "Financial instruments".*
- *The Company measures investments in subsidiaries and associates according to cost in accordance with § 10 (a) of IAS 27 in interim financial statements.*

- *The company qualifies financial assets other than investments in subsidiaries and affiliates in accordance with the definitions set out in IFRS 9 with initial recognition in the following categories:*
  - *Assets valued at amortized cost,*
  - *Assets measured at fair value through other comprehensive income.*
- *The Company identifies and isolates embedded derivative instruments if they meet the criteria set out in § 4.3.3 of IFRS 9. The Company does not separate currency derivatives embedded in contracts concluded in a currency other than the functional currency of the Company if the contract currency is the functional currency for the other party to the contract.*

The Company implemented the model of expected credit losses in accordance with the simplified method allowed to be applied by IFRS 9. In particular, write-offs for receivables are created:

- *Receivables lost - in full amount,*
- *For expected credit losses - in the estimated amount based on the historical ratio of write-offs of receivables lost in the last 3 years to the balance of receivables at the beginning of the period,*
- *For losses due to late payments - in the estimated amount based on historical data on delays in payments in the last 3 years before the balance sheet date.*

Derivative financial instruments

None.

Inventory

- *Principles of recognition and evaluation of inventories are included in IAS 2 "Inventories".*
- *Inventories are evaluated at the acquisition prices or production costs not higher than the net realizable value.*
- *The Company classifies all direct costs and variable indirect costs of production of an item of inventory and that part of fixed indirect costs which has been incurred as part of using standard production capacities as costs of work in progress or costs of finished goods.*
- *The Company establishes a production plan for each month for a production department (in terms of volume - weight of produced finished products) on an annual basis. If implementation of the plan does not exceed 90%, the part of fixed indirect costs of production - proportionate to the part which has not been implemented - is not included in costs of production of inventories. Moreover, cost of production of inventories does not include fixed indirect costs of production for downtime of a plant or departments, if downtime exceeds one business day.*
- *Costs of unused production capacities are recognized under costs of basic operating activity in the month in which they are incurred.*

- *Cost of production of inventories does not include exchange rate differences or interest related to liabilities financing inventories.*
- *Costs of purchase are recognized as an increase in the value of materials, if it is possible to assign them in a direct manner.*
- *Consumption of inventories is evaluated according to the first-in, first-out method (FIFO).*
- *Inventory of finished products of the steel structure and equipment production department is evaluated at fixed prices corresponding to the planned costs of production. Differences between the actual cost of production and the cost at fixed prices are recognized under deviations and assigned to profit or loss of the period, in proportion to the value of finished goods recognized under profit or loss of the period at fixed prices.*
- *At the end of the reporting period, the Company compares evaluation of inventories at the acquisition price or production costs with the net realizable value. For items for which the net realizable value is lower than the balance sheet value, the Company makes the write-off to the net realizable value.*
- *The Company determines the progress of works of construction contracts on the basis of the share of costs incurred in respect of the contract in the planned costs of the contract. The measurement of the progress of works does not include costs which have not been covered by the plan. The incurred costs include costs of materials, if they refer to materials embedded according to the plan. Not embedded materials are assigned to inventory of materials.*

Equity

- *The Company classifies the following items under equity capitals:*
  - *The equivalence of the issued capital instruments (shares, share options etc.). The Company distinguishes capital instruments from liabilities pursuant to regulations of § 15-20 of IAS 32 - "Financial instruments - Presentation". Depending on legal regulations, they are subject to recognition as a share, supplementary or reserve capital.*
    - *In case of issue of compound instruments consisting of a capital instrument and a financial liability (e.g., bonds into shares), the Company separates and evaluates a capital instrument, presenting its value as equity capitals.*
  - *Retained profit - depending on a decision of shareholders, presented as supplementary or reserve capitals. They are evaluated at nominal value.*
  - *Effects of evaluation of assets and liabilities directly recognized as equity capitals - presented as reserve capitals. They are evaluated at nominal value.*
  - *Undistributed profit from previous years. It is evaluated at nominal value.*
- *Equity capitals are not subject to reevaluation, except for the occurrence of hyperinflation pursuant to IAS 29 "Financial Reporting in Hyperinflationary Economies".*

Provisions

- *The Company recognizes provisions for liabilities pursuant to IAS 19 "Employee Benefits" in the scope of provisions for employee benefits and IAS 37 "Provisions, Contingent Liabilities and Contingent Assets" in the scope of other provisions.*
  - *The Company establishes provisions for the following employee benefits:*
  - *Retirement severance pays - using actuarial methods. The average profitability of 10-year treasury bonds from the last 12 months before the balance sheet date is considered by the Company to be a discount rate. The Company accepts the estimated growth of remuneration above the inflation of 1% per year. The Company assesses the provision once per 3 years, unless significant changes in the scope of volume and structure of employment and a discount rate have occurred;*
    - *The Company does not use an "actuarial corridor".*
  - *Unused employee holiday - evaluated as the product of the average remuneration in the Company which constitutes the basis for the payment of equivalent for unused holiday (taking into account charges to be borne by the employer) as of the balance sheet day and the number of days of unused holiday;*
  - *Other short-term employee benefits related to a reporting period - bonuses, remuneration etc. - treated as liabilities, if their value is specified and unconditional. Otherwise, they are recognized as provisions.*
- *The Company establishes the following provisions for other titles:*
  - *For effects of legal disputes - to the full value of the subject matter of a dispute and the estimated costs related to a dispute, if a legal assessment indicates that there is medium or high probability of losing a dispute;*
  - *For guarantee repairs and complaint costs – created on the basis of historical relation of repair costs incurred to revenues from the sale of covered products;*
  - *For future losses from economic operations in progress - established, if the contract, to which the Company is a party, gives rise to charges, e.g. a contract - which will bring losses - has been signed, or contract conditions have not been fulfilled, which will result in the obligation to pay compensation;*
  - *For restructuring costs - if the conditions specified in section 77 of IAS 37 are fulfilled - in the amount specified in sections 80-83 of IAS 37.*

Prepayments

- *The Company accounts for the costs incurred, which refer to future reporting periods, over time. In particular, the following costs are subject to settlement in proportion to the lapse of time:*
  - *Insurance costs;*
  - *Subscriptions costs;*
  - *Costs of the provided utilities, lease costs etc. paid in advance.*

Deferred income

<u>*Grants and state assistance*</u>

- *Principles of accounting for the received grants and State assistance are included in IAS 21 "Government Grants and Disclosure of Government Assistance".*
- *Grants related to costs or revenue incurred or obtained in the past are recognized as revenue in the period in which they have become due. Grants are presented as a separate item of revenue from basic operating activity, but if they refer to costs or revenue of other operating activity, they are presented as other operating revenue.*
- *Grants related to assets are recognized as revenue of future periods and accounted for in proportion to the value of the subsidized asset written off as costs. The part of a grant which has been accounted for is presented as revenue at the same level of a profit and loss account at which costs related to the subsidized asset are recognized.*

Income tax

- *Principles of evaluation and recognition of income tax are regulated in IAS 12 "Income Tax".*
- *Taxable income (tax loss) of the Company is the income (loss) for a given period established in compliance with principles set forth by Polish tax authorities which form the basis on which the income tax is payable (reimbursable).*
- *Current tax is the amount of income tax payable (reimbursable) from the taxable income (tax loss) for a given period.*
- *Positive and negative temporary differences, assets and provisions for deferred income tax, tax and balance sheet value of assets and liabilities are defined in § 5 of IAS 12.*
- *Deferred tax assets constitute amounts to be deducted in future periods from income tax due to:*
  - *Negative temporary differences,*
  - *Carrying over of unused tax losses and*
  - *Carrying over of unused tax credits.*
- *Tax burden (tax revenue) consists of current tax burden (current tax revenue) and deferred tax burden (deferred tax revenue).*
- *The Company establishes provision for deferred tax income (recognizes a deferred tax asset) in all cases in which realization or settlement of the balance sheet value of an asset or liability will result in increasing (decreasing) the amount of future tax payments as compared to the amount which would be proper, if such realization or settlement did not trigger tax effects.*
- *Current evaluation of tax receivables and liabilities should be made at the amounts due according to rates legally or actually applicable as of the balance sheet date.*

- *On the basis of the prepared financial result forecasts, it is necessary to evaluate in the following years whether there are premises (planned taxable income) to create a deferred tax asset or adjust its value.*
- *The Company does not discount deferred tax assets and provisions due to the deferred tax.*
- *Assets and provisions for temporary differences, the effects of which have been directly taken to equity, will be taken to equity and not to profit or loss of the period.*
- *Tax receivables and liabilities are subject to separate disclosure in the financial statements, similarly to deferred tax assets and provisions.*
- *Current income tax liabilities and receivables should not be offset. Offsetting is permissible only if the Company:*
  - *has a legally enforceable right to set off the recognized amounts,*
  - *intends either to settle tax on a net basis, or to realize the asset and settle the liability simultaneously.*
- *Deferred income assets and provisions should not be offset. Offsetting is permissible only if the Company:*
  - *has a legally enforceable right to set off the recognized amounts,*
  - *Assets and liabilities refer to income tax imposed on one taxpayer or many taxpayers on several conditions.*
- *Disputes with tax authorities result in recognizing conditional liabilities. If the likelihood of unfavorable resolution is high, the Company recognizes provisions pursuant to IAS 37 "Provisions".*

Transactions denominated in foreign currencies

- *Principles of valuation and recognition of foreign currency transactions are regulated in IAS 21 "The Effects of Changes in Foreign Exchange Rates".*
- *The Polish zloty (PLN) is the functional currency of the Company. The Company prepares financial statements in the functional currency.*
- *The Company evaluates foreign currency transactions using the spot exchange rate as of the date of the transaction. It is assumed that the spot exchange rate as of the date of the transaction is the average rate of exchange of the National Bank of Poland as of the date prior to the date of the transaction*
- *The Company evaluates assets and liabilities expressed in foreign currencies as of the balance sheet date:*
  - *Monetary items (currencies, receivables and liabilities expressed in foreign currencies) - using the rate of immediate maturity, i.e. at the average exchange rate of the National Bank of Poland as of the balance sheet date,*
  - *Non-monetary items measured in terms of historical cost - using the exchange rate of the date of the transaction, i.e. they are not subject to reassessment as of the balance sheet date,*

- *Non-monetary items measured at fair value - using exchange rates applicable at the date when the fair value was determined, i.e., the average exchange rate of the National Bank of Poland for that day.*

- *If effects of evaluation of a non-monetary item at fair value are recognized under equity capitals, foreign exchange differences from evaluation are recognized in the same manner. Otherwise, foreign exchange differences are recognized in profit or loss of the period.*

Sales revenues

- *The principles for recognizing revenues other than those obtained from the sale of financial instruments are set out in IFRS 15 "Revenue from contracts with customers".*
- *Revenue and costs obtained from sales of financial instruments are disclosed on the date of exclusion of the financial instrument sold from the balance sheet pursuant to IFS 9.*
- *Revenue is evaluated at fair value of payment. If a payment date is deferred, revenue should be recognized on the date on which it arises at a discount amount. The discount value constitutes interest revenue (financial revenue) recognized in accordance with the effective interest rate in the period of the deferred payment date. Revenue is not discounted, if a payment date does not exceed 180 days.*

Thus, the Company recognizes revenues from contracts with customers only if all of the following conditions are met:

  - *the parties to the contract have concluded a contract and are required to perform their duties,*
  - *the entity is able to identify the rights of each party regarding the goods or services to be transferred;*
  - *the entity is able to identify the payment terms for goods or services to be transferred;*
  - *the contract has economic content as well*
  - *it is probable that the Company will receive a remuneration which it will be entitled to in exchange for goods or services that will be transferred to the client.*
- *Revenue should be recognized on the date of transfer of significant risks and profits related to an asset and when the Company ceases to be permanently engaged in the management of an asset as an owner. Moreover, revenue is deemed achieved, if the amount of revenue may be reliably assessed and there is a likelihood that an economic entity will obtain economic profits from a transaction and if costs incurred may be assessed in a reliable manner.*
- *When establishing the moment of achieving revenue, the International Commercial Terms - "Incoterms", prepared by the International Chamber of Commerce in Paris, hereinafter referred to as the ICC, are applied.*

According to the standard, sales revenues are recognized at the time and to reflect the entity's fulfillment of obligations to perform a service or delivery of goods. The *liability is fulfilled when the customer obtains control over the transferred asset. Revenues from sales are recognized at the transaction price, i.e. in the amount for which payment is expected. If the amount of income is variable, according to the new standard, variable amounts are included in revenues, if there is a high probability that in the future there will be no reversal of the recognition of revenue as a result of revaluation.*

The company transfers control over good or service over time and thus fulfills the obligation to perform the service and recognizes revenues over time if one of the following conditions is met:

- *the customer receives and benefits from the service at the same time,*
- *as a result of the performance of the benefit, an asset is created or improved, and the control over this asset component - as it arises or improves - is held by the client,*
- *as a result of the performance of the service, no alternative component is created for the Company, and it has an enforceable right to pay for the service performed so far. In the case of general contracting, they comply with this criterion.*

- *Both in case of providing the construction services by the Company and the delivery of accessories for construction machines, one obligation to perform a service is generally created. Thus, the question of assigning the transaction price to the obligation to perform the service does not require estimation. In case of construction contracts, the level of advancement of works and the expected margin require the estimation.*
- *If the price depends on future events or if there is an intention to grant a discount at the end of the contract, the Company estimates the price for the performance of the liability and includes part or all of the variable remuneration in the transaction price only to the extent that it is highly probable that there will be no reversal.*
- *Sales commission expenses are settled when the premises are sold.*
- *The company does not identify the financing component in contracts with respect to retained bail, in which the retained amount is the security for good performance of the contract due to its low significance.*
- *For each commitment to perform the service over time, the Company recognizes revenue based on measurement methods based on inputs (the method of the share of costs incurred until the date of determining revenues in the total cost of the service).*
- *Dividends should be recognized when the shareholders' rights to receive them are established.*

Operating costs

- *Costs are recognized in profit or loss as incurred, i.e. on the date on which the corresponding assets are excluded or liabilities are recognized.*

- *Costs of employee benefits are recognized in the period in which employees performed the respective work*
- *Costs of external financing are recognized as costs of the period in which they have been incurred, except for costs which may be attributed directly to acquisition, construction or production of the adapted asset. They should be activated as the part of the acquisition price or production cost of that asset.*

The rules for settling construction contracts

- *For the ongoing construction contracts that are not a property development activity, the Company applies the provisions of IFRS 15 "Revenues from contracts with customers".*
- *The progress of works, if possible, is determined on the basis of the share of costs incurred to budgeted costs for the project. The costs incurred do not take into account the value of materials transferred for construction, but not built in accordance with the intended use.*
- *The margin is recognized based on a comparison of contract value to planned costs (budget).*
- *The total difference between estimated revenues and invoiced revenues is recognized as receivables under construction contracts (positive difference) or liabilities under construction contracts (negative difference).*

Settling the costs of property development activity

- *Costs of production of facilities as part of the conducted property development activity include costs meeting the criteria of technical production cost, including:*
  - *Direct production costs,*
  - *Indirect costs related to production of facilities, in particular:*
    - *Logistics department costs (fuel, maintenance of vehicles, logistics management, drivers' remuneration when vehicles are used in various projects) - accounted for under property development projects and general contracting according to the criterion of direct production costs.*
    - *Costs of the purchasing department of general contracting and property development activity - accounted for under property development projects and general contracting according to the criterion of direct production costs.*
- *The Company distinguishes accounts for each property development project (Order). The criterion of separation of the Order is the estimated time of completion of construction of all facilities (buildings and structures) covered by a given order and the similarity of facilities covered by the Order. Expenditure on the production of facilities, the planned completion of use of which differs by more than 6 months (i.e. the earliest completed facility as part of the order will be completed earlier than 6 months before the last completed facility as part of the order) should not be recognized as part of one order. Facilities for which the*

estimated cost of production of usable area (PU) of a facility differs by more than 20% should not be recognized as part of one order. Once the order has been completed, costs are accounted for per square meter of PU according to the following algorithm:

- *TKW 1m2 PU = [(PKZR) – (POPS)*(CPOPS)]/(PUO)*
- *Where:*
- *TKW – technical cost of production*
  PKZR – incurred costs of the order in total
  POPS – area of auxiliary facilities subject to sales (garages, cellars)
  CPOPS – expected sales price of square meter of auxiliary facilities pomocniczych
  PUO – usable area of facilities in total

- *The above algorithm assumes that auxiliary areas are subject to evaluation according to the expected revenue from sales, similarly to auxiliary production. Costs of common facilities are accounted for in a proportionate manner per square meter of PU.*
- *If a given facility as part of a given order has been completed and is subject to sales or putting into use before completion of other facilities (if other facilities are planned to be completed not later than within 6 months of the date of completion of the first facility as part of the order), costs are accounted for per square meter of PU of the completed facility according to the following algorithm:*
  - *FTKW 1m2 PU = [(PKZR) + (FKZR) – (POPS)*(CPOPS)]/(PUO)*
  - *Where:*
  - *TKW – estimated technical cost of production*
  - *FKZR – estimated future costs necessary to complete the order*
- *Once the order has been completed (not later than within 6 months), costs are finally determined and FTKW is adjusted to TKW.*
- *If the initial assumption - that all facilities as part of the order will be completed within 6 months and the cost of production of 1m2 of PU of the performed facilities will not differ by more than 20% - is not confirmed, the company distributes orders according to the applicable criteria and all costs previously incurred as part of the order are subject to reassignment by new orders.*
- *If the company incurs significant expenditure on common parts related to many orders, this expenditure is subject to division into orders in proportion to PU, but settlements are performed exclusively in relation to open orders or planned to be opened within 12 month of the date on which this expenditure was incurred.*

9. Financial risk management

In the activity of Dekpol Capital Group SA important are the following types of financial risks:

- *interest rate risk – while operating on the market, the Company is exposed to interest rate risk. The Company has financial liabilities, whose financial cost is* *calculated based on the underlying variable interest rate WIBOR and a fixed margin. Increasing the base rate by 0.5 percentage point, would increase financial expenses by 1 412 thousand PLN, assuming that the balance of liabilities with a fixed interest rate remain unchanged throughout the year.*

- *foreign exchange risk and the risk of changes in raw material prices – due to the further increase in the scale of operations in foreign currencies, the Company is exposed to currency risk arising from transactions. Such risk arises as a result of the Unit's sale or purchases in currencies other than the domestic currency. If, as at 31/12/2018, the EUR exchange rate was higher or lower by 3%, then the Company's net result would be higher or lower by 8,392 thousand PLN and financial liabilities higher or lower by PLN 3 072 thousand PLN - as a result of negative or positive exchange rate differences resulting from the conversion of receivables, granted loans, cash funds accumulated on bank accounts and trade liabilities. In order to limit the risk of exchange rate fluctuations, in the foreign exchange settlements related to export sales and imports, the Company uses natural hedging to a large extent, which results in the balance of foreign currency flows. During the short-term and determinable imbalance in currency flows, the Company will use currency derivatives to hedge future cash flows in an unrealistic way.*
- *credit risk - the possible economic crisis may cause financial instability of the Company's customers and hence periodic impediments to the recovery and the formation of payment gridlock. The Company minimizes credit risk through diversification of the portfolio of customers and consistent using of procedures for monitoring and collection of overdue receivables.*
- *Liquidity risk - the Company manages liquidity risk by financial planning, operational activities in order to be completely matched and by the surplus of available financing sources over the current needs of the Company.*
- *The Company has no hedging instruments designated financial risks and does not apply hedge accounting. The company aims to minimize these risks by using ongoing monitoring of specific risk areas through the implemented control procedures and regular analysis of risk exposure.*

10. Critical assessments and judgements

Estimates performed by Management of DEKPOL SA, which are affecting the amounts presented in the financial statements mainly relate to:

- *the expected economic usefulness of tangible and intangible assets,*
- *impairment loss of assets, including i.e. assets held for sale,*
- *progress of works set for settlement purpose of long-term contracts, including any planned margin on the contract,*
- *discount, the estimated increase of salaries and actuarial assumptions used in the calculation of accruals for retirement and pension benefits,*
- *the fair value of investment property,*

- *future tax results taken into account when calculating deferred income tax.*

The methodology used to determine estimates is based on management's best knowledge of the Company and is in line with the requirements of IFRS. The methodology for determining the estimated values is applied consistently in relation to the previous reporting period, with the exception of the methodology for estimating revaluation write-offs for loan losses related to trade receivables, in accordance with the methodology set out in IFRS 15 "Revenue from contracts with customers". In the opinion of the Management Board, the application of a new methodology for estimating impairment losses on receivables would not significantly affect comparative data. Changes in impairment losses are presented in the further part of the information - in the notes to individual items of assets.

II. Content after correction

8. Rules for valuation of assets and liabilities and financial result adopted in preparation of financial statement.

Whenever the Company is indicated below, it applies to the whole DEKPOL S.A. Capital Group

Property, plant and equipment

- Property, plant and equipment are subject to initial recognition at the acquisition price or production cost.
- The acquisition price or production costs are subject to an increase by costs of disassembly and removal of an item of property, plant and equipment and renovation of the place of using it, if the Company is obliged to do so.
- The acquisition price or production costs are not subject to adjustment by foreign exchange differences related to liabilities financing the acquisition of an asset accrued up to the date of putting an asset into use, unless it results from the policy adopted in the scope of hedge accounting.
- The acquisition price or production costs are subject to an increase by costs of interest on liabilities financing the acquisition of an asset accrued up to the date on which an asset is ready for use.
- After the initial recognition, the Company evaluates property, plant and equipment at the acquisition price or production cost less depreciation write-offs (acquisition price and production cost model).
- With regard to each item of property, plant and equipment, the Company determines a period of economic useful life. If it is justified in relation to significant component parts of property, plant and equipment to apply various periods of economic useful life and depreciation rates/methods, the Company applies various depreciation rates/methods in relation to each significant component part of property, plant and equipment.

- Property, plant and equipment are subject to depreciation in a period of economic useful life from the day on which an asset is ready for use until the date on which it is excluded from recognition or it is intended for sale.
- The Company accepts that the final (residual) value of used property, plant and equipment is usually insignificant and will not be determined, unless the residual value is significant in relation to a given item of property, plant and equipment. The residual value constituting at least 20.0% of the initial value of an item of property, plant and equipment is deemed significant.
- The Entity applies a straight-line deprecation method of property, plant and equipment, unless other methods (degressive method, method based on production units) better reflect the consumption of economic benefits. The Company may apply other methods and rates in order to establish tax income.
- A depreciation period, depreciation method and residual value (if determined) are subject to periodic verification at least at the end of each financial year. If a significant change is found as compared to previous estimates, the entity changes amortization rates and/or method starting from the first day of the reporting period.
- Property, plant and equipment of the initial value not exceeding PLN 3.000,00 are recognized in off-balance sheet records and are charged as a single entry to costs of "purchase of tools and equipment".
- Costs of improvement of property, plant and equipment increase their initial value, provided that improvement consists in extending a period of economic useful life or improving parameters of property, plant and equipment measured by means of costs of operation, productivity, quality of manufactured products or scope of functionality
- Costs of current renovations and inspections of property, plant and equipment are recognized as costs of the period in which they are incurred, unless they result in extending a period of economic useful life as compared to the initially assumed period.
- If property, plant and equipment are excluded from use, the Company does not discontinue depreciation, unless an item of property, plant and equipment is held for sale within 12 months. In such a case, property, plant and equipment are evaluated at the initial value less revaluation write-offs or at the fair value less selling costs, whichever is lower, and are not subject to depreciation - according to IFRS 5 "*Non-Current Assets Held for Sale and Discontinued Operations*".

Lease

- The Company recognizes and evaluates leased assets pursuant to IAS 17 "Leases".
- Assets which are the subject matter of a financing lease have to be disclosed as user's assets; assets which are the subject matter of an operating lease have to be disclosed as lessor's assets.
- In the case of a financing lease, the Company recognizes the discounted value of a liability (without an interest part) broken down into long-term and short-term liabilities. An interest part of lease instalments is recognized as costs of the period. If the Company does not plan to use the option of purchase of the subject matter of a financing lease, it determines a period of economic useful life not longer than the term of a lease agreement.
- If the Company performs a leaseback transaction, any possible profit from the sale of an asset to a lessor is not recognized as revenue and is accounted for over time, unless a leaseback is an operating lease and the transaction has been concluded at the fair value.

- Non-current assets in progress are non-current assets that are constructed, assembled or improved. They are measured at the total costs directly related to their acquisition or construction less impairment losses.

Intangible assets (IA)

- The Company initially recognizes IA acquired in separate transactions at acquisition prices, while IA produced by the Company at a production cost.
- If software licenses or similar assets are acquired, costs of implementation of software incurred until the date of bringing it to the assumed fitness for purpose specified by the Company's Management Board should be recognized under the IA initial value. The implementation costs do not include costs of employee trainings which encumber profit or loss on the date they are incurred.
- Only IA meeting the criteria specified for development works may be classified as IA produced by the Company. Goodwill, trademarks etc. are not classified as IA, if produced by the Company.
- After the initial recognition, the Company evaluates IA at the purchase price or cost of production less amortization write-offs, pursuant to acquisition price or production cost model.
- With regard to each IA, the Company determines a period of economic useful life. A period of economic useful life may be unlimited. A period of economic useful life resulting from legal titles may not be longer than a period of validity of such titles.
- IA is subject to amortization in a period of economic useful life from the day on which an asset is ready for use until the date on which it is excluded from recognition or it is intended for sale.
- The Entity applies a straight-line amortization method of IA, unless other methods (degressive method, method based on production units) better reflect the consumption of economic benefits. The Company may apply other methods and rates in order to establish tax income.
- An amortization period and method are subject to periodic verification, at least at the end of each financial year. If a significant change is found as compared to previous estimates, the entity changes amortization rates and/or method starting from the first day of the reporting period.
- IA with an indefinite period of economic useful life and goodwill are not subject to amortization, but they are tested for impairment loss at the end of each financial year and when there are premises that impairment loss of IA has occurred. Moreover, the correctness of the assumption that IA has an indefinite period of useful life is verified on an annual basis and, if needed, IA is reclassified to amortized IA. Goodwill is not subject to reclassification.
- IA of the initial value not exceeding PLN 1,000.00 are charged as a single entry to costs. IA of the initial value from PLN 3,500.00 are recognized in IA itemized records and amortized during economic useful according to rules indicated above.

Investment property

- SThe Company classifies real properties held to generate rent income or an increase in their value as investment properties. If the real property is also used for own needs of the Company, while the separately used part may not constitute a separate ownership unit, the real property is treated as a fixed asset, if the use for own needs prevails, or as investment in the real property, if the investment character prevails.

- The Company evaluates real properties at fair values. Fair values of all real properties are determined as of 30 November of each financial year. Effects of reevaluation to fair values are subject to recognition in profit or loss of the financial year.

Shares in subsidiaries

The Dekpol S.A. Capital Group as of the balance sheet date is composed of Dekpol S.A. as the parent entity and twenty two subsidiaries.

All of the above companies are subject to full consolidation.

Direct subsidiaries of Dekpol S.A.:

1) Dekpol 1 Sp. z o.o. - general partner of DEKPOL 1 Sp. z o.o. SKA,

2) Dekpol 1 Sp. z o.o. S.K.A. - is responsible in the DEKPOL Group for the management of subsidiaries appointed to perform specialized tasks as well as intangible and intellectual values in the DEKPOL Group,

3) Dekpol Inwestycje Sp. z o.o. – general partner in special purpose entities implementing individual development projects in the Dekpol Capital Group (Dekpol Inwestycje Sp. z o.o. Pastelowa Sp.k.; Dekpol Inwestycje Sp. z o.o. Rokitki Sp.k.; Dekpol Inwestycje Sp. z o.o. Development Sp. k., Dekpol Inwestycje Sp. z o.o. Braniborska Sp. k., Dekpol Inwestycje Sp. z o.o. Myśliwska Sp. k., Dekpol Inwestycje Sp. z o.o. WBH Sp. k., Dekpol Inwestycje Sp. z o.o. Osiedle Zielone Sp. k., Dekpol Inwestycje Sp. z o.o. Grano Resort Sp. k., Dekpol Inwestycje Sp. z o.o. Sol Marina Sp. k., Dekpol Inwestycje Sp. z o.o. Sobieszewo Development Sp. k.),

4) Dekpol Pszenna Sp. z o.o. – the general partner of the special purpose entity for the implementation of the development investment on Pszenna street in Gdańsk,

5) UAB DEK LT Statyba – company established to support the Company's operations in Lithuania, as well as to manage future contracts in the General Contractor implemented in Lithuania,

6) Smartex Sp. z o. o. - owner of a plot of land in Wrocław at Braniborska street, where the Company, together with a privat person who owns 37.7% of shares in Smartex, intends to jointly implement a development project. Dekpol S.A. holds a 62.3% stake in Smartex and the right to acquire a 37.7% shares in Smartex. A special purpose entity was established for the implementation of the project - Dekpol Inwestycje Sp. z o.o. Braniborska Sp. k.,

7) Betpref Sp. z o.o. – a company established to ensure the continuity of deliveries of precast concrete products used in the performance of contracts in general contracting,

8) Nordic Milan Sp. z o.o. - the company operates in the development industry; owns a land property in Milanówek, where the property development project is being implemented,

9) Dekpol Deweloper Sp. z o.o. - the purpose of the creation was to separate an organized part of the Dekpol S.A. covering the property development activity and transferring it in kind to this company,

Indirect subsidiaries of Dekpol S.A. (via Dekpol 1 Sp. z o.o. S.K.A.):

1) Dekpol Royalties Sp. z o.o. - a company responsible in the DEKPOL Group for brand service in the context of image and product promoti (The Management Board plans to liquidate the Company in 2019),

2) Almond Sp. z o.o. - – company owning the property in Gdańsk at Toruńska street 12 (Hotel Almond),

Indirect subsidiaries of Dekpol S.A. (via Dekpol Inwestycje Sp. z o.o.):

1) Dekpol Inwestycje Sp. z o.o. Pastelowa Sp.k. – a special purpose entity for the implementation of a development investment under the name Pastelowa in Gdańsk,

2) Dekpol Inwestycje Sp. z o.o. Rokitki Sp.k. – special purpose entity for the implementation of development investments in Rokitki and Śliwiny near Tczew,

3) Dekpol Inwestycje Sp. z o.o. Development Sp. k. – special purpose entity to carry out smaller development investments, including in Jurata and Hel,

4) Dekpol Inwestycje Sp. z o.o. Braniborska Sp. k. – a special purpose entity for the implementation of a development investment in Wrocław,

5) Dekpol Inwestycje Sp. z o.o. Myśliwska Sp. k. – a special purpose entity for the implementation of a development investment named Forest in Gdańsk,

6) Dekpol Inwestycje Sp. z o.o. Grano Resort Sp. k. - a special purpose entity for the implementation of a development investment in Gdańsk on the Sobieszewska Island,

7) Dekpol Inwestycje Sp. z o.o. WBH Sp. k. - a special purpose entity for the implementation of a development investment in Warsaw,

8) Dekpol Inwestycje Sp. z o.o. Osiedle Zielone Sp. k. - a special purpose entity for the implementation of a development investment in Gdańsk,

9) Dekpol Inwestycje Sp. z o.o. Sol Marina Sp. k. a special purpose entity for the implementation of a development investment in Wiślinka,

10) Dekpol Inwestycje Sp. z o.o. Sobieszewo Development Sp. k. - special purpose entity to carry out smaller development investments in Gdańsk on the Sobieszewska Island,

Indirect subsidiaries of Dekpol S.A. (via Dekpol Pszenna Sp. z o.o.):

1) Dekpol Pszenna Sp. z o.o. Sp.k. – a special purpose entity for the implementation of a development investment named Grano Residence in Gdańsk at Pszenna street.

As at 31st of December 2018, Dekpol S.A. holds 100% shares in: Dekpol 1 Sp. z o.o., UAB DEK LT Statyba, Dekpol Inwestycje Sp. z o.o., Dekpol Pszenna Sp. z o.o., Betpref Sp. z o.o., Nordic Milan Sp. z o.o., Dekpol Deweloper Sp. z o.o. and 100% shares in Dekpol 1 Sp. z o.o. S.K.A.

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.

Dekpol Inwestycje Sp. z o.o. is the general partner of the following companies: Dekpol Inwestycje Sp. z o.o. Pastelowa Sp.k .; Dekpol Inwestycje Sp. z o.o. Rokitki Sp.k .; Dekpol Inwestycje Sp. z o.o. Development Sp. k., Dekpol Inwestycje Sp. z o.o. Myśliwska Sp. k., Dekpol Inwestycje Sp. z o.o. WBH Sp. k., Dekpol Inwestycje Sp. z o.o. Osiedle Zielone Sp. k., Dekpol

Inwestycje Sp. z o.o. Grano Resort Sp. k., Dekpol Inwestycje Sp. z o.o. Sol Marina Sp. k., Dekpol Inwestycje Sp. z o.o. Sobieszewo Development Sp. k.), having 0.5% shares in profits in these companies, and Dekpol S.A. has a 99.5% share in profits being a limited partner of these companies. Dekpol Inwestycje Sp. z o.o. is the general partner of Dekpol Inwestycje Sp. z o.o. Braniborska Sp. k., having in this company 0.1% share in profits, and 49.9% share in profits has Dekpol S.A. being a limited partner of this company. Dekpol Pszenna Sp. z o.o. is the general partner of Dekpol Pszenna Sp. z o.o. Sp.k. having a 0.5% share in profits in this company, while Dekpol S.A. being the limited partner of this company owns 99.5% share in profits, with the proviso that the profit to be divided among the companies from the Dekpol Group is reduced by PLN 500, attributable to the other limited partner of the company.

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

- general contracting for the construction of industrial facilities, public utilities, sports and recreation facilities, environmental protection facilities, as well as sanitary, road and hydrotechnical works;
- property development - construction, finishing and sale of housing estates, single-family housing estates, luxury apartment buildings, condo hotels and commercial and service areas;
- production of equipment for construction machines.

Financial instruments

- The Company measures investments in subsidiaries and associates according to cost in interim financial statements
- The company qualifies financial assets other than investments in subsidiaries and affiliates with initial recognition in the following categories:
  - Assets valued at amortized cost,
  - Assets measured at fair value through other comprehensive income.
  - The Company identifies and isolates embedded derivative instruments if they meet the criteria of separation from underlying instrument. The Company does not separate currency derivatives embedded in contracts concluded in a currency other than the functional currency of the Company if the contract currency is the functional currency for the other party to the contract.

The Company implemented the model of expected credit losses in accordance with the simplified method allowed to be applied by IFRS 9. In particular, write-offs for receivables are created:

- Receivables lost - in full amount,
- For expected credit losses - in the estimated amount based on the historical ratio of write-offs of receivables lost in the last 3 years to the balance of receivables at the beginning of the period,
- For losses due to late payments - in the estimated amount based on historical data on delays in payments in the last 3 years before the balance sheet date.

Derivative financial documents

None.

Inventory

- Inventories are evaluated at the acquisition prices or production costs not higher than the net realizable value.
- The Company classifies all direct costs and variable indirect costs of production of an item of inventory and that part of fixed indirect costs which has been incurred as part of using standard production capacities as costs of work in progress or costs of finished goods.
- The Company establishes a production plan for each month for a production department (in terms of volume - weight of produced finished products) on an annual basis. If implementation of the plan does not exceed 90%, the part of fixed indirect costs of production - proportionate to the part which has not been implemented - is not included in costs of production of inventories. Moreover, cost of production of inventories does not include fixed indirect costs of production for downtime of a plant or departments, if downtime exceeds one business day.
- Costs of unused production capacities are recognized under costs of basic operating activity in the month in which they are incurred.
- Cost of production of inventories does not include exchange rate differences or interest related to liabilities financing inventories.
- Costs of purchase are recognized as an increase in the value of materials, if it is possible to assign them in a direct manner.
- Consumption of inventories is evaluated according to the first-in, first-out method (FIFO).
- Inventory of finished products of the steel structure and equipment production department is evaluated at fixed prices corresponding to the planned costs of production. Differences between the actual cost of production and the cost at fixed prices are recognized under deviations and assigned to profit or loss of the period, in proportion to the value of finished goods recognized under profit or loss of the period at fixed prices.
- At the end of the reporting period, the Company compares evaluation of inventories at the acquisition price or production costs with the net realizable value. For items for which the net realizable value is lower than the balance sheet value, the Company makes the write-off to the net realizable value.
- The Company determines the progress of works of construction contracts on the basis of the share of costs incurred in respect of the contract in the planned costs of the contract. The measurement of the progress of works does not include costs which have not been covered by the plan. The incurred costs include costs of materials, if they refer to materials embedded according to the plan. Not embedded materials are assigned to inventory of materials.

Equity

- The Company classifies the following items under equity capitals:
- The equivalence of the issued capital instruments (shares, share options etc.). The Company distinguishes capital instruments from liabilities pursuant to regulations of § 15-20 of IAS 32 - "Financial instruments - Presentation", *i.e., equity instruments include only instruments that do not have a contractual obligation to deliver cash or another financial asset to another entity, or to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavorable*. Depending on legal regulations, they are subject to recognition as a share, supplementary or reserve capital.

  - o In case of issue of compound instruments consisting of a capital instrument and a financial liability (e.g., bonds into shares), the Company separates and evaluates a capital instrument, presenting its value as equity capitals.
- − Retained profit - depending on a decision of shareholders, presented as supplementary or reserve capitals. They are evaluated at nominal value.
- − Effects of evaluation of assets and liabilities directly recognized as equity capitals - presented as reserve capitals. They are evaluated at nominal value.
- − Undistributed profit from previous years. It is evaluated at nominal value.
- Equity capitals are not subject to reevaluation, except for the occurrence of hyperinflation.

Provisions

- The Company establishes provisions for the following employee benefits:
- − Retirement severance pays - using actuarial methods. The average profitability of 10-year treasury bonds from the last 12 months before the balance sheet date is considered by the Company to be a discount rate. The Company accepts the estimated growth of remuneration above the inflation of 1% per year. The Company assesses the provision once per 3 years, unless significant changes in the scope of volume and structure of employment and a discount rate have occurred;
- o The Company does not use an "actuarial corridor".
- − Unused employee holiday - evaluated as the product of the average remuneration in the Company which constitutes the basis for the payment of equivalent for unused holiday (taking into account charges to be borne by the employer) as of the balance sheet day and the number of days of unused holiday;
- − Other short-term employee benefits related to a reporting period - bonuses, remuneration etc. - treated as liabilities, if their value is specified and unconditional. Otherwise, they are recognized as provisions.
- The Company establishes the following provisions for other titles:
- − For effects of legal disputes - to the full value of the subject matter of a dispute and the estimated costs related to a dispute, if a legal assessment indicates that there is medium or high probability of losing a dispute;
- − For guarantee repairs and complaint costs – created on the basis of historical relation of repair costs incurred to revenues from the sale of covered products;
- − For future losses from economic operations in progress - established, if the contract, to which the Company is a party, gives rise to charges, e.g., a contract - which will bring losses - has been signed, or contract conditions have not been fulfilled, which will result in the obligation to pay compensation;
- − For restructuring costs - if the conditions for performance of restructuration have been set and published before the end of financial year.

Prepayments

- The Company accounts for the costs incurred, which refer to future reporting periods, over time. In particular, the following costs are subject to settlement in proportion to the lapse of time:
- − Insurance costs;
- − Subscriptions costs;
- − Costs of the provided utilities, lease costs etc. paid in advance.

Deferred income

Grants and state assistance

- Grants related to costs or revenue incurred or obtained in the past are recognized as revenue in the period in which they have become due. Grants are presented as a separate item of revenue from basic operating activity, but if they refer to costs or revenue of other operating activity, they are presented as other operating revenue.
- Grants related to assets are recognized as revenue of future periods and accounted for in proportion to the value of the subsidized asset written off as costs. The part of a grant which has been accounted for is presented as revenue at the same level of a profit and loss account at which costs related to the subsidized asset are recognized.

Income tax

- Taxable income (tax loss) of the Company is the income (loss) for a given period established in compliance with principles set forth by Polish tax authorities which form the basis on which the income tax is payable (reimbursable).
- Current tax is the amount of income tax payable (reimbursable) from the taxable income (tax loss) for a given period.
- Deferred tax assets constitute amounts to be deducted in future periods from income tax due to:

− Negative temporary differences,
− Carrying over of unused tax losses and
− Carrying over of unused tax credits.

- Tax burden (tax revenue) consists of current tax burden (current tax revenue) and deferred tax burden (deferred tax revenue).
- The Company establishes provision for deferred tax income (recognizes a deferred tax asset) in all cases in which realization or settlement of the balance sheet value of an asset or liability will result in increasing (decreasing) the amount of future tax payments as compared to the amount which would be proper, if such realization or settlement did not trigger tax effects.
- Current evaluation of tax receivables and liabilities should be made at the amounts due according to rates legally or actually applicable as of the balance sheet date.
- On the basis of the prepared financial result forecasts, it is necessary to evaluate in the following years whether there are premises (planned taxable income) to create a deferred tax asset or adjust its value.
- The Company does not discount deferred tax assets and provisions due to the deferred tax.
- Assets and provisions for temporary differences, the effects of which have been directly taken to equity, will be taken to equity and not to profit or loss of the period.
- Tax receivables and liabilities are subject to separate disclosure in the financial statements, similarly to deferred tax assets and provisions.
- Current income tax liabilities and receivables should not be offset. Offsetting is permissible only if the Company:
- has a legally enforceable right to set off the recognized amounts,
- intends either to settle tax on a net basis, or to realize the asset and settle the liability simultaneously.
- Deferred income assets and provisions should not be offset. Offsetting is permissible only if the Company:
- has a legally enforceable right to set off the recognized amounts,
- Assets and liabilities refer to income tax imposed on one taxpayer or many taxpayers on several conditions.

- Disputes with tax authorities result in recognizing conditional liabilities. If the likelihood of unfavorable resolution is high, the Company recognizes provisions pursuant to IAS 37 "Provisions".

Transactions denominated in foreign currencies

- The Polish zloty (PLN) is the functional currency of the Company. The Company prepares financial statements in the functional currency.
- The Company evaluates foreign currency transactions using the spot exchange rate as of the date of the transaction. It is assumed that the spot exchange rate as of the date of the transaction is the average rate of exchange of the National Bank of Poland as of the date prior to the date of the transaction
- The Company evaluates assets and liabilities expressed in foreign currencies as of the balance sheet date:
- Monetary items (currencies, receivables and liabilities expressed in foreign currencies) - using the rate of immediate maturity, i.e. at the average exchange rate of the National Bank of Poland as of the balance sheet date,
- Non-monetary items measured in terms of historical cost - using the exchange rate of the date of the transaction, i.e. they are not subject to reassessment as of the balance sheet date,
- Non-monetary items measured at fair value - using exchange rates applicable at the date when the fair value was determined, i.e. the average exchange rate of the National Bank of Poland for that day.
- If effects of evaluation of a non-monetary item at fair value are recognized under equity capitals, foreign exchange differences from evaluation are recognized in the same manner. Otherwise, foreign exchange differences are recognized in profit or loss of the period.

Sales revenues

- Revenue and costs obtained from sales of financial instruments are disclosed on the date of exclusion of the financial instrument sold from the balance sheet pursuant to IFS 9.
- Revenue is evaluated at fair value of payment. If a payment date is deferred, revenue should be recognized on the date on which it arises at a discount amount. The discount value constitutes interest revenue (financial revenue) recognized in accordance with the effective interest rate in the period of the deferred payment date. Revenue is not discounted, if a payment date does not exceed 180 days.

Thus, the Company recognizes revenues from contracts with customers only if all of the following conditions are met:

- the parties to the contract have concluded a contract and are required to perform their duties,
- the entity is able to identify the rights of each party regarding the goods or services to be transferred;
- the entity is able to identify the payment terms for goods or services to be transferred;
- the contract has economic content as well
- it is probable that the Company will receive a remuneration which it will be entitled to in exchange for goods or services that will be transferred to the client.
- Revenue should be recognized on the date of transfer of significant risks and profits related to an asset and when the Company ceases to be permanently engaged in the management of an asset as an owner. Moreover, revenue is deemed achieved, if the

amount of revenue may be reliably assessed and there is a likelihood that an economic entity will obtain economic profits from a transaction and if costs incurred may be assessed in a reliable manner.

- When establishing the moment of achieving revenue, the International Commercial Terms - "Incoterms", prepared by the International Chamber of Commerce in Paris, hereinafter referred to as the ICC, are applied.

According to the standard, sales revenues are recognized at the time and to reflect the entity's fulfillment of obligations to perform a service or delivery of goods. The liability is fulfilled when the customer obtains control over the transferred asset. Revenues from sales are recognized at the transaction price, i.e. in the amount for which payment is expected. If the amount of income is variable, according to the new standard, variable amounts are included in revenues, if there is a high probability that in the future there will be no reversal of the recognition of revenue as a result of revaluation.

The company transfers control over good or service over time and thus fulfills the obligation to perform the service and recognizes revenues over time if one of the following conditions is met:

- the customer receives and benefits from the service at the same time,
- as a result of the performance of the benefit, an asset is created or improved, and the control over this asset component - as it arises or improves - is held by the client,
- as a result of the performance of the service, no alternative component is created for the Company, and it has an enforceable right to pay for the service performed so far. In the case of general contracting, they comply with this criterion.
- Both in case of providing the construction services by the Company and the delivery of accessories for construction machines, one obligation to perform a service is generally created. Thus, the question of assigning the transaction price to the obligation to perform the service does not require estimation. In case of construction contracts, the level of advancement of works and the expected margin require the estimation.
- If the price depends on future events or if there is an intention to grant a discount at the end of the contract, the Company estimates the price for the performance of the liability and includes part or all of the variable remuneration in the transaction price only to the extent that it is highly probable that there will be no reversal.
- Sales commission expenses are settled when the premises are sold.
- The company does not identify the financing component in contracts with respect to retained bail, in which the retained amount is the security for good performance of the contract due to its low significance.
- For each commitment to perform the service over time, the Company recognizes revenue based on measurement methods based on inputs (the method of the share of costs incurred until the date of determining revenues in the total cost of the service).
- Dividends should be recognized when the shareholders' rights to receive them are established.

Operating costs

- Costs are recognized in profit or loss as incurred, i.e. on the date on which the corresponding assets are excluded or liabilities are recognized.
- Costs of employee benefits are recognized in the period in which employees performed the respective work
- Costs of external financing are recognized as costs of the period in which they have been incurred, except for costs which may be attributed directly to acquisition,

construction or production of the adapted asset. They should be activated as the part of the acquisition price or production cost of that asset.

The rules for settling construction contracts

- For the ongoing construction contracts that are not a property development activity, for which performance of obligations on behalf of the customer are met on time, the Company recognizes revenues over time by measuring the degree of complete fulfillment of that obligation for performance of services based on the progress of works.
- The progress of works, if possible, is determined on the basis of the share of costs incurred to budgeted costs for the project. The costs incurred do not take into account the value of materials transferred for construction, but not built in accordance with the intended use.
- The margin is recognized based on a comparison of contract value to planned costs (budget).
- The total difference between estimated revenues and invoiced revenues is recognized as receivables under construction contracts (positive difference) or liabilities under construction contracts (negative difference).

Settling the costs of property development activity

- Costs of production of facilities as part of the conducted property development activity include costs meeting the criteria of technical production cost, including:
  - Direct production costs,
  - Indirect costs related to production of facilities, in particular:
  - Logistics department costs (fuel, maintenance of vehicles, logistics management, drivers' remuneration when vehicles are used in various projects) - accounted for under property development projects and general contracting according to the criterion of direct production costs.
  - Costs of the purchasing department of general contracting and property development activity - accounted for under property development projects and general contracting according to the criterion of direct production costs.
  - The Company distinguishes accounts for each property development project (Order). The criterion of separation of the Order is the estimated time of completion of construction of all facilities (buildings and structures) covered by a given order and the similarity of facilities covered by the Order. Expenditure on the production of facilities, the planned completion of use of which differs by more than 6 months (i.e. the earliest completed facility as part of the order will be completed earlier than 6 months before the last completed facility as part of the order) should not be recognized as part of one order. Facilities for which the estimated cost of production of usable area (PU) of a facility differs by more than 20% should not be recognized as part of one order. Once the order has been completed, costs are accounted for per square meter of PU according to the following algorithm:
  - TKW 1m2 PU = [(PKZR) – (POPS)*(CPOPS)]/(PUO)
  - Where:
    - TKW – technical cost of production
    - PKZR – incurred costs of the order in total
    - POPS – area of auxiliary facilities subject to sales (garages, cellars)
    - CPOPS – expected sales price of square meter of auxiliary facilities
    - PUO – usable area of facilities in total

- The above algorithm assumes that auxiliary areas are subject to evaluation according to the expected revenue from sales, similarly to auxiliary production. Costs of common facilities are accounted for in a proportionate manner per square meter of PU.
- If a given facility as part of a given order has been completed and is subject to sales or putting into use before completion of other facilities (if other facilities are planned to be completed not later than within 6 months of the date of completion of the first facility as part of the order), costs are accounted for per square meter of PU of the completed facility according to the following algorithm:

− FTKW 1m2 PU = [(PKZR) + (FKZR) – (POPS)*(CPOPS)]/(PUO)
− Where:
− TKW – estimated technical cost of production
− FKZR – estimated future costs necessary to complete the order

- Once the order has been completed (not later than within 6 months), costs are finally determined and FTKW is adjusted to TKW.
- If the initial assumption - that all facilities as part of the order will be completed within 6 months and the cost of production of 1m2 of PU of the performed facilities will not differ by more than 20% - is not confirmed, the company distributes orders according to the applicable criteria and all costs previously incurred as part of the order are subject to reassignment by new orders.
- If the company incurs significant expenditure on common parts related to many orders, this expenditure is subject to division into orders in proportion to PU, but settlements are performed exclusively in relation to open orders or planned to be opened within 12 month of the date on which this expenditure was incurred.

Segments

Management staff of the Issuer's Group decided to organize the Group based on the criterion of diversified products and services. A segment is not separated if the segment's income or profit / loss or assets represent less than 10% of all segments' revenues, profits / losses or assets, respectively, and at least 75% of consolidated revenues, profits and assets according to IFRS 8 "Operating segments". Information is presented only in the consolidated financial statement.

On the policy approval date, the Issuer identified the following business segments:
- general contracting services,
- real-estate development activity,
- Production of buckets and accessories to machines and devices.

The Issuer specifies geographical segments as a supplementary reporting template.

Explanatory notes in historical financial statements relating to reporting segments contain only the data on revenues to external customers reconciling to consolidated revenues (i.e. after taking into account consolidation exclusions). Sales revenues between segments are not included in segment's profit or loss value reviewed by chief operating decision maker or is otherwise regularly reported to that authority.

Segmentation corresponds to division into similar products or services.

In the period covered by historical financial statements, revenues to a single counterparty did not exceed 10% of total consolidated revenues.

Disclosures regarding fair value of assets and liabilities

Issuer's Group measures only property investments and derivative instruments at fair value. Appropriate valuations are included in financial statements, while valuation of investment properties is made, in line with accounting policy, once a year.
Adopted methods of estimating the fair value are disclosed in additional explanatory note. In particular, the property of the Almond hotel is measured by use of method from level 3 of the fair value hierarchy (income method), due to the signed lease agreement. Other properties are measured by use of methods from level 2 of the fair value hierarchy (comparative methods, residual methods, etc.). Derivatives are measured by use of fair value measurement prepared by a professional entity by use of methods from the 2nd level of the fair value hierarchy.
In the financial year, there were no transfers between levels 1 and 2 of the fair value hierarchy. Due to the nature of financial assets and liabilities, the Issuer's Group does not identify premises for which there would be a significant difference between their balance sheet value and fair value. In particular, significant financial liabilities bear interest on an arm's length basis, with the use of a variable interest rate. As regards financial assets, there are mainly receivables with a maturity of up to 1 year and cash. Issuer's Group does not prepare fair value measurements of financial assets and liabilities for management purposes.

9. Financial risk management

In the activity of Dekpol Capital Group SA important are the following types of financial risks:

- **interest rate risk** – while operating on the market, the Company is exposed to interest rate risk. The Company has financial liabilities, whose financial cost is calculated based on the underlying variable interest rate WIBOR and a fixed margin. Increasing the base rate by 0.5 percentage point, would increase financial expenses by 1 412 thousand PLN, assuming that the balance of liabilities with a fixed interest rate remain unchanged throughout the year.
- **foreign exchange risk and the risk of changes in raw material prices** – due to the further increase in the scale of operations in foreign currencies, the Entity is exposed to currency risk arising from transactions. Such risk arises as a result of the Unit's sale or purchases in currencies other than the domestic currency. If, as at 31/12/2018, the EUR exchange rate was higher or lower by 3%, then the Entity's net result would be higher or lower by 8,392 thousand PLN and financial liabilities higher or lower by PLN 3 072 thousand PLN - as a result of negative or positive exchange rate differences resulting from the conversion of receivables, granted loans, cash funds accumulated on bank accounts and trade liabilities. In order to limit the risk of exchange rate fluctuations, in the foreign exchange settlements related to export sales and imports, the Group uses natural hedging to a large extent, which results in the balance of foreign currency flows. During the short-term and determinable imbalance in currency flows, the Group will use currency derivatives to hedge future cash flows in an unrealistic way.
- **credit risk** – the Group is exposed to credit risk, understood as the risk that debtors will fail to meet their obligations and thus cause the Group to incur losses. Due to the ongoing monitoring of receivables and taking debt collection activities, the Group's exposure to the risk of bad debts is limited. There is no risk of bad debts in sales of residential and service premises, as their sale is made in advance. On the other hand, in case of construction services, the Group receives partial advances for services rendered and settles construction works in stages in accordance with schedules.

For trade receivables and contract assets, a simplified version of the model was used, assuming a loss calculation for the entire life of the instrument.
The Group assumes that the receivable is lost (the obligation will not be performed), when the receivable is overdue more than 365 days, has expired, the debtor has been declared bankrupt or the vindication has failed. The items for which the default by the debtor has been determined as defined above, are treated by the Group as financial assets impaired due to credit risk. If a written-off receivable is recovered as a result of debt collection activities, the write-off is released. The write-off is used when it is no longer possible to legally or actually recover the receivables.

Specification of changes in allowances for expected losses is presented in the table below:

Data in thousands of PLN	**2018**
Write-off for expected credit losses at the beginning of the period	1.447
Changes during the period	5.415
Situation at the end of the period	6.862

Within trade receivables, which are the most important class of assets exposed to credit risk, and in case of assets under contracts with customers, in the opinion of Management Board of the parent company, the Group is not exposed to excessive credit risk in connection with a single significant contractor. At the end of 2018, there were receivables from two contractors representing more than 5% of balance of trade receivables, contracts with customers and retained deposits. As a consequence, write-downs are estimated on a collective basis, and receivables are grouped by period of past due date. The write-off estimate is based primarily on historical past due dates and the link between arrears and actual repayments from the last 3 years. The model does not use information of a macroeconomic nature. Significant changes in gross carrying amount of receivables change the amount of allowance due to the fact that they constitute the basis for determining allowance for expected credit losses, where the interest is determined on the basis of historical data.
Credit risk related to bank deposits is considered to be insignificant as the Group deposits its funds in banks with good and stable financial standing. Similarly, the credit risk of public law receivables is considered insignificant.
Due to adoption of a simplified method of estimating write-offs due to expected credit losses and low credit risk related to other financial assets, the Group does not determine whether the credit risk related to financial instruments has increased significantly since initial recognition (instruments that require such an analysis are not significant for financial statements).

- **Liquidity risk** – The Group is exposed to liquidity risk understood as the risk of losing the ability to settle liabilities on specified dates. The risk results from potential restriction of access to financial markets, which may result in inability to obtain new financing or refinance its debt. In addition, the risk relates to a potential breach of covenants of credit agreements or terms of bond issue, which may result in immediate maturity of liabilities.

The Group enters into loan agreements to finance investments with various banks. Repayment dates of subsequent installments are adjusted to expected proceeds from sales of individual investments. Moreover, the Group issues bonds.
The Group manages liquidity risk by monitoring of payment deadlines and demand for cash to service short-term payments (current transactions) and long-term demand for cash based on cash flow forecasts updated on a quarterly basis. Demand for cash is compared with available sources of obtaining funds (including in particular by assessing ability to obtain financing in form of loans and bonds, the possibility of releasing funds from escrow accounts). Maturity dates of material assets and liabilities are presented in additional notes to the annual financial statement. It also includes a detailed specification of the value of significant components of financial liabilities.

- The Company has no hedging instruments designated financial risks and does not apply hedge accounting. The company aims to minimize these risks by using ongoing monitoring of specific risk areas through the implemented control procedures and regular analysis of risk exposure.

10. Critical assessments and judgements

Estimates performed by Management of DEKPOL SA, which are affecting the amounts presented in the financial statements mainly relate to:

- the expected economic usefulness of tangible and intangible assets,
- impairment loss of assets, including i.e. assets held for sale,
- progress of works set for settlement purpose of long-term contracts, including any planned margin on the contract,
- discount, the estimated increase of salaries and actuarial assumptions used in the calculation of accruals for retirement and pension benefits,
- the fair value of investment property,
- future tax results taken into account when calculating deferred income tax.

The methodology used to determine estimates is based on management's best knowledge of the Company and is in line with the requirements of IFRS. The methodology for determining the estimated values is applied consistently in relation to the previous reporting period, with the exception of the methodology for estimating revaluation write-offs for loan losses related to trade receivables, in accordance with the methodology set out in IFRS 15 "Revenue from contracts with customers". In the opinion of the Management Board, the application of a new methodology for estimating impairment losses on receivables would not significantly affect comparative data. Changes in impairment losses are presented in the further part of the information - in the notes to individual items of assets.

Additional disclosures regarding valuation principles

Average depreciation rates result from tables presenting calculation of depreciation for the period and gross (initial) value for each category of fixed assets.
Fixed assets and intangible assets are depreciated in the following periods:

Group	Period	Annual depreciation rate

Buildings and structures	40 years	2,5%
Machines and devices	2 - 10 years	10-50%
Means of transport	3 - 7 years	14-33%
Other fixed assets	1 - 10 years	10-100%
Licenses and computer software	2 - 5 years	20-50%
Other intangible assets	5 years	20%

At the consolidated level, there are no intangible assets with an indefinite useful time.
There were no leaseback transactions in the financial year.