

# Management report on WIKANA S.A.'s operations in 2016



Lublin, 31 March 2017

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## 1 Introduction

### 1.1 Key information about WIKANA S.A.

WIKANA S.A., based in Lublin, ("Issuer," "Company") is the parent of WIKANA Group ("Group"), one of the largest property developers in south-eastern Poland, listed on the Warsaw Stock Exchange since 1997. Aside from its core holding-company services for Group entities, the Company also pursues property development activities, consisting of preparing property development projects using its own land bank, to be developed by special purpose vehicles.

### 1.2 Key events in 2016

Significant events taking place 2016 are as follows:

- resignation of Agnieszka Buchajska from the Company's Supervisory Board (current report 37/2016),
- appointment of Jakub Leonkiewicz to the Company's Supervisory Board (current report 38/2016),
- resignation of Tomasz Filipiak from the Company's Supervisory Board (current report 39/2016),
- resignation of Jakub Leonkiewicz from the Company's Supervisory Board (current report 51/2016),
- appointment of Joanna Grzelczak to the Company's Supervisory Board (current reports 52/2016 and 53/2016),
- appointment of Marcin Marczuk to the Company's Supervisory Board (current reports 52/2016 and 53/2016).

## 2 Key information about WIKANA S.A.

### 2.1 Description of WIKANA S.A.

The Company is entered into the register of companies of the National Court Register (KRS) maintained by the District Court for Lublin-Wschód in Lublin, based in Świdnik, 6th Commercial Division, under KRS number 0000144421. The Company was registered at the KRS on 20 January 2003, following a merger between Masters S.A., based in Zamość (the acquiring company), and Wikana S.A., based in Lublin (the acquired company). The Company is established for an indefinite period of time. The Company's registered office is in Lublin. The Company's Management Board office is located in Lublin (20-703 Lublin), ul. Cisowa 11. The Company has the following numbers: REGON: 390284802 and NIP: 691-00-19-382.

**Subsidiaries:**

- **BIOENERGIA PLUS Sp. z o.o.** (formerly WIKANA BIOENERGIA Sp. z o.o.) - operates in the Lublin Province in the renewable energy sector. At the same time, BIOENERGIA PLUS Sp. z o.o. is the general partner in BIOENERGIA PLUS Sp. z o.o. 01 S.K.A. (formerly WIKANA BIOENERGIA Sp. z o.o. 01 S.K.A.), which operates in the production and trade of energy from renewable sources and whose shareholder is the Company.
- **Multiserwis S.A. w likwidacji** - the Group's only entity that carried on retail distribution of footwear. As of the date on which this report was prepared, the company was subject to liquidation proceedings.
- **WIKANA FORTEM Sp. z o.o.** - a company that is the general partner in WIKANA FORTEM Sp. z o.o. ACER Sp.k. (formerly WIKANA PROPERTY Sp. z o.o. ACER Sp.k., which was formed as a result of transformation of the following partnership limited by shares: WIKANA PROPERTY Sp. z o.o. ACER S.K.A.)
- **WIKANA MANAGEMENT Sp. z o.o.** - a company that focuses on providing Group companies with the following services: advisory, investment preparation and investment supervision.
- **WIKANA MERITUM Sp. z o.o.** - a company that was, at the date on which these financial statements were prepared, the general partner in the following Group companies:
  - WIKANA MERITUM Sp. z o.o. ALFA Sp.k. (company formed as a result of transformation of the following partnership limited by shares: WIKANA MERITUM Sp. z o.o. ALFA S.K.A., formerly WIKANA PROPERTY Sp. z o.o. ALFA S.K.A.)
  - WIKANA MERITUM Sp. z o.o. CORYLUS S.K.A. (formerly: WIKANA PROPERTY Sp. z o.o. CORYLUS S.K.A.).
  - WIKANA MERITUM Sp. z o.o. LAMDA S.K.A. (formerly: WIKANA PROPERTY Sp. z o.o. LAMDA S.K.A.).
  - WIKANA MERITUM Sp. z o.o. LARIX S.K.A. (formerly: WIKANA PROPERTY Sp. z o.o. LARIX S.K.A.).
  - WIKANA MERITUM Sp. z o.o. MAGNOLIA Sp.k. (company formed as a result of transformation of the following partnership limited by shares: WIKANA MERITUM Sp. z o.o. MAGNOLIA S.K.A., formerly WIKANA PROPERTY Sp. z o.o. MAGNOLIA S.K.A.)
  - WIKANA MERITUM Sp. z o.o. PANORAMA Sp.k. (company formed as a result of transformation of the following partnership limited by shares: WIKANA MERITUM Sp. z o.o. PANORAMA S.K.A., formerly WIKANA PROPERTY Sp. z o.o. PANORAMA S.K.A.)
  - WIKANA MERITUM Sp. z o.o. SIGMA Sp.k. (company formed as a result of transformation of the following partnership limited by shares: WIKANA MERITUM Sp. z o.o. SIGMA S.K.A., formerly WIKANA PROPERTY Sp. z o.o. SIGMA S.K.A.)

The Company holds a 100% stake in the above companies, with the following exceptions: WIKANA MERITUM Sp. z o.o. CORYLUS S.K.A., WIKANA MERITUM Sp. z o.o. LAMDA S.K.A., WIKANA MERITUM Sp. z o.o. LARIX S.K.A., in which 50% of shares were provided as collateral for bondholder obligations in connection with the series B bond issue by WIKANA MERITUM Sp. z o.o. CORYLUS S.K.A.

- **WIKANA NIERUCHOMOŚCI Sp. z o.o. w likwidacji** - provides design services and investment preparation; at the date on which these financial statements were prepared, was general partner in the following companies:
  - WIKANA NIERUCHOMOŚCI Sp. z o.o. w likwidacji 02 S.K.A. (formerly: WIKANA PROPERTY Sp. z o.o. 02 S.K.A.).
  - WIKANA NIERUCHOMOŚCI Sp. z o.o. w likwidacji 05 MARINA S.K.A. (formerly: WIKANA PROPERTY Sp. z o.o. 05 MARINA S.K.A.).
- **WIKANA PRIM Sp. z o.o.** (formerly: PRIM Sp. z o.o.) - a company that is fully owned by Multiserwis S.A. (currently: Multiserwis S.A. w likwidacji). On 6 November 2015, 100% of this company's shares were sold to the Issuer. At the date on which this report was prepared, the company was general partner in WIKANA PRIM Sp. z o.o. BETA Sp.k., i.e. a company that had been formed as a result of transformation of the following partnership limited by shares: WIKANA PRIM Sp. z o.o. BETA S.K.A., formerly: PRIM Sp. z o.o. BETA S.K.A., previously: WIKANA PROPERTY Sp. z o.o. BETA S.K.A.
- **WIKANA PROJECT Sp. z o.o.** - at the date on which this report was prepared, it was the sole shareholder of WIKANA PROPERTY Sp. z o.o. DELTA S.K.A.
- **WIKANA PROPERTY Sp. z o.o.** - provides sales intermediary services to Group companies; its shareholders aside from the Company include WIKANA PROPERTY Sp. z o.o. LEGNICA S.K.A., based in Lublin, which holds 75.06% of shares in WIKANA PROPERTY Sp. z o.o.; at the date on which this report was prepared, the company was general partner in the following companies, formed to carry out property development projects:
  - WIKANA PROPERTY Sp. z o.o. 03 MIASTECZKO S.K.A. (formerly: Wikana Nieruchomości Sp. z o.o. 03 MIASTECZKO S.K.A.).
  - WIKANA PROPERTY Sp. z o.o. 04 OSIEDLE S.K.A. (formerly: Wikana Nieruchomości Sp. z o.o. 04 OSIEDLE S.K.A.).
  - WIKANA PROPERTY Sp. z o.o. ALBA S.K.A. (formerly: Wikana Nieruchomości Sp. z o.o. ALBA S.K.A.).
  - WIKANA PROPERTY Sp. z o.o. BETULA Sp.k. (company formed as a result of transformation of the following partnership limited by shares: WIKANA PROPERTY Sp. z o.o. BETULA S.K.A.).
  - WIKANA PROPERTY Sp. z o.o. DELTA S.K.A.
  - WIKANA PROPERTY Sp. z o.o. GAMMA Sp.k. (company formed as a result of transformation of the following partnership limited by shares: WIKANA PROPERTY Sp. z o.o. GAMMA S.K.A.).
  - WIKANA PROPERTY Sp. z o.o. JOTA Sp.k. (company formed as a result of transformation of the following partnership limited by shares: WIKANA PROPERTY Sp. z o.o. JOTA S.K.A.).
  - WIKANA PROPERTY Sp. z o.o. KAPPA S.K.A.
  - WIKANA PROPERTY Sp. z o.o. KOMERC Sp.k. (company formed as a result of transformation of the following partnership limited by shares: WIKANA PROPERTY Sp. z o.o. KOMERC S.K.A.).
  - WIKANA PROPERTY Sp. z o.o. KROSNO S.K.A. (formerly: Wikana Nieruchomości Sp. z o.o. KROSNO S.K.A.).

- WIKANA PROPERTY Sp. z o.o. LEGNICA S.K.A. (formerly: Wikana Nieruchomości Sp. z o.o. LEGNICA S.K.A.).
- WIKANA PROPERTY Sp. z o.o. OMEGA S.K.A.
- WIKANA PROPERTY Sp. z o.o. OMIKRON S.K.A.
- WIKANA PROPERTY Sp. z o.o. PODPROMIE S.K.A.
- WIKANA PROPERTY Sp. z o.o. ROSA Sp.k. (company formed as a result of transformation of the following partnership limited by shares: WIKANA PROPERTY Sp. z o.o. ROSA S.K.A.).
- WIKANA PROPERTY Sp. z o.o. SALIX Sp.k. (company formed as a result of transformation of the following partnership limited by shares: WIKANA PROPERTY Sp. z o.o. SALIX S.K.A., formerly: WIKANA PROPERTY Sp. z o.o. KROSNO S.K.A.).
- WIKANA PROPERTY Sp. z o.o. ZIELONE TARASY S.K.A.
- **Towarzystwo Budownictwa Społecznego „Nasz Dom” Sp. z o.o.** (formerly: Towarzystwo Budownictwa Społecznego Wikana Sp. z o.o.) - provides property management services to both own properties and on commission from residential cooperatives.
- **ZIELONE TARASY S.A.** - company operating in the renewables segment; on 27 April 2016, 100% of this company's shares, which had previously belonged to WIKANA FIZ, based in Warsaw, were sold to the Company.

All of the above subsidiaries are subject to consolidation. All of the subsidiaries are fully consolidated.

Furthermore, during the reporting period the Company held 100% of investment certificates (treated as equivalent of shares in subsidiaries subject to consolidation) in WIKANA FIZ, based in Warsaw ("WIKANA FIZ"), represented by Copernicus Capital TFI S.A., based in Warsaw. On 14 April 2016, the Extraordinary General Meeting of Investors of WIKANA FIZ adopted a resolution on the dissolution of the Fund as of 2 May 2016, as a result of which the Fund was removed from the court register.

The Company has no branches or locations.

## 2.2 Description of organisational and management changes at WIKANA S.A.

In 2016 and until the date at which these financial statements were prepared, no changes to the Group's organisation or management rules took place.

### 3 Description of WIKANA S.A.'s operations

#### 3.1 Description of key products and services

The principal object of Emperia Holding S.A. is activities of holding companies (PKD 70.10.Z). Apart from this, the Company pursues property development activities from land acquisition through to investment preparation, including building permits.

#### 3.2 Sales markets

Aside from holding-company services provided to Group entities and transactions to buy and sell property, the Company pursues property development activities, consisting of preparing property development projects using its own land bank, to be carried out by special purpose vehicles.

The Company is not dependent on any of its customers - recipients of services are mainly Group companies.

In 2016, no single customer from outside the Group accounted for over 10% of the Company's revenue from sales.

#### 3.3 Supply markets

Within its business, the Company incurs the costs of managing the properties in its land bank, preparing property development projects and providing services to Group entities. In none of these instances is it dependent on external entities.

In 2016, none of the suppliers/contractors, except for suppliers/contractors from the Group, accounted for more than 10% of the Company's revenue from sales.

#### 3.4 Information on significant agreements

##### 3.4.1 Agreements and transactions in operating activities

In 2016 and until these financial statements were prepared, the Company did not execute agreements or transactions that the Company's Management Board considered to be material. During the reporting period, the Company focused mainly on providing services to Group companies.

##### 3.4.2 Credit and loan agreements

- **List of credit facilities, including credit limits**

In 2016, the Company neither executed new credit agreements nor terminated existing ones. The table below presents existing credit agreements as at the end of 2016.

<b>Borrowings by type</b>	<b>31.12.2016</b>
<hr/>	
in PLN 000s	
Credit facilities	-

Loans	32 115
including:	
Short-term part	5 819
Long-term part	26 296

<b>Long-term borrowings with repayment period from the balance sheet date</b>	<b>31.12.2016</b>
in PLN 000s	
up to 12 months	5 819
from 1 to 3 years	845
from 3 to 5 years	25 451
over 5 years	-
<b>Total borrowings</b>	<b>32 115</b>
<b>Borrowings (currency structure)</b>	<b>31.12.2016</b>
in PLN 000s	
in PLN	32 115
in foreign currencies	0
<b>Total borrowings</b>	<b>32 115</b>

- **List of loans**

The table below presents loans made by the Company as at the end of 2016.

**Loans issued**

in PLN 000s	31.12.2016	Interest	Repayment date
BIOENERGIA PLUS Sp. z o.o.	4 584	Variable	2020-12-31
WIKANA PROPERTY Sp. z o.o. KOMERC Sp.k.	3 790	Variable	2020-12-31
WIKANA PROPERTY Sp. z o.o. ALBA S.K.A.	667	Variable	2020-12-31
ZIELONE TARASY S.A.	325	Variable	2020-12-31
BIOENERGIA PLUS Sp. z o.o. 01 S.K.A.	156	Variable	2020-12-31
WIKANA PROPERTY Sp. z o.o. KROSNO S.K.A.	-	Variable	2020-12-31
WIKANA PROPERTY Sp. z o.o. LEGNICA S.K.A.	4 219	Variable	2020-12-31
WIKANA NIERUCHOMOŚCI Sp. z o.o. w likwidacji	-	Variable	2020-12-31
WIKANA PROJECT Sp. z o.o.	-	Variable	2020-12-31
WIKANA NIERUCHOMOŚCI Sp. z o.o. w likwidacji 02 S.K.A.	-	Variable	2020-12-31
WIKANA PROPERTY Sp. z o.o. 03 MIASTECZKO S.K.A.	1	Variable	2020-12-31

WIKANA NIERUCHOMOŚCI Sp. z o.o. w likwidacji 05 MARINA S.K.A.	4	Variable	2020-12-31
WIKANA PROPERTY Sp. z o.o.	1 649	Variable	2020-12-31
WIKANA MERITUM Sp. z o.o. PANORAMA Sp.k.	145	Variable	2020-12-31
WIKANA PROPERTY Sp. z o.o. DELTA S.K.A.	-	Variable	2020-12-31
WIKANA PROPERTY Sp. z o.o. ZIELONE TARASY S.K.A.	69	Variable	2020-12-31
WIKANA MERITUM Sp. z o.o. LAMDA S.K.A.	9	Variable	2020-12-31
WIKANA PROPERTY Sp. z o.o. OMIKRON S.K.A.	1	Variable	2020-12-31
WIKANA MANAGEMENT Sp. z o.o.	-	Variable	2020-12-31
WIKANA PROPERTY Sp. z o.o. SALIX Sp.k.	110	Variable	2020-12-31
WIKANA MERITUM Sp. z o.o. ALFA Sp.k.	573	Variable	2020-12-31
WIKANA PROPERTY Sp. z o.o. 04 OSIEDLE S.K.A.	-	Variable	2020-12-31
WIKANA MERITUM Sp. z o.o. LARIX S.K.A.	98	Variable	2020-12-31
WIKANA MERITUM Sp. z o.o. MAGNOLIA Sp.k.	52	Variable	2020-12-31
WIKANA PRIM Sp. z o.o. Sp.k.	1 368	Variable	2020-12-31
WIKANA FORTEM Sp. z o.o.	2	Variable	2020-12-31
WIKANA PROPERTY Sp. z o.o. JOTA Sp.k.	653	Variable	2020-12-31
WIKANA PROPERTY Sp. z o.o. BETULA Sp.k.	666	Variable	2020-12-31
WIKANA MERITUM Sp. z o.o. SIGMA Sp.k.	74	Variable	2020-12-31
WIKANA PROPERTY Sp. z o.o. ROSA Sp.k.	362	Variable	2020-12-31
Natural person	40	Variable	2020-12-31
<b>Total</b>	<b>19 618</b>		

In 2016, the Company issued loans to Group companies as part of the Group's liquidity management process.

In 2016, the Company did not make loans to entities outside the Group or other entities without personal or capital links to the Group.

Information on loans is presented in note 6.12 of the separate financial statements.

## 3.4.3 Related-party transactions

in PLN 000s	Transaction value during the period:		Outstanding balance as at	
	01.01.2016 31.12.2016	01.01.2015 31.12.2015	31.12.2016	31.12.2015
<b>Sale of products and services</b>				
TBS "Nasz Dom" Sp. z o.o.	211	186	252	224
WIKANA NIERUCHOMOŚCI Sp. z o.o. w likwidacji	21	27	21	18
WIKANA PROPERTY Sp. z o.o. KROSNO S.K.A.	113	58	39	17
WIKANA PROPERTY Sp. z o.o. LEGNICA S.K.A.	45	45	58	32
ZIELONE TARASY S.A.	41	40	188	147
MULTISERWIS S.A.	2	39	8	6
WIKANA PROJECT Sp. z o.o.	59	68	72	13
WIKANA MANAGEMENT Sp. z o.o.	27	22	17	7
WIKANA NIERUCHOMOŚCI Sp. z o.o. w likwidacji 02 S.K.A.	15	15	14	12
WIKANA PROPERTY Sp. z o.o. 03 MIASTECZKO S.K.A.	69	103	109	40
WIKANA PROPERTY Sp. z o.o. 04 OSIEDLE S.K.A.	34	41	8	28
BIOENERGIA PLUS Sp. z o.o.	149	131	335	186
BIOENERGIA PLUS Sp. z o.o. 01 S.K.A.	14	12	49	35
WIKANA PROPERTY Sp. z o.o. KOMERC Sp.k.	177	150	84	31
WIKANA NIERUCHOMOŚCI Sp. z o.o. w likwidacji 05 MARINA S.K.A.	27	135	52	27
WIKANA PROPERTY Sp. z o.o. ALBA S.K.A.	75	58	15	13
WIKANA PROPERTY Sp. z o.o.	45	67	288	288
WIKANA PRIM Sp. z o.o. BETA Sp.k.	33	10	30	3
WIKANA PROPERTY Sp. z o.o. DELTA S.K.A.	42	68	30	11
WIKANA PROPERTY Sp. z o.o. PODPROMIE S.K.A.	10	10	17	7
WIKANA PROPERTY Sp. z o.o. ZIELONE TARASY S.K.A.	10	10	18	8
WIKANA MERITUM Sp. z o.o. LAMDA S.K.A.	85	1 584	30	1 584
WIKANA MERITUM Sp. z o.o. PANORAMA Sp.k.	5 354	1 180	5 187	6
WIKANA PROPERTY Sp. z o.o. SALIX Sp.k.	10	9	16	6
WIKANA MERITUM Sp. z o.o. ALFA Sp.k.	86	49	110	49
WIKANA FORTEM Sp. z o.o. ACER Sp.k.	69	29	34	9
WIKANA PROPERTY Sp. z o.o. BETULA Sp.k.	23	257	2 515	2 492

WIKANA MERITUM Sp. z o.o. CORYLUS S.K.A.	227	132	180	33
WIKANA PROPERTY Sp. z o.o. ZETA S.K.A.	-	4	-	-
WIKANA MERITUM Sp. z o.o. SIGMA Sp.k.	1 676	3 720	1 597	6
WIKANA PROPERTY Sp. z o.o. ROSA Sp.k.	75	1 757	34	1 749
WIKANA PROPERTY Sp. z o.o. GAMMA Sp.k.	10	10	2	2
WIKANA PROPERTY Sp. z o.o. JOTA Sp.k.	27	23	39	20
WIKANA PROPERTY Sp. z o.o. KAPPA S.K.A.	45	40	3 978	3 933
WIKANA MERITUM Sp. z o.o. LARIX S.K.A.	92	152	2 158	2 647
WIKANA MERITUM Sp. z o.o. MAGNOLIA Sp.k.	484	4 508	3 286	3 149
WIKANA PROPERTY Sp. z o.o. OMEGA S.K.A.	358	164	175	38
WIKANA PROPERTY Sp. z o.o. OMIKRON S.K.A.	41	53	50	9
WIKANA MERITUM Sp. z o.o.	10	10	20	10
WIKANA PRIM Sp. z o.o.	10	6	15	5
Agnieszka Buchajska	-	-	2	2
<b>Sale of products and services</b>	<b>9 901</b>	<b>14 982</b>	<b>21 132</b>	<b>16 902</b>

in PLN 000s	Transaction value during the period		Outstanding balance as at	
	01.01.2016 31.12.2016	01.01.2015 31.12.2015	31.12.2016	31.12.2015
<b>Purchase of products and services</b>				
TBS "Nasz Dom" Sp. z o.o.	1	112	-	-
WIKANA PROJECT Sp. z o.o.		1		-
WIKANA MANAGEMENT Sp. z o.o.	171	292	28	35
WIKANA NIERUCHOMOŚCI Sp. z o.o. w likwidacji 0		-		642
WIKANA NIERUCHOMOŚCI Sp. z o.o. w likwidacji 05 MARINA S.K.A.	41	39	846	828
WIKANA PROPERTY Sp. z o.o.	72	87	14	6
WIKANA PROPERTY Sp. z o.o. JOTA Sp.k.	4	7	-	4
WIKANA PROPERTY Sp. z o.o. KAPPA S.K.A.	6	-	-	-
WIKANA MERITUM Sp. z o.o. LARIX S.K.A.	(138)	1945	-	723
Agnieszka Buchajska	211	-		-
<b>Purchase of products and services</b>	<b>368</b>	<b>2 483</b>	<b>888</b>	<b>2 238</b>

in PLN 000s	Outstanding balance as at	Transaction value during the period			Outstanding balance as at	
	31.12.2015	Issue	Repayment of principal	Accrual of interest	Repayment of interest	31.12.2016
<b>Loans issued (principal and interest)</b>						
BIOENERGIA PLUS Sp. z o.o.	4 437	-	-	147	-	4 584
WIKANA PROPERTY Sp. z o.o. ALBA S.K.A.	822	36	(218)	27	-	667
BIOENERGIA PLUS Sp. z o.o. 01 S.K.A.	152	-	-	4	-	156
WIKANA PROPERTY Sp. z o.o.	1 593	-	-	56	-	1 649
WIKANA MANAGEMENT Sp. z o.o.	394	-	(378)	-	(16)	-
WIKANA PROPERTY Sp. z o.o. KROSNO S.K.A.	1	-	-	3	(4)	-
WIKANA MERITUM Sp. z o.o. PANORAMA Sp.k.	36	145	(3)	-	(33)	145
WIKANA PROPERTY Sp. z o.o. KOMERC Sp.k.	4 069	-	(283)	94	(90)	3 790
WIKANA PROPERTY Sp. z o.o. LEGNICA S.K.A.	4 229	-	(150)	140	-	4 219
WIKANA PROPERTY Sp. z o.o. DELTA S.K.A.	10	-	-	-	(10)	-
WIKANA PROPERTY Sp. z o.o. Zielone Tarasy S.K.A.	78	-	(6)	-	(3)	69
ZIELONE TARASY S.A.	314	-	-	11	-	325
WIKANA NIERUCHOMOŚCI Sp. z o.o. 02 S.K.A	11	-	(5)	--	(6)	-
WIKANA PROPERTY Sp. z o.o. 03 MIASTECZKO S.K.A.	1	-	-	-	-	1
WIKANA PROPERTY Sp. z o.o. 04 OSIEDLE S.K.A.	30	-	(23)	-	(7)	-
WIKANA NIERUCHOMOŚCI Sp. z o.o. w likwidacji 05 MARINA S.K.A.	5	-	-	-	-	5
WIKANA PROPERTY Sp. z o.o. SALIX Sp.k.	107	-	-	3	-	110

WIKANA MERITUM Sp. z o.o. ALFA Sp.k.	106	513	(60)	13	-	572
WIKANA MERITUM Sp. z o.o. LAMDA S.K.A.	5 445	-	(4 997)	102	(541)	9
WIKANA MERITUM Sp. z o.o. LARIX S.K.A.	138	-	(44)	4	-	98
WIKANA MERITUM Sp. z o.o. MAGNOLIA Sp.k.	12	52	(13)	1	-	52
WIKANA PRIM Sp. z o.o. BETA Sp.k.	30	1 384	(52)	6	-	1 368
WIKANA PROPERTY Sp. z o.o. OMIKRON S.K.A.	2	-	-	-	-	2
WIKANA FORTEM Sp. z o.o.	-	2	-	-	-	2
WIKANA PROPERTY Sp. z o.o. JOTA Sp.k.	-	650	-	3	-	653
WIKANA PROPERTY Sp. z o.o. BETULA Sp.k.	-	664	-	2	-	666
WIKANA MERITUM Sp. z o.o. SIGMA Sp.k.	-	74	-	-	-	74
WIKANA PROPERTY Sp. z o.o. ROSA Sp.k.	-	560	(200)	2	-	362
<b>Loans issued (principal and interest)</b>	<b>22 020</b>	<b>4 080</b>	<b>(6 432)</b>	<b>618</b>	<b>(710)</b>	<b>19 578</b>

in PLN 000s	Outstanding balance as at	Transaction value during the period			Outstanding balance as at	
	31.12.2015	Incurred	Repayment of principal	Accrual of interest	Repayment of interest	31.12.2016
<b>Loans received (principal and interest)</b>						
WIKANA PROJECT Sp. z o.o.	-	84	(3)	4	-	85
WIKANA MANAGEMENT Sp. z o.o.	-	43	(43)	-	-	-
WIKANA PROPERTY Sp. z o.o. LEGNICA S.K.A.	19	-	-	-	(19)	-
WIKANA PROPERTY Sp. z o.o. ALBA S.K.A.	2	-	-	-	(2)	-
WIKANA PROPERTY Sp. z o.o. 04 OSIEDLE S.K.A.	56	105	(18)	5	-	147
WIKANA PROPERTY Sp. z o.o. 03 MIASTECZKO S.K.A.	149	620	(25)	28	-	772
WIKANA PROPERTY Sp. z o.o. KROSNO S.K.A.	992	2 028	(2 712)	19	-	326
WIKANA PRIM Sp. z o.o. BETA Sp. k.	5	-	-	-	(5)	-
WIKANA PROPERTY Sp. z o.o. DELTA S.K.A.	10	127	(12)	4	-	129
WIKANA PROPERTY Sp. z o.o. SALIX Sp.k.	66	-	-	3	-	69
WIKANA PROPERTY Sp. z o.o. BETULA Sp.k.	1	-	-	-	(1)	-
WIKANA MERITUM Sp. z o.o. CORYLUS S.K.A.	5 333	14 648	(635)	972	-	20 319
WIKANA FORTEM Sp. z o.o. ACER Sp.k.	1 389	79	(64)	54	-	1 457
WIKANA PROPERTY Sp. z o.o. GAMMA Sp.k.	34	-	(10)	3	-	27
WIKANA PROPERTY Sp. z o.o. KAPPA S.K.A.	2	-	-	-	-	2

WIKANA MERITUM Sp. z o.o. PANORAMA Sp.k.	-	14	(14)	-	-	-
WIKANA PROPERTY Sp. z o.o. ROSA Sp. k.	4	-	(4)	-	-	-
WIKANA MERITUM Sp. z o.o. MAGNOLIA Sp.k.	1	81	(81)	1	(2)	-
WIKANA MERITUM Sp. z o.o. SIGMA Sp.k.	47	-	(42)	1	(5)	-
WIKANA PROPERTY Sp. z o.o. OMEGA S.K.A.	5 079	2 374	(5 543)	209	-	2 119
Agnieszka Buchajska	361	-	-	23	-	384
Adam Buchajski	43	-	-	-	-	43
Sanwil Holding S.A.	1 207	-	-	77	-	1 284
Palametra Holdings Limited (formerly: Renale Management Limited)	3 362	211	(19)	15	-	3 569
Palametra Holdings Limited (formerly: Ipnihome Limited)	1 256	79	(15)	5	-	1 325
AGIO RB FIZ	456	-	(140)	10	(326)	-
<b>Loans received (principal and interest)</b>	<b>19 874</b>	<b>20 493</b>	<b>(9 380)</b>	<b>1 431</b>	<b>(360)</b>	<b>32 057</b>

### 3.4.4 Sureties and guarantees

In 2016, the Company neither received nor issued sureties and guarantees for the liabilities of entities from outside the Group.

On 13 September 2012, the Company issued a surety in the form of a promissory note for up to PLN 1 156 000 to subsidiary WIKANA BIOENERGIA Sp. z o.o. (currently BIOENERGIA PLUS Sp. z o.o.) covering existing and potential liabilities under an investment credit facility agreement between Wikana Bioenergia Sp. z o.o. (currently BIOENERGIA PLUS Sp. z o.o.) and BOŚ S.A. dated 13 September 2012.

On 7 May 2012, the Company established a registered pledge on the shares of WIKANA NIERUCHOMOŚCI Sp. z o.o. (currently: WIKANA NIERUCHOMOŚCI Sp. z o.o. w likwidacji) and issued a surety in the form of own promissory note up to PLN 3 226 000 to subsidiary Wikana Nieruchomości Sp. z o.o. Alba S.K.A., covering existing and potential liabilities under an agreement to finance a commercial property between Wikana Nieruchomości Sp. z o.o. Alba S.K.A. and Deutsche Bank PBC S.A. dated 26 April 2012.

On 17 January 2013, the Company established a registered pledge on the shares of WIKANA NIERUCHOMOŚCI Sp. z o.o. (currently: WIKANA NIERUCHOMOŚCI Sp. z o.o. w likwidacji) and issued a surety in the form of own promissory note up to PLN 1 037 000 to subsidiary WIKANA PROPERTY Sp. z o.o. ALBA S.K.A., covering existing and potential liabilities under an agreement to finance a commercial property between WIKANA PROPERTY Sp. z o.o. ALBA S.K.A. and Deutsche Bank PBC S.A. dated 17 January 2013.

On 27 June 2012, the Company issued a surety in the form of own promissory note up to PLN 3 752 000 to subsidiary WIKANA PROPERTY Sp. z o.o. KOMERC S.K.A. (currently: WIKANA PROPERTY Sp. z o.o. KOMERC Sp.k.), covering existing and future liabilities under an operating lease agreement between WIKANA PROPERTY Sp. z o.o. KOMERC S.K.A. and Bankowy Leasing Sp. z o.o. dated 27 June 2012.

On 16 December 2011, the Company issued a surety in the form of own promissory note up to PLN 4 205 000 to subsidiary WIKANA PROPERTY Sp. z o.o. KOMERC S.K.A. (currently: WIKANA PROPERTY Sp. z o.o. KOMERC Sp.k.), covering existing and future liabilities under a finance lease agreement between WIKANA PROPERTY Sp. z o.o. KOMERC S.K.A. and BFL Nieruchomości Sp. z o.o. dated 16 December 2011.

On 11 June 2012, the Company issued a surety in the form of own promissory note up to PLN 4 789 000 to subsidiary WIKANA PROPERTY Sp. z o.o. KOMERC S.K.A. (currently: WIKANA PROPERTY Sp. z o.o. KOMERC Sp.k.), covering existing and future liabilities under an operating lease agreement between WIKANA PROPERTY Sp. z o.o. KOMERC S.K.A. and Bankowy Leasing Sp. z o.o. dated 11 June 2012.

On 27 June 2012, the Company issued a surety in the form of own promissory note up to PLN 6 726 000 to subsidiary WIKANA PROPERTY Sp. z o.o. KOMERC S.K.A. (currently: WIKANA

PROPERTY Sp. z o.o. KOMERC Sp.k.), covering existing and future liabilities under an operating lease agreement between WIKANA PROPERTY Sp. z o.o. KOMERC S.K.A. and Bankowy Leasing Sp. z o.o. dated 27 June 2012.

On 26 November 2014, the Company issued a surety up to PLN 6 000 000 to subsidiary Wikana Property Sp. z o.o. Omega S.K.A., covering existing and potential liabilities connected with series A bonds issued by Wikana Property Sp. z o.o. Omega S.K.A. on 21 February 2014.

On 30 October 2015, the Company issued a surety up to PLN 33 000 000 to subsidiary Wikana Meritum Sp. z o.o. Corylus S.K.A., covering existing and potential liabilities connected with series B bonds issued by Wikana Meritum Sp. z o.o. Corylus S.K.A. on 16 October 2015. As at 31 December 2016, bond-related liabilities amounted to PLN 22 000 000.

On 27 July 2016, the Company issued a surety in the form of own promissory note up to PLN 9 000 000 to subsidiary WIKANA FORTEM Sp. z o.o. ACER Sp.k., covering existing and future liabilities under a credit agreement between WIKANA FORTEM Sp. z o.o. ACER Sp.k. and Raiffeisen Bank Polska S.A. dated 27 July 2016.

On 23 September 2016, the Company provided PLN 2 140 000 in financing for subsidiary WIKANA PRIM Sp. z o.o. BETA Sp.k., covering existing and potential liabilities under a credit agreement between WIKANA PRIM Sp. z o.o. BETA Sp.k. and mBank Hipoteczny S.A. dated 23 September 2016.

On 10 November 2016, the Company issued a surety in the form of own promissory note up to PLN 5 335 000 to subsidiary WIKANA PROPERTY Sp. z o.o. JOTA Sp.k., covering existing and future liabilities under a credit agreement between WIKANA PROPERTY Sp. z o.o. JOTA Sp.k. and Nadsański Bank Spółdzielczy dated 10 November 2016.

On 5 December 2016, the Company submitted to enforcement of up to PLN 2 140 000, covering existing and potential liabilities under a credit agreement between WIKANA PRIM Sp. z o.o. BETA Sp.k. and mBank Hipoteczny S.A. dated 23 September 2016.

On 5 December 2016, the Company submitted to enforcement of up to PLN 10 670 000, covering existing and future liabilities under a credit agreement between WIKANA PROPERTY Sp. z o.o. JOTA Sp.k. and Nadsański Bank Spółdzielczy dated 5 December 2016.

#### **3.4.5 Agreements concerning insurance, collaboration or cooperation, agreements executed between shareholders and bondholders**

Aside from the agreements described in this report, the Company did not execute other insurance, collaboration or cooperation agreements other than agreements typical for its type of operations.

The Company's Management Board is unaware of any agreements executed between the shareholders and bondholders of the Company and its subsidiaries.

### 3.4.6 Significant agreements and transactions after the end of the financial year

From the end of the financial year to the date on which this report was prepared, the Company did not execute / was not part to any agreements or transactions that could be defined as significant.

## 4 WIKANA S.A.'s financial situation

### 4.1 Discussion of financial situation

In 2016, the Company posted a PLN 3 048 000 net loss. Net revenue from sales was PLN 8 026 000.

According to the Company's Management Board, no atypical events took place in the reporting period and until these financial statements were prepared such as could have a material impact on the Company's operating results for the financial year 2016.

The Company's Management Board assessed its liquidity situation for the 12 months from the date of the separate financial statements. The main objective of this analysis was specifying the sources for repayment of the Company's current liabilities, resulting from, among others, issued bonds, credit facilities and trade payables (including liabilities resulting from property projects).

As at 31 December 2016, the total amount of the Company's liabilities due to be repaid in 2016 (i.e. current liabilities), excluding current provisions, was PLN 16 028 000. This item mainly comprises borrowings and trade payables. Of the total amount of current liabilities, amounting to PLN 17 167 000, PLN 16 028 000 will need to be repaid, i.e. subtracting provisions.

As a result of the analysis, the Company's Management Board outlined the main repayment sources for current liabilities:

- The Company's Management Board estimates that in 2017 it will sell residential units, service units and parking spaces in buildings that have use permits.
- Excess cash generated from transactions with subsidiaries within Wikana Group  
Given the fact that the Company's debt is predominantly used to provide finance to subsidiaries (e.g. special purpose vehicles developing property projects), it is natural that they substantially participate in servicing the debt. The Company will be raising finance for companies within the Group, including loans.

In addition, the Company's Management Board is analysing a number of solutions aimed at raising additional capital to ensure the Company's liquidity, to be used to repay financial liabilities and trade payables. According to the Management Board, the currently visible improvement on the residential property market will make it possible to fulfil apartment sales plans at a level ensuring the uninterrupted continuing of operations, including repayment of liabilities.

According to the Company's Management Board, there are no significant threats to the Company's continuing operations over the 12 months from the date on which this report was prepared.

The Management Board is confident that it will be able to provide the Company with sufficient capital to service its financial and trade payables and to continue operations uninterrupted, including property development projects.

#### **4.2 Use of proceeds from securities issues**

During the financial year 2016 and until the date of these financial statements, the Company did not issue equity or bonds. On 10 November 2016, the Management Board of WIKANA S.A. adopted a resolution to establish a bond issue programme under which the Company may issue, in one or more series, ordinary secured bearer bonds in de-materialised form, with issue price equal to par value and total par value of no more than PLN 13.5 million, offered in a private offering, i.e. through a proposal to purchase bonds addressed to no more than 149 recipients, together with a resolution on the issue of no more than 13 500 24-month secured bearer bonds series C-01 ("Bonds") with par value of PLN 1 000 each and total issue value of no more than PLN 13.5 million and on establishing the terms for the Bond issue (details: current report 57/2016). Due to a change in conditions on the bond market, the Company's Management Board on 5 December 2016, based on the terms of the Bond issue, adopted a resolution on non-allocation of series C-01 Bonds and therefore an unsuccessful conclusion of the issue (details: current report 58/2016).

### 4.3 Significant off-balance-sheet items

The Company does not have any off-balance-sheet items.

### 4.4 Financial forecasts

The Company's Management Board did not publish financial forecasts for 2016.

### 4.5 Rules for preparing financial statements and basis for publication

This management report on the Company's operations in the period from 1 January to 31 December 2016 contains the information required by § 91 of the Ordinance of the Minister of Finance dated 19 February 2009 on current and periodic information disclosed by issuers of securities and the conditions for recognising as equivalent information required by the laws of a non-member state.

The Company's separate financial statements for 2016 are prepared in accordance with International Financial Reporting Standards, as approved by the European Union ("IFRS"). IFRSs cover standards and interpretations accepted by the International Accounting Standards Board (IASB) and the International Financial Reporting Interpretations Committee (IFRIC).

The annual report, which includes the above financial statements and this management report on operations, is prepared pursuant to § 82 sec. 1 of the Ordinance of the Minister of Finance concerning current and periodic information [...].

## 5 Growth perspectives for WIKANA S.A., risks and threats

### 5.1 WIKANA S.A.'s strategy

The Company's growth strategy in the next 12 months will focus on the following areas:

- Intensification of activities aimed at a substantial increase in operating scale, including commencement of new investments on the Group's land,
- reinforcement of leading position on the property development market, further operational expansion and reinforcement in markets where the Company is present,
- consistent increase in apartment sales volumes, alongside margin growth,
- adaptation of the project schedule to current and foreseeable conditions on the property market, with the assumption that optimisation will be continued as regards the Company's expenditures and inflows, as well as the current ratio levels,
- seeking to ensure an optimal financing structure for the on-going property development projects,
- acquiring land for new property projects.

## 5.2 Growth perspectives and factors

The Company expects to continue its current operations in subsequent reporting periods. A significant portion of property development projects will be executed via special purpose vehicles, therefore the Group's consolidated results will play a key role.

## 5.3 Operational risk

### Managing financial risk

#### ▪ Pricing risk

The Company has, through special purpose vehicles, agreements with contractors where remuneration is precisely specified and allows for completion of the on-going investments in line with budgets adopted by the Company. Pricing risk is on the contractors' side, and their remuneration may only be changed with the Company's consent. Still, the Company is exposed to risk related to changes in construction costs and the Company's dependence on construction contractors, as described in point "Description of other risk factors, along with the Company's exposure."

#### ▪ Credit risk, foreign exchange risk and interest rate risk

Exposure to credit risk and interest rate risk arises in the ordinary course of the Company's business and in the course of its special purpose vehicles' business through which it carries out property development projects.

There may be foreign exchange risk connected with changes in the exchange rates of foreign currencies, as well as interest rate risk for the currencies in which mortgages are issued to buyers in order to finalise purchases of residential properties. A weakening of PLN in relation to foreign currencies, in particular CHF, USD and EUR, as well as an increase in the interest rates for these currencies, translating into an increase in the interest on credit, may result in buyers being unable to continue to repay their mortgages or in fewer new buyers being able to obtain such credit. This may lead to a decrease in demand for new apartments and to a higher number of properties repossessed by banks, which then could increase the number of properties available on the market. The above events may have a negative impact on the residential property market and, as a result, on the Company's operations and financial situation.

The balance sheet value of non-current investments and trade and other receivables reflects the maximum level of credit risk.

The Company's non-current liabilities on issue of fixed-coupon bonds are not exposed to cash flow risk as a result of interest rate changes. The Company does not hedge against interest rate risk. The Company also does not hedge against foreign exchange risk. Current receivables and payables are not exposed to interest rate risk.

#### ▪ Cash flow risk

Through SPVs, which it uses to develop property projects, the Company has agreements with contractors and has secured financing for its on-going investments therefore the Company's cash

flows in subsequent reporting periods are already specified and allow minimising the cash flow risk.

- **Liquidity risk**

The objective of financial liquidity management is protecting the Company from default. This objective is being achieved through systematic projections of debt, and subsequently through arranging appropriate sources of finance.

### **Description of other risk factors, along with the Company's exposure levels**

- **Strategic objective risk**

The Company cannot ensure that its strategic objectives will be met. The market in which the Group operates is subject to changes, the direction and scale of which are dependent on numerous factors. The Company's future situation, and therefore also its revenue and earnings, are dependent on how well its strategy is executed. Wrong decisions, resulting from incorrect assessment of situation or inability to adapt to the changing market conditions, might have a negative impact on the Company's financial results.

- **Risks associated with property development projects**

Property projects being executed by SPVs subsidiary to the Company require substantial capital employment and, by nature, are subject to a variety of risks. These risks concern the following in particular: (1) the inability to obtain or the loss of previously obtained permits, authorisations or other administrative decisions such as are essential for use of land and development of property projects in accordance with the Company's plans, (2) delays in commencement or completion of construction, (3) cost overruns, (4) contractor or subcontractor default, (5) contractors' or subcontractors' disputes with employees, (6) insufficient materials or construction equipment, (7) accidents or unforeseen technical difficulties, (8) inability to obtain the permits required to handover a building, or other essential authorisations, as well as (9) changes in the regulations pertaining to use of land. The occurrence of each of the above circumstances may result in delays in completing projects, cost increases or revenue losses, freezing the capital invested in procuring land and in certain situations the inability to complete projects. This may have a negative impact on the Company's operations and financial situation.

- **Risk associated with cost overruns and the Company's dependence on construction contractors**

Through its subsidiary SPVs, the Company has executed, and will execute, agreements with building contractors to develop property projects in the general-contractor formula. The costs of these projects may be subject to changes as a result of a variety of factors, such as the following: (1) changes in the scope of the project or changes in the architectural design; (2) increases in the cost of construction materials; (3) insufficient availability of skilled workers or increase in employment costs; (4) non-performance of work by contractors within the agreed deadlines or to a standard that is acceptable for the Company; (5) selection of incorrect technology at the initial phase of construction. Each substantial increase in costs or delay in project completion may have a negative impact on the Company's profitability. There is also a risk connected with the general contractors' loss of financial liquidity, which could impact the quality and timely delivery of the works. Loss of financial liquidity may, in extreme circumstances, result in the complete shut-down of works by a contractor, leading to their replacement. All delays and costs connected with replacing a general contractor may have a negative impact on the project's profitability. Despite the fact that the Company strives to limit such risk by maintaining long-term relations with a group of proven construction contractors and has employees that can, if necessary, assume the general contractor's responsibilities, a threat to the continuity and stability of operations - including the loss of liquidity by any of the general contractors developing the projects - may have a negative impact on the Company's operations and financial situation.

- **Risk associated with higher operating expenses and other costs**

The Company's operating expenses and other costs may increase without a concurrent increase in revenue. The following factors may lead to an increase in operating expenses and other costs: (1) inflation, (2) increase in taxes and other mandatory fees, (3) changes in legal regulations (including changes relating to workplace health and safety and environmental protection) or government policy, which could increase the costs of compliance with such regulations or policy, (4) increase in financing costs. The above factors may have a significant negative impact on the Company's operations and financial situation.

- **Risk associated with the Company's operations being confined to local residential markets**

Currently, all of the projects being executed by the Company's SPVs are located in: Lublin, Janów Lubelski and Tarnobrzeg. The Company continuously analyses the property development market in other Polish cities, however, according to the management, the results of expansion into other markets would be incommensurate to the risk related to such decisions. As a result, in the short- and medium-term, the Company's revenue and earnings will be dependent on the situation on the residential markets in which the Company is already present. Any decreases in conditions on those markets may have a negative impact on the Company's operations and financial situation.

- **Risk associated with the ability to introduce additional apartments for sale, procure new land, and apartment pricing**

Further development of the Company's business is primarily dependent on: the ability to commence new investments on the Company's properties, introduce apartments for sale, ability to acquire attractive land for new development projects - at attractive prices - and their

appropriate use, and subsequently the Company's ability to sell its apartments on the market in a timely manner and at satisfactory margins. The ability to fulfil the above assumptions mostly depends on conditions in residential markets where the Company operates and on the results of the restructuring programme.

Acquiring land for property projects in the future may be more difficult or costly than before due to the following: (1) strength of the competition on the property market, (2) time-consuming process to acquire administrative permits and other essential decisions, consents and authorisations, (3) lack of local spatial development plans and (4) limited availability of land with appropriate infrastructure.

The profitability of the Company's property development business is also directly dependent on apartment prices in Poland, and particularly in the cities where the Company is present. An oversupply of apartments due to there being too many units available may have a negative impact on apartment prices in markets where the Company operates. In the case of falling apartment prices, the Company cannot guarantee that it will be able to sell all finished apartments at prices ensuring the Company's expected margins.

All of the above factors may have a significant negative impact on the Company's operations and financial situation.

- **Risk associated with adverse land conditions**

When procuring land for new property investments, the Company carries out geotechnical analysis. Due to the limited scope of this study, it cannot be excluded that over the course of a project the Company will encounter unforeseen difficulties, which may result in delays or increase in the costs to prepare the land for construction, for example archaeological finds. Such factors may have an impact on the costs or scheduling of a given project and may even prevent completion of a project in its original form. This may have a negative impact on the Company's operations and financial situation.

- **Risk associated with liability for use of land - as regards environmental protection regulations**

In accordance with Polish law, entities using land where dangerous substances or other pollutants are located or where an adverse transformation of land occurred may be obligated to remove these, bear the reclamation costs and pay administrative penalties. The risk that the Company may in the future be required to pay compensation, administrative penalties or reclamation costs resulting from environmental damage to the land it owns or procures cannot be excluded. This may have a negative impact on the Company's operations, financial situation and growth perspectives.

- **Infrastructure risk**

A property development project may be executed in a manner ensuring the legally-required infrastructure, such as internal roads, water connections, etc. Despite positive results of legal and technical analysis, a lack of the essential infrastructure may result in the fact that it will not be possible to execute a project on a given plot of land or, in the event that it be necessary to provide this infrastructure by the Company, that it will be too expensive. There is a risk that due to delays in preparing access to infrastructure, particularly delays resulting from factors that are

independent from the Company, there might be a delay in handing over a property project or an unforeseen increase in the cost of accessing infrastructure. Such events may have an impact on project margins. It may also happen that the relevant administrative authorities will require the Company to construct essential infrastructure as part of a property development project, which could have a substantial impact on the cost of construction. Administrative authorities may also request that the investor construct the infrastructure that is essential from the viewpoint of the entire project, but such construction works may be expected by the authorities to constitute the investor's contribution towards the development of local communities as part of the property development project. This may have a negative impact on the Company's operations and financial situation.

- **IT failure risk**

The Company is not dependent on IT systems, however a failure of its IT system that results from a loss of data may result in temporary difficulties for the Company, particularly as regards contacts with its clients. The Company may not guarantee that its IT systems will be sufficient for its future purposes. The occurrence of IT system failures or inability to meet the Company's future needs could have an impact on the Company's operations and financial situation.

- **Risk connected with ineffectiveness of the land and mortgage register system**

The land and mortgage register system that is currently in use in Poland, especially in the cities where the Company has investments, is ineffective, particularly due to delays with which significant legal events are disclosed in such registers. As a general principle, given the public-trust guarantee nature of land and mortgage registers, a person carrying out a legal activity with binding effects with a person who is authorised as per the content of the land and mortgage register may purchase property or another property right, even in the event that in fact another entity was the owner, unless the buyer knew or could easily have found out about the inconsistency between the register with actual legal state. Given the potential delays in disclosing ownership or usufruct changes in mortgage and land registers and the binding public-trust guarantee of such registers, trade in properties is connected with the risk of purchasing a property from a person who appears in the register but is not authorised. This risk may have a negative impact on the Company's operations and financial situation.

- **Risk resulting from the act on payment guarantees for construction works**

According to the Act of 9 July 2003 on payment guarantees for construction works, a building contractor to whom the Company's subsidiary SPV commissions performance of a property development project may at any time request from the company a payment guarantee, in the form of a bank or insurance guarantee, bank letter of credit or surety issued for the contractor, up to the amount of any potential claims for remuneration arising under the agreement and additional work orders. In accordance with the above act, rights to request a payment guarantee cannot be waived or limited through any legal activity, and termination of the agreement based on a request of a payment guarantee is ineffective. The lack of a sufficient payment guarantee constitutes a hindrance in performance of construction works on the part of the company and entitles the contractor to request remuneration based on art. 639 of the Polish Civil Code. This may result in higher costs and delays in development projects, or even their cancellation. This may have a negative impact on the Company's operations, financial situation and results.

- **Risk associated with substantial damages, exceeding insurance compensation**

Buildings constructed as part of the Company's SPVs' development projects are insured on the basis of insurance agreements executed by the Company's general contractors. In the case of physical damages to the buildings due to fire, flooding or other causes prior to handover of the premises to buyers, the Company may incur damages that might not be entirely covered by insurance payments, especially given the fact that the value of the insured object, estimated in the insurance agreement, may be smaller than the value of that object at the time of damage. In addition, insurance policies do not cover the Company's lost earnings from projects or damages connected with non-performance or delayed performance of agreements with apartment buyers. In the event of damages exceeding the insurance limit, the Company may lose the funds invested in such damaged project, as well as the related future revenue. The above events may have a negative impact on the Company's operations, financial situation and results.

- **Risk associated with changes in tax regulations**

The Polish tax system is characterised by a lack of stability. Tax laws are often changed, a lot of the times against the taxpayer. These changes may concern not only increases in tax rates but also the introduction of new, complex legal instruments, expansion of the scope of taxation and even introduction of new tax burdens. Changes in tax laws may also result from the necessity to superimpose new solutions from EU law, resulting from the introduction of new, or changes of existing, tax regulations. Frequent changes in corporate tax laws and interpretative inconsistencies as regards application of tax regulations by tax authorities may have an adverse effect on the Company, which as a result may have a negative impact on its operations and financial situation.

- **Risk associated with application of tax regulations by tax authorities**

Tax authorities apply laws not only directly based on regulations but also on their interpretations, performed by authorities of higher instance or by courts. Such interpretations are also prone to changes, replacement with other interpretations or are in contravention to other interpretations. To a certain extent, this also concerns court rulings. This creates a lack of certainty in terms of how tax authorities apply the law or the automatic application of the law in accordance with the existing interpretations, which may not necessarily reflect the - often complicated - actual state of affairs in commercial trade. This risk is also increased by a lack of transparency in the many regulations that constitute the Polish tax system. On the one hand, this creates doubts as regards their proper interpretation, while on the other - the necessity to consider more carefully the above-mentioned interpretations. As regards the tax regulations that are based on EU laws and that should therefore be fully harmonised, it should be pointed out that the risk connected with their application is related to an often insufficient level of knowledge of EU laws, which is aided by the fact that they are relatively new in the Polish legal system. This may result in the interpretations of Polish law being in contradiction to EU regulations. Lack of stability in application of tax laws may have a negative impact on the Company's operations and financial situation.

- **Risk associated with potential claims**

In Poland, as a result of post-war nationalisations, numerous properties owned by legal entities and natural persons were acquired by the State Treasury, which in certain cases was against the then-current laws. Despite the fact that an act regulating the re-privatisation process has not yet

been enacted in Poland, previous property owners or their successors may currently file requests with administrative authorities concerning annulment of the administrative decisions based on which they lost their properties. The Company's Management Board, to the best of its knowledge, has not identified any such instances described in this point. In addition, the properties on which the Group's development projects were, are or might be executed are not located in areas covered by the Decree of 26 October 1945 on the ownership and use of land in the Capital City of Warsaw (the so called Decree on land in Warsaw). To the best of its knowledge, the Company's Management Board sees no risk that the previous owners of land on which these properties are situated will submit re-privatisation claims, unless the land acquisition based on the Decree on land in Warsaw was done in an illegal manner. Despite the fact that prior to purchasing a property, the Company examines matters connected with the likelihood of claims for return of property being raised, the results of such audits are not conclusive and it may not be excluded that re-privatisation claims relating to the properties owned by the Company will be raised in the future. The risk that such claims raised in the future might have a significant impact on the Company may not be excluded. This may result in an increase in project costs, delays or cancellations, which could have a substantial negative impact on the Company's operations, financial situation and results.

- **Economic and political risk**

The Company operates in Poland, which is considered an emerging market. Investors that invest in shares of companies operating in such markets should be aware of the fact that the economic and political risk present on such markets is higher than in the case of developed markets.

The financial situation of the Polish property development industry, and therefore also the Company's financial situation, is closely connected with economic factors, such as GDP changes, inflation, unemployment, exchange rates and interest rates. Any adverse changes of one or more of the above factors in the future may lead to a decrease in demand for new apartments, which could have a negative impact on the Company's operations and financial situation.

- **Risk associated with lack of spatial development plans**

Parts of the land that the Company or its SPVs are using, or plan to use, for investments, are not covered by valid spatial development plans, which makes it substantially more difficult to obtain construction permits. In particular, in the case of a lack of a spatial development plan, determining the means of development and terms of construction takes place through a decision on construction terms and development conditions. Issue of such decision on development terms is possible only after numerous conditions are met, including that at least one neighbouring plot of land, accessible from the same public road, be developed in a manner enabling to specify requirements for the new development in terms of continuation, parameters, features and indicators of development of land or construction thereon, including the parameters and architectural forms of the buildings that are to be constructed, lines and closeness of the development. A lack of binding spatial development plans may cause significant problems with obtaining construction permits, which could lead to project delays and, in consequence, have a negative impact on the Company's operations and financial situation.

- **Risk associated with discrepancies between land and mortgage registers and land records**

Data in land and mortgage registers for properties is not always compliant with the data disclosed in land and property records, in particular data concerning the numbering and surface area of plots of land, as well as land ownership data.

In reality, this may cause the necessity to reconcile such data and - given the time-consuming nature of this procedure - result in delays in establishing separate ownership for premises.

The Company manages all of the financial risk elements described above, which could have a significant impact on its operations. The financial risk management system is organised so that the units responsible for executing the various transactions on the market are separated from the other, independent units evaluating these transactions prior to final approval by the Company's Management Board, which leads to a decrease in operating and financing costs - i.e. the elements that give rise to financial risk.

## 6 Statement on application of corporate governance standards

Pursuant to § 91 sec. 5 point 4 of the Ordinance of the Minister of Finance dated 19 February 2009 on current and periodic information disclosed by issuers of securities and the conditions for recognising as equivalent information required by the laws of a non-member state (i.e. of 27 June 2013, Polish Journal of Laws of 2014, item 133, as amended), the Company's Management Board declares that in 2016 WIKANA Spółka Akcyjna, based in Lublin, (hereinafter also "Issuer," "Company"), as an exchange-listed company, was subject to the corporate governance rules contained in Appendix to Resolution 26/1413/2015 of the Warsaw Stock Exchange Council of 13 October 2015: "Best practices for WSE-listed companies 2016" ("Best Practices"). The content of this document is available at the WSE's corporate governance website: [https://www.gpw.pl/lad\\_korporacyjny\\_na\\_gpw](https://www.gpw.pl/lad_korporacyjny_na_gpw).

The Company takes every effort to apply the corporate governance rules described in "Best Practices for WSE-listed Companies 2016" and attempts to apply all recommendations relating to best practices and guidelines for management boards, supervisory boards and shareholders.

The Company's Management Board pays much attention to applying corporate governance standards in its management processes, which are understood as a set of regulations necessary to maintain appropriate relations between the interests of all entities and natural persons involved in the Company's operations. Corporate governance standards largely serve as an example of conduct in ethically-correct conduct and are an expression of good customs.

The Company does not apply corporate governance standards that are beyond those that are provided for in Polish law.

### 6.1 Indication of the corporate governance standards that WIKANA S.A. decided not to apply, along with justification

In 2016, the Issuer did not apply one recommendation:

- **IV.R.2.** If justified given the shareholding structure or shareholder expectations and as long as the company is able to provide the technical infrastructure necessary to effectively conduct the general meeting using electronic communications, it should enable shareholders to participate in the general meeting using such electronic communications, in particular through:
  - 1) real-time broadcast of general meetings,
  - 2) two-way communication in real time, by way of which shareholders can make verbal statements during general meetings without being physically present at the meeting location,
  - 3) exercise of voting rights in the course of the general meeting, either in person or through an attorney.

**Commentary from the Company:** The Company's existing shareholding structure does not justify common availability of real-time broadcasts for general meetings. According to the Issuer, the application of the above principle carries risk of technical and legal nature, which might have an impact on the correct and uninterrupted execution of

general meetings. In addition, application of the above principle would cause the Issuer to incur substantial costs.

and the following three corporate governance rules:

▪ **I.Z.1.16.**

The company maintains a corporate website where it publishes in a readable format and in a separate place, aside from legally-required information, information regarding planned general meeting broadcasts - no later than 7 days prior to the general meeting date.

**Commentary from the Company:** The Company does not broadcast its general meetings because its existing shareholding structure does not justify common availability of real-time broadcasts for general meetings. According to the Issuer, the application of the above principle carries risk of technical and legal nature, which might have an impact on the correct and uninterrupted execution of general meetings. In addition, application of the above principle would cause the Issuer to incur substantial costs.

- **V.Z.6.** The company specifies in its internal regulations the criteria and circumstances in which a conflict of interest may arise as well as rules for proceeding in the event of an actual or potential conflict of interest. The company's internal regulations take into account, among other things, means for preventing, identifying and resolving conflicts of interest as well as rules for excluding members of the management board or supervisory board from participating in examining cases involving an actual or potential conflict of interest.

**Commentary from the Company:** At present, the Company does not have a separate procedure for conflicts of interest and rules for proceeding when a conflict of interest arises, however this rule is currently being analysed, based on which the relevant procedure will be prepared, as indicated by the Management Board's initial intentions.

- **VI.Z.4.** In its report on operations, the company places a report on its remuneration policy, including at least the following:
- 1) overall information regarding the company's remuneration system,
  - 2) information on the terms and amount of remuneration for each member of the management board, broken down into fixed and variable components, with indication of the key parameters for establishing the variable components of remuneration and rules for paying out severance and other payments related to terminating employment, commission or other similar legal relation - separately for the company and each entity within the group,
  - 3) information on any non-financial components of remuneration available to specific members of the management board and key managers,
  - 4) indication of significant changes taking place in the last financial year as regards the remuneration policy, or the lack thereof,

5) assessment of the remuneration policy from the viewpoint of achieving its objectives, in particular long-term growth in value for shareholders and the stability of the company's operations.

**Commentary from the Company:** Given strong competition on the market and the fact that remuneration issues, according to the Company, constitute a business secret, the existing method of presenting remuneration-related data in reports on operations will be continued in accordance with the existing binding provisions of common law.

## 6.2 Internal control and risk management system

The Company's Management Board is responsible for the internal control system and the process of preparing financial statements and periodic reports.

The Parent's Management Board is responsible for the internal control system and the process of preparing consolidated financial statements. The Parent's Management Board is also responsible for the requirement to prepare periodic reports.

The Company's risk management system is multi-step.

The Company's most important roles are fulfilled by the Management Board and Supervisory Board.

As at 31 December 2016, the internal control and management systems at WIKANA Group subsidiaries were the responsibility of the respective management boards because no supervisory boards were appointed. This does not apply to the Company and certain subsidiaries, i.e. Multiserwis S.A. w likwidacji, ZIELONE TARASY S.A. and TBS „Nasz Dom” Sp. z o.o., which have supervisory boards that fulfil oversight responsibilities in accordance with the Polish Commercial Companies Code and the supervisory board regulations that are adopted at those companies.

The Company consistently implements the overriding objectives of its risk management policy, pertaining primarily to the external and internal limits, as well as to risk optimisation and mitigation in the form of a continuous monitoring process. The risk management process is strictly connected with the capital management process. The Company's main capital management objective is capital optimisation, alongside compliance with external capital requirements.

The Company's financial statements are prepared by the chief accountant.

Financial statements are prepared in accordance with legal regulations and the Company's adopted accounting principles, and are continually verified by the companies' management boards, which are responsible for the accuracy and compliance of financial reporting.

The financial data that is the basis for financial statements is taken from the accounting and financial system, in which accounting events are recorded in accordance with the accounting policy of each of the companies within WIKANA Group, based on International Accounting Standards and International Financial Reporting Standards.

The Company's Management Board continuously monitors changes resulting from laws and external regulations having effect on the reporting requirements of listed companies, and prepares diligently ahead of their implementation.

Audits and assessments of financial statements are conducted by a statutory auditor who audits the annual financial statements (separate and consolidated) and reviews the semi-annual financial statements (separate and consolidated).

The Company's financial statements are first approved by the Management Board and subsequently verified by an independent statutory auditor. The statutory auditor carrying out audit of the Company's separate financial statements is selected by the Company's Supervisory Board from amongst a number of well-known audit firms.

The finance director and heads of departments prepare periodic reports for the Management Board concerning key financial data and operating indicators across operating segments.

Having been audited, financial statements are sent to members of the Company's Supervisory Board, which carries out its own assessment.

## **6.3 Shares and shareholders**

### **6.3.1 Share capital structure**

The Company's share capital amounts to PLN 40 029 594.00 and is divided into: 16 766 559 ordinary bearer shares series G, with nominal value of PLN 2.00 each, and 3 248 238 ordinary bearer shares series H, with nominal value of PLN 2.00 each.

### **6.3.2 Own shares**

At the date on which this report was prepared, the Company and Group entities held no shares in the Company.

### **6.3.3 Shareholding structure**

In the period from the publication of the most recent quarterly report, i.e. 14 November 2016, to the date on which this report was published, the Company's shareholding structure was subject to the following changes:

- as per a notification received by the Company on 29 December 2016, MWM Investments Limited, based in Mriehel, sold pursuant to an agreement of 13 October 2016 6 320 124 shares in the Company, which constituted 31.58% of the Company's share capital and entitled to 6 320 124 votes at the Company's general meeting, i.e. 31.58% of total votes; with these shares being removed from MWM Investments Limited's securities account on 27 December 2016;
- as per a notification received by the Company on 29 December 2016, Sarmira Limited, based in Mriehel, sold pursuant to an agreement of 13 October 2016 6 880 260 shares in the Company, which constituted 34.38% of the Company's share capital and entitled to 6 880 260 votes at the Company's general meeting, i.e. 34.38% of total votes; with these shares being removed from Sarmira Limited's securities account on 27 December 2016;

- as per a notification received by the Company on 29 December 2016, as a result of settling a transaction outside the regulated market on 27 December 2016, VALUE FIZ z wydzielonym Subfunduszem 1, based in Warsaw, ("Fund") purchased from its subsidiaries 13 200 384 shares of the Company, constituting 65.95% of the Company's share capital and entitling to 13 200 384 votes at the Company's general meeting, which constituted 35.95% of total votes, as a result of which the Fund's stake in the Company's share capital changed from direct and indirect to direct only.

At 31 December 2016, the Company had two shareholders directly or indirectly controlling over 5% of the Company's shares, i.e.:

- **VALUE FIZ z wydzielonym Subfunduszem 1, based in Warsaw**, with 13 209 766 shares of WIKANA S.A., constituting 66.00% of the Company's share capital and entitling to 13 209 766 votes at the Company's General Meeting, which constituted 66.00% of total votes;
- **Palametra Holdings Limited, based in Mriehel**, with 1 612 000 shares in the Company, which constituted 8.05% of the Company's share capital and entitled to 1 612 000 votes at the Company's general meeting, i.e. 8.05% of total votes.

Table. Major shareholdings at 31 December 2016

Shareholder	Number of shares / votes	Share in capital / votes
VALUE FIZ z wydzielonym Subfunduszem 1	13 209 766	66.00%
Palametra Holdings Limited	1 612 000	8.05%
Other	5 193 031	25.95%
<b>Total</b>	<b>20 214 797</b>	<b>100.00%</b>

The above table also reflects major shareholdings at publication of this report.

#### 6.3.4 List of shares of Group entities held by management and supervisory personnel

The following table presents a breakdown of shares of Group entities held by the Company's management and supervisory personnel.

Table: Shares of WIKANA S.A. held by members of the Management Board and Supervisory Board

	TOTAL NUMBER OF SHARES	TOTAL NOMINAL VALUE (PLN)

<b>MANAGEMENT BOARD</b>	<b>0</b>	<b>0</b>
<b>SUPERVISORY BOARD, including:</b>	<b>524 815</b>	<b>1 049 630</b>
BUCHAJSKI ADAM	524 815	1 049 630
<b>TOTAL:</b>	<b>524 815</b>	<b>1 049 630</b>

The above table also reflects the total numbers of shares of the Company held by management and supervisory personnel as at the date on which these financial statements were prepared.

Management personnel and other supervisory personnel hold no shares in the Company.

Management and supervisory personnel hold no shares in the Company's subsidiaries.

### 6.3.5 Restrictions attached to securities

#### 6.3.5.1 Restrictions in the exercise of voting rights

The shareholders participating in the General Meeting have the same number of votes as the number of shares they hold, with stipulation that if a shareholder exceeds 66% of the total number of votes, then this shareholder's share of votes decreases to 66%.

#### 6.3.5.2 Restrictions on the transfer of securities

Currently, the only restrictions on the transfer of rights to the Company's securities result from art. 159 in connection with art. 156 sec. 1 point 1 letter a) of the Act on Trade in Financial Instruments of 29 July 2005, regarding closed periods.

### 6.3.6 System of control of any employee share scheme

The Company does not have employee shares.

## 6.4 Special control rights

At 31 December 2016, the Company had no securities with special control rights. No shareholder holds any special control rights toward the Company resulting from the Articles of Association.

## 6.5 WIKANA S.A. governing bodies

### 6.5.1 Management Board

The Company's Management Board consists of between one and five people and is appointed by the Supervisory Board, which also establishes the number of Management Board members. The Management Board term is three years, and it is a joint term.

In a multi-person Management Board, the Company may be represented by:

- two cooperating members of the Management Board,
- a Management Board member and commercial representative.

- commercial representative having independent proxy.

In a single-person Management Board, the Company may be represented by the sole member of the Management Board.

#### **6.5.1.1 Composition**

During the period 1 January - 31 December 2016, the Company's Management Board comprised two people:

- Robert Pydzik – President of the Management Board
- Agnieszka Maliszewska - Member of the Management Board

#### **6.5.1.2 Management Board competences and authority**

The Management Board's competences include all matters not reserved for the General Meeting or Supervisory Board.

The Management Board's operations are led by the President of the Management Board.

The modus operandi of the Management Board, the scope of mutual relations and the means of cooperation are regulated by the Management Board Regulations of 2011 and the Company's Articles of Association. Both of these documents are available on the Issuer's website.

Rules for the management board of WIKANA S.A. are published on the Company's website, which fulfils rule I.Z.1.1. of "Best Practices for WSE-listed Companies 2016" ("The company maintains a corporate website and publishes in readable format and separate location, aside from legally-required information, the key corporate documents [...]").

Management Board resolutions are adopted with an absolute majority. In the case of a tie, the President of the Company's Management Board has the decisive vote.

The Management Board is required to manage the Company's matters with the highest due care required in commercial trade, in accordance with the binding provisions of law, commonly accepted customs and with observance of the Articles of Association and resolutions of the General Meeting and Supervisory Board.

The Management Board's competences include all matters not reserved for the General Meeting or Supervisory Board. The Management Board is particularly required to:

- Develop and execute the Company's strategy and business plans,
- Develop and execute the growth, HR, commercial, financial, quality management and operational policies,
- Submit, in a timely fashion, all notifications binding on the Company to the Register Court,
- Prepare the Company's financial statements,
- Convene the Company's general meetings,
- Participate in Supervisory Board meetings, if so requested,

- Provide the General Meeting and Supervisory Board with comprehensive explanations and information, along with presenting the requested documents and other materials,
- Act with particular care in executing transactions with shareholders and other persons whose interests have an impact on the Company's interests, and to ensure that such transactions are executed on market terms,
- Represent the Company in contacts with shareholders pursuant to internal authorisations, and ensure protection of the rightful interests of all shareholders within the boundaries specified by law and good customs,
- Apply a proper information policy at the Company, in a manner that is in compliance with internal regulations, to observe the general binding provisions of laws and to abstain from activities that could constitute infringement or abuse of law,
- Maintain contacts with the media.

The Company's Management Board has no authority to issue equity.

### 6.5.1.3 Management Board remuneration

Aside from base salaries and social security contributions to ZUS (pension benefit contributions), the Group pays out remuneration to the management pursuant to agreements for provision of services and remuneration for serving on the Management Board.

#### Management Board remuneration

	<b>01.01.2016</b>
in PLN 000s	<b>31.12.2016</b>

Robert Pydzik	24
Agnieszka Maliszewska	24

<b>Management Board remuneration</b>	<b>48</b>
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#### Management Board remuneration for serving on the management board or supervisory board of subsidiaries

	<b>01.01.2016</b>
in PLN 000s	<b>31.12.2016</b>

Robert Pydzik	88
Agnieszka Maliszewska	72

<b>Management Board remuneration</b>	<b>160</b>
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Contracts executing with management personnel do not provide for compensation in the event of resignation or dismissal for valid cause or when dismissal or resignation occurs due to the Issuer's merger via acquisition.

## 6.5.2 Supervisory Board

The Supervisory Board consists of between five and seven members, who are appointed by the General Meeting for five-year terms, with the stipulation that whenever there are no more than five Supervisory Board members, the Supervisory Board can appoint one member.

Supervisory Board members are appointed for a joint term.

### 6.5.2.1 Composition

During 2016, the structure and composition of the Company's Supervisory Board was subject to the following changes:

- On 29 June 2016, Agnieszka Buchajska resigned as member of the Company's Supervisory Board,
- On 30 June 2016, acting pursuant to art. 338 § 2 and 3 of the Polish Commercial Companies Code and § 29 sec. 3 of the Company's Articles of Association, in connection with § 27 sec. 2 of the Company's Articles of Association, the Company's Supervisory Board appointed Maciej Węgorkiewicz as member of the Company's Supervisory Board,
- On 30 June 2016, Tomasz Dukala resigned as member of the Company's Supervisory Board,
- on 27 September 2016, Jakub Leonkiewicz resigned as member of the Company's Supervisory Board,
- on 28 September 2016, the Company's Extraordinary General Meeting, acting pursuant to art. 385 sec. 1 of the Polish Commercial Companies Code and § 27 sec. 1 of the Company's Articles of Association, appointed Joanna Grzelczak and Marcin Marczuk to the Company's Supervisory Board.

At the date of this report, composition of the Company's Supervisory Board was as follows:

- Krzysztof Misiak - Chairperson of the Supervisory Board,
- Adam Buchajski - Deputy Chairperson of the Supervisory Board,
- Joanna Grzelczak - Member of the Supervisory Board,
- Marcin Marczuk - Member of the Supervisory Board,
- Maciej Węgorkiewicz - Member of the Supervisory Board.

### 6.5.2.2 Supervisory Board competences and authority

The Supervisory Board consists of between five and seven members, who are appointed by the General Meeting for a five-year term. The Supervisory Board is appointed for a joint term. Whenever the number of Supervisory Board members does not exceed five, the Supervisory Board may appoint one other member of the Supervisory Board. Supervisory Board members are appointed for a joint term. Supervisory Board members exercise their rights and fulfil their obligations in person only.

The competences of the Supervisory Board are as follows:

- Assessment of annual separate financial statements,
- Assessment of the management report on the Company's operations,
- Suspending of some or all members of the Management Board, for significant reasons,

- Delegating Supervisory Board members for temporary roles at the Company's Management Board,
- Establishing remuneration principles for Management Board members,
- Approving the Company's annual and long-term business plans,
- At the Management Board's request, consenting to the purchase and acquisition of shares in companies and participating in companies,
- Consenting to the purchase and sale of properties or shares in properties, along with perpetual usufruct rights or shares in perpetual usufruct rights, encumbering properties or shares in properties and perpetual usufruct rights or shares in perpetual usufruct rights with restricted property rights, if the amount of the Company's resulting liabilities or rights in a single transaction, in net amounts, exceeds 1/3 of its share capital,
- Approving the Company's organisational structure,
- Other matters provided for in the Articles of Association and the Polish Commercial Companies Code.

In accordance with principle II.Z.10.2 of "Best Practices of WSE-Listed Companies," ("Aside from legally-required activities, the supervisory board prepares and presents to the general meeting once a year a report on the supervisory board's activities [...]") the Supervisory Board on 24 June 2016 prepared and approved the WIKANA S.A. Supervisory Board Report for 2015, which comprised, among others: a concise assessment of the company's situation, with consideration given to an assessment of the company's internal control system and risk management system, along with an assessment of the supervisory board's operations. The report was submitted to the Ordinary General Meeting on 9 May 2016.

In addition, pursuant to principle II.Z.11 of "Best Practices of WSE-Listed Companies," ("The supervisory board examines and issues opinions on matters that are to be the subject of general meeting resolutions"), prior to each General Meeting the Supervisory Board examined and issued opinions on the matters that were to be the subject of general meeting resolutions.

For Supervisory Board resolutions to be valid, a majority of its members must be present and all of its members had to have been invited. Resolutions are adopted with an absolute majority of votes by the supervisory board members who are present at the meeting, and in the case of a tie the supervisory board chairperson has the decisive vote. Supervisory Board members may participate in adopting resolutions by casting votes in writing through another member of the Supervisory Board. Voting in writing is not applicable in the case of items introduced to the agenda in the course of a Supervisory Board meeting. Such resolution is valid if all Supervisory Board members were notified of the content of the draft resolution. Adopting resolutions in the above manners does not apply to the appointment of the Supervisory Board Chairperson, Deputy Chairperson, Management Board Members, as well as the removal or suspension of those persons.

Supervisory Board meetings and adoption of resolutions by the Supervisory Board may also take place in a manner whereby Supervisory Board members participate in the meeting and resolution adopting using electronic communications, provided that all members of the Supervisory Board have been informed about the content of the draft resolutions. In this mode, the Supervisory

Board may not adopt resolutions on appointment of the Supervisory Board Chairperson, Deputy Chairperson and Secretary, on appointment, removal or suspension of Management Board members and on matters specified in art. 382 § 3 of the Polish Commercial Companies Code.

A detailed description of the modus operandi of the supervisory board is presented in the Company's Articles of Association and the Supervisory Board Regulations (which are available on the Company's website), which fulfils principle I.Z.1.1 of "Best Practices for WSE-listed Companies 2016" ("The company maintains a corporate website and publishes in readable format and separate location, aside from legally-required information, the key corporate documents [...]").

The Supervisory Board Regulations were updated through adopting a new text of the Regulations by a General Meeting resolution of 2 June 2010.

### 6.5.2.3 Audit Committee

In accordance with the binding provisions of law, if the Supervisory Board has five members, it can appoint an audit committee or itself exercise the audit committee's tasks, indicated in the Act of 7 May 2009 on statutory auditors and their self-governance, on entities authorised to audit financial statements and on publish oversight (the Act on statutory auditors). Given the fact that the Company's Supervisory Board had no more than five members throughout 2015, it performed the audit committee tasks itself, and in particular:

- monitoring the financial reporting process,
- monitoring the effectiveness of the internal control, internal audit and risk management systems,
- monitoring the performance of financial revision functions,
- monitoring the independence of the statutory auditor and entity authorised to audit financial statements, including in the case of providing the services referred to in art. 48 sec. 2 of the Act on statutory auditors, such as for example accounting and tax book-keeping services, tax advisory.

In addition, in performing the audit committee's tasks, the Supervisory Board examines written information from the entity authorised to audit financial statements regarding important matters that concern financial audit, including in particular material deficiencies in the entity's internal control system in the area of financial reporting, threats to the independence of the entity authorised to audit financial statements, along with the activities undertaken to limit such threats.

### 6.5.2.4 Supervisory Board remuneration

in PLN 000s	<b>01.01.2016</b>
	<b>31.12.2016</b>
Agnieszka Buchajska (until 30.06.2016)	15
Adam Buchajski	30
Tomasz Dukała (until 30.06.2016)	15
Joanna Grzelczak	8
Jakub Leonkiewicz (until 27.09.2016)	22
Marcin Marczuk	8

Krzysztof Misiak	30
Maciej Węgorkiewicz	15
<b>Supervisory Board remuneration</b>	<b>143</b>

#### 6.5.2.5 Information on all liabilities related to pensions and similar benefits for former management and supervisory personnel

In the financial year 2016 and until these financial statements were prepared, the Company did not have any liabilities related to pensions and similar benefits for former management and supervisory personnel or former members of administrative bodies and liabilities incurred in connection with such pensions.

### 6.6 Modus operandi of general meetings and the main associated authorisations, along with shareholder rights and the means of exercising them

The modus operandi of general meetings and the main associated authorisations, along with shareholder rights and the means of exercising them are regulated by:

- Polish Commercial Companies Code,
- Articles of Association,
- Regulations of the Company's general meeting,
- Corporate governance principles adopted by the Company.

WIKANA S.A.'s Articles of Association and Regulations for the Company's general meetings are published on the Company's website, which fulfils rule I.Z.1.1. of "Best Practices for WSE-listed Companies 2016" ("The company maintains a corporate website and publishes in readable format and separate location, aside from legally-required information, the key corporate documents [...]").

General Meetings may be ordinary or extraordinary.

An ordinary general meeting should take place no later than within six months from the end of the financial year.

An Extraordinary General Meeting is convened by the Management Board to examine matters requiring immediate decisions:

- at the Management Board's own initiative,
- at the Supervisory Board's request,
- at a written request of shareholders representing at least one-twentieth of share capital.

A general meeting is convened in the mode specified in art. 395 § 1 and art. 398 of the Polish Commercial Companies Code, in a manner specified in art. 421, 422 and 423 of the Polish Commercial Companies Code and in the Act of 29 July 2005 on Public Offerings [...].

Resolutions adopted by the General Meeting are valid regardless of the number of shares represented at the meeting, unless the Polish Commercial Companies Code states otherwise.

The following activities require a General Meeting resolution:

- Examining and approving the Management Board report on Company operations, Supervisory Board reports, annual financial statements, votes of approval for members of the Company's authorities,
- Issuing rulings concerning claims for rectification of damage caused in the formation of the Company or in the course of management or supervision,
- Consenting to the disposal or lease of the Company's enterprise or an organised part thereof and establishment of limited property rights thereon,
- Issuing convertible bonds or bonds with pre-emptive rights,
- Purchasing own shares in the events specified in art. 362 § 1 point 2 of the Polish Commercial Companies Code,
- Distribution of profit or coverage of loss,
- Amending the Company's Articles of Association,
- Establishing Supervisory Board remuneration rules;
- Increasing or decreasing share capital,
- Establishing the "ex-dividend date" and "dividend payment date,"
- Other matters provided for in the Articles of Association and the Polish Commercial Companies Code.

The purchase and sale of properties or shares in properties, along with perpetual usufruct rights or shares in perpetual usufruct rights, encumbering properties or shares in properties and perpetual usufruct rights or shares in perpetual usufruct rights with restricted property rights, do not require a General Meeting resolution.

Pursuant to principle II.Z.11 of "Best Practices of WSE-Listed Companies 2016," prior to each General Meeting the Supervisory Board examines and issues opinions on the matters that are to be the subject of general meeting resolutions.

The general meeting regulations currently in place at the Company, adopted through general meeting resolution 13/X/2010 of 7 October 2010, state in particular that shareholder correspondence pertaining to general meetings that is sent by shareholders should allow for such shareholders to be identified and for their shareholder authorisations to be verified. Documents sent to the Company in electronic form should be scanned to PDF.

According to the general meeting regulations, a general meeting may be cancelled only if there are extraordinary obstacles to it taking place. However, in a situation where a general meeting was cancelled at the request of authorised entities or if the general meeting agenda contains items included at the request of authorised entities, cancellation requires consent from the entities making the request. No general meetings were cancelled in 2016.

A power of attorney to participate in the Company's general meeting and exercise voting rights must be issued in writing or in electronic form. A power of attorney in electronic form does not require a secure electronic signature, verified by a valid qualified certificate. That a power of attorney has been issued should be communicated to the Company using electronic communications, via an email sent to the address indicated in the general meeting notice, while making every effort to ensure that verification of the power of attorney's validity is possible. A

power of attorney sent to the Company in electronic form should be scanned to PDF. The Company takes appropriate steps to identify the shareholder and attorney in order to verify the validity of a power of attorney issued in electronic form. Such verification may consist of a return question by telephone or email to the shareholder and the power of attorney in order to confirm the fact that the power of attorney has been issued.

As regards the means and mode of voting, the general meeting regulations state that an ordinary share entitles to one vote at the general meeting, with consideration given to par. 26 sec. 1 of the Articles of Association (i.e. considering that the shareholders participating in a general meeting have a number of votes that is equal to the number of shares they own, with stipulation that if a shareholder exceeds 66% of the total number of votes, that shareholder's share in the total number of votes is reduced to 66%). Shareholders may vote differently on each share that they own.

Voting is open, with the stipulation that secret voting is reserved for appointments and for voting on dismissal of members of the Company's authorities or liquidators, on suing them for a breach of responsibilities, as well as on personal matters. As regards appointment of returning committee members, the general meeting may waive the secrecy of voting. General meeting resolutions are adopted with an absolute majority, unless the Articles of Association or the Polish Commercial Companies Code state otherwise. An absolute majority of votes means more than half of the votes cast. Votes cast include votes 'for,' 'against,' and 'abstained.'

The Company's General Meetings are called by publication on the Company's website and via current report at least 26 days prior to the General Meeting date.

So far, general meetings took place at the office of the Company's Management Board, which fulfils rule IV.Z.1 of "Best Practices for WSE-Listed Companies 2016" ("The company establishes the general meeting place and time in a manner ensuring that the largest number of shareholders attends.").

General Meetings were attended by at least one Management Board member, who was prepared to provide technical responses to questions posed during the meeting, and in addition members of the Company's Supervisory Board are invited to General Meetings, which is in compliance with principle IV.Z.11 of "Best Practices of WSE-Listed Companies 2016" (management board members should participate in general meetings so as to facilitate provision of technical answers to questions posed during the general meeting).

## **6.7 Rules on amending WIKANA S.A.'s articles of association**

Pursuant to § 25 sec. 1 of the Company's Articles of Association, amendment of the Company's Articles of Association requires a General Meeting resolution. Pursuant to art. 430 § 1-5 of the Polish Commercial Companies Code:

- Amendment of the articles of association requires a general meeting resolution and a register entry;
- Amendments of the articles of association are submitted by the Management Board to the register court. Submission of the amendment may not take longer than three months from

the date on which the relevant resolution is passed by the general meeting, with consideration given to art. 431 § 4 and art. 455 § 5;

- The register must be updated with the amendment and with the amended data referred to in art. 318 and art. 319;
- Registration of amendments to the articles of association is done pursuant to art. 324 and art. 327;
- The general meeting may authorise the supervisory board to establish a consolidated text of the articles of association or introduce other editing changes, as specified in the general meeting resolution.

## 7 Other information

### 7.1 Proceedings before court, competent authority for arbitration proceedings or public administration authority

According to the Issuer's best knowledge, on the date on which these financial statements were prepared, the Issuer and its subsidiaries were parties to on-going proceedings in court, arbitration body or public administration authority in aggregate worth PLN 7 873 000, of which:

- PLN 4 549 000 constituted the total value of proceedings concerning receivables due to the Issuer and its subsidiaries. The highest-value proceeding was instigated by the Company on 17 March 2014 against ABM Greiffenberger Polska Sp. z o.o., based in Lublin. On 23 December 2014, the Company modified the suit's legal basis, demanding a refund from the defendant of PLN 4 189 000. The claim is viewed as justified.  
PLN 3 324 000 constituted the total value of proceedings concerning the Company's and its subsidiaries' liabilities. The highest-value item in this group is a lawsuit received on 23 November 2011 by the Company for the payment of PLN 874 000 towards a commercial law company which the Company is not disclosing in order not to deteriorate the Company's lawsuit situation. The claim is viewed as unjustified.

### 7.2 Entity authorised to audit financial statements

The entity authorised to audit the Company's financial statements for 2016 is BDO Sp. z o.o., with which the Company executed an agreement on 15 June 2015.

Fees for tasks carried out in 2016 are as follows:

- PLN 29 000 for audit of the Company's separate financial statements for 2016,
- PLN 39 000 for audit of the Group's consolidated financial statements for 2016,
- PLN 34 000 for other services.

The entity authorised to audit the Company's financial statements for 2015 received the following fees:

- PLN 29 000 for audit of the Company's separate financial statements for 2015,
- PLN 39 000 for audit of the Group's consolidated financial statements for 2015,
- PLN 34 000 for other services.

The above amounts are net of VAT.

### 7.3 Environmental protection considerations

Information regarding environmental protection are not of significance from the viewpoint of assessing the Company's situation due to the fact that the Company's activities have negligible impact on the natural environment.

In connection with its operating activities, the Company is obligated to take into consideration environmental protection requirements in areas it conducts operations, including protection of soil, grasslands, natural shape of terrain and aquatic resources, however so far no circumstances materialised such as would result in significant liabilities for the Company or compensation due to environmental protection.

### 7.4 Employment

The following table presents information about the Company's employment as at 31 December 2016.

Table. Employment at 31 December 2016

Employment contract	18
Contract of mandate	2
Contract for specific work	0
White collar workers	18
Blue collar workers	0
Women	15
Men	3

### 7.5 Achievements in research and development

Given the nature of its business, the Company is not engaged in any substantial R&D work.

### 7.6 Support for educational and sporting activities

The Company pursues its business mission and growth strategy with consideration given to the needs and expectations of various stakeholder groups. The Company pursues these objectives not only on a strictly business basis but also through organising and supporting educational and sporting initiatives. The Company is aware of its impact on the local market and the necessity to be involved in a number of non-business areas.

In 2016, the Company was sponsor for the first edition of Rowerowy Maj 2016 cycling event in Lublin. This initiative was intended to promote a healthy lifestyle and bike-based transportation amongst students. As a sponsor of one of the key prizes, the Company paid for three bicycle parking spots for schools that received the most points.



Akcja Rowerowy Maj - Lublin



## **8 Statement by the Management Board of WIKANA S.A.**

### **8.1 Statement by the Management Board of WIKANA S.A. on accuracy of the financial statements**

The Management Board of WIKANA S.A. declares that, to the best of its knowledge, the annual separate financial statements of WIKANA S.A. for 2016 and comparative data were prepared in accordance with the binding accounting principles and they present WIKANA S.A.'s financial situation, asset position and financial results in a credible, reliable and transparent manner.

The Management Board of WIKANA S.A. further declares that the annual management report on WIKANA S.A.'s operations contains an accurate depiction of WIKANA S.A.'s development, achievements and situation, including a description of the main threats and risks.

### **8.2 Statement by the Management Board of WIKANA S.A. on the entity authorised to audit financial statements**

The Management Board of WIKANA S.A. declares that the entity authorised to audit financial statements, which audited WIKANA S.A.'s separate financial statements for 2016, was selected in accordance with the law. The Management Board of WIKANA S.A. further declares that this entity and its statutory auditors performing the audit met the conditions to issue an impartial and independent opinion on the audited annual consolidated financial statements in accordance with the existing regulations and professional standards.

***Robert Pydzik***

/President of the Management Board/

***Agnieszka Maliszewska***

/Member of the Management Board/

**Lublin, 31 March 2017**