

Management report on WIKANA S.A.'s operations in 2015



Lublin, 21 March 2016

Contents:

1 Introduction.....	4
1.1 Key information about WIKANA S.A.....	4
1.2 Key events in 2015.....	4
2 Key information about WIKANA S.A.....	4
2.1 Description of WIKANA S.A.....	4
2.2 Description of organisational and management changes at WIKANA S.A.....	7
3 Description of WIKANA S.A.'s operations.....	7
3.1 Description of key products and services.....	7
3.2 Sales markets.....	7
3.3 Supply markets.....	8
3.4 Information on significant agreements.....	8
3.4.1 Agreements and transactions in operating activities.....	8
3.4.2 Credit and loan agreements.....	8
3.4.3 Transactions with related parties executed on conditions other than market conditions.....	10
3.4.4 Sureties and guarantees.....	10
3.4.5 Agreements concerning insurance, collaboration or cooperation, agreements executed between shareholders and bondholders.....	10
3.4.6 Significant agreements and transactions after the end of the financial year.....	10
4 WIKANA S.A.'s financial situation	10
4.1 Discussion of financial situation.....	10
4.2 Use of proceeds from securities issues.....	12
4.3 Significant off-balance-sheet items.....	12
4.4 Financial forecasts.....	12
4.5 Rules for preparing financial statements and basis for publication.....	12
5 Growth perspectives for WIKANA S.A., risks and threats.....	12
5.1 WIKANA S.A.'s strategy.....	12
5.2 Growth perspectives and factors.....	13
5.3 Operational risk.....	13
Managing financial risk.....	13
6 Statement on application of corporate governance standards.....	20
6.1 Corporate governance standards applied.....	20
6.2 Internal control and risk management system.....	21
6.3 Shares and shareholders.....	22
6.3.1 Share capital structure.....	22
6.3.2 Own shares.....	22
6.3.3 Shareholding structure.....	23
6.3.4 List of shares of Group entities held by management and supervisory personnel.....	23
6.3.5 Restrictions attached to securities.....	24
6.3.6 System of control of any employee share scheme.....	24
6.4 Special control rights.....	24
6.5 WIKANA S.A. governing bodies.....	24
6.5.1 Management Board.....	24
6.5.2 Supervisory Board.....	27
6.6 Modus operandi of general meetings and the main associated authorisations, along with shareholder rights and the means of exercising them.....	30

6.7 Rules on amending WIKANA S.A.'s articles of association..... 33

7 Other information33

7.1 On-going proceedings in courts, arbitration bodies or public administration authorities..... 33

7.2 Entity authorised to audit financial statements..... 34

7.3 Environmental protection considerations..... 34

7.4 Employment..... 34

7.5 Achievements in research and development..... 35

7.6 Support for educational and sporting activities..... 35

8 Statement by the Management Board of WIKANA S.A.35

8.1 Statement by the Management Board of WIKANA S.A. on accuracy of the financial statements..... 35

8.2 Statement by the Management Board of WIKANA S.A. on the entity authorised to audit financial statements..... 35

1 Introduction

1.1 Key information about WIKANA S.A.

WIKANA S.A., based in Lublin, ("Company") is the parent of WIKANA Group ("Group"), one of the largest property developers in south-eastern Poland, and has been listed on the Warsaw Stock Exchange since 1997. Aside from its core property development activities, consisting of preparing property development projects using its own land bank, to be developed by special purpose vehicles, the Company also provides services to Group companies, including management and accounting.

1.2 Key events in 2015

Significant events taking place 2015:

- appointment of Jakub Leonkiewicz to the Company's Supervisory Board (current report 6/2015);
- resignation of Tomasz Filipiak from the Company's Supervisory Board (current report 7/2015);
- appointment of Robert Buchajski to the Company's Supervisory Board (current report 10/2015);
- sale of two properties located in Lublin for PLN 4 156 000.00 net (current report 12/2015);
- appointment of the Company's Management Board for a new term (current report 16/2015);
- early redemption of the Company's series A bonds (current report 26/2015);
- resignation of Robert Buchajski from the Company's Supervisory Board (current report 32/2015).

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:

- **WIKANA BIOENERGIA Sp. z o.o.** - operates in the Lublin Province in the renewable energy sector; is general partner in WIKANA BIOENERGIA Sp. z o.o. 01 S.K.A., which operates in the production and trade of energy from renewable sources and whose sole shareholder is the Company.
- **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 NIERUCHOMOŚCI Sp. z o.o. w likwidacji** - involved in preparing investments; on 30 September 2014, the relevant register court entered into WIKANA NIERUCHOMOŚCI Sp. z o.o.'s registry information regarding commencement of liquidation proceedings; at the date on which this report was prepared, WIKANA NIERUCHOMOŚCI Sp. z o.o. w likwidacji 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.)
- **Multiserwis S.A.** - until 31 December 2015, it was involved in retail footwear sales; after the reporting period, in connection with a process to limit this company's activities, a decision was made to begin its dissolution.

Towarzystwo Budownictwa Społecznego „Nasz Dom” Sp. z o.o. (formerly: Towarzystwo Budownictwa Społecznego „Wikana” Sp. z o.o.) - provides property management services - for both its own properties and those commissioned by housing cooperatives.

- **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, WIKANA PROPERTY Sp. z o.o. was general partner in the following companies, formed to carry out property development projects:
 - WIKANA PROPERTY Sp. z o.o. ACER S.K.A.
 - WIKANA PROPERTY Sp. z o.o. ALBA S.K.A.
 - 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 S.K.A.
 - 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 S.K.A.

- WIKANA PROPERTY Sp. z o.o. KROSNO S.K.A.
 - WIKANA PROPERTY 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 S.K.A.
 - WIKANA PROPERTY Sp. z o.o. SALIX S.K.A.
 - WIKANA PROPERTY Sp. z o.o. ZIELONE TARASY S.K.A.
 - WIKANA PROPERTY Sp. z o.o. 03 MIASTECZKO S.K.A.
 - WIKANA PROPERTY Sp. z o.o. 04 OSIEDLE S.K.A.
- **WIKANA MERITUM Sp. z o.o.** - formed on 5 December 2014, 100% of shares acquired by the Company; at the date on which this report was prepared, WIKANA MERITUM Sp. z o.o. was general partner in the following companies:
- WIKANA MERITUM Sp. z o.o. ALFA S.K.A. (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 S.K.A. (formerly: WIKANA PROPERTY Sp. z o.o. MAGNOLIA S.K.A.);
 - 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 S.K.A. (formerly: WIKANA PROPERTY Sp. z o.o. SIGMA S.K.A.).
- **WIKANA MANAGEMENT Sp. z o.o.** - 100% of shares, initially acquired by the Company, was assigned as collateral for subsidiary WIKANA PROPERTY Sp. z o.o. 04 OSIEDLE S.K.A. (formerly: WIKANA NIERUCHOMOŚCI Sp. z o.o. 04 OSIEDLE S.K.A.).
- **WIKANA PRIM Sp. z o.o.** - company formed on 18 May 2015 under the name PRIM Sp. z o.o.; its name changed to WIKANA PRIM Sp. z o.o. following a sale of shares, initially acquired by Multiserwis S.A., to WIKANA S.A.; at the date on which this report was prepared, the company was general partner of WIKANA PRIM Sp. z o.o. BETA S.K.A.

At the same time, the Company notes that 50% of shares in:

- 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.;

were assigned as collateral for a bondholder in connection with the series B bond issue by WIKANA MERITUM Sp. z o.o. CORYLUS S.K.A., based in Lublin.

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

Furthermore, the Company holds 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. At the date on which this report was prepared, WIKANA FIZ held 100% of shares in the following WIKANA Group companies, which are also subject to consolidation:

- ZIELONE TARASY S.A.;
- 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.).

The Company has no branches or locations.

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

A restructuring process initiated in 2014 at the Company and Group was continued in 2015.

3 Description of WIKANA S.A.'s operations

3.1 Description of key products and services

The Group's main economic activity is property development - from land procurement, through construction permit acquisition and investment supervision, to delivery of apartments to buyers. The Group's investment projects are carried out by special purpose vehicles, i.e. subsidiaries established for the purpose of executing specific investment projects. In addition, the Company provides services, including management and accounting, to other Wikana Group companies.

3.2 Sales markets

Aside from 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 also involved in holding-company activities, particularly as regards provision of services to other Group companies, as well as executing transactions to buy and sell property.

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

In the coming years, relations between suppliers and the Group's subsidiaries, through which the Company increasingly carries out operations, will become of more significance.

The sole customer from outside the Group that in 2015 accounted for more than 10% of the Company's revenue was an entity with which the Company executed a property sales agreement, described in point 1.2 of this report. This entity was CRH ŻAGIEL DOM Sp. z o.o., with which the Issuer has no personal or capital links.

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 companies. In none of these instances is it dependent on external entities.

In 2015, 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

The Company's Management Board considers as a significant operating agreement executed by the Company in 2015 an agreement to sell two properties located in Lublin for PLN 4 156 000 net (details: current report 12/2015).

As for the rest of its activities in 2015, 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 2015, the Company neither executed new credit agreements nor terminated existing ones. The table below presents existing credit agreements as at the end of 2015.

Borrowings by type	31 Dec 2015
in PLN 000s	
Credit facilities	-
Loans	20 049
including:	
Short-term part	6 861
Long-term part	13 188

Long-term borrowings with repayment period from the balance sheet date	31 Dec 2015
in PLN 000s	
up to 12 months	6 861
from 1 to 3 years	0
from 3 to 5 years	13 188
over 5 years	0
Total borrowings	20 049
	31 Dec 2015
Borrowings (currency structure)	
in PLN 000s	
in PLN	20 049
in foreign currencies	0
Total borrowings	20 049

- **List of loans**

The table below presents loans made to Group companies as at the end of 2015.

Lender	Agreement date	Issued amount in PLN 000s	Amount of liability in PLN 000s	Repayment date	Interest
Agnieszka Buchajska	05.07.2013	300	361	31.12.2016	Variable
Renale Management Limited	13.09.2013	3 530	3 196	31.12.2016	Variable
	04.03.2014	150	165	31.03.2016	Variable
Ipnihome Limited	30.10.2012	1 300	1 146	31.12.2016	Variable
	04.03.2014	100	110	31.03.2016	Variable
Sanwil Holding S.A.	21.11.2013	700	794	31.01.2017	Variable
	03.07.2013	357	414	31.12.2016	Variable
AGIO RB FIZ	13.09.2014	6 040	456	30.06.2016	Variable
Other		219	219		
Total		12 696	6 861		

In 2015, the Company issued loans to Group companies as part of the Group's liquidity management process.

In 2015, 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 6.33 of the separate financial statements.

3.4.3 Transactions with related parties executed on conditions other than market conditions

In financial year 2015 and until the date on which this report was prepared, no transactions were executed with related parties on conditions other than market conditions.

3.4.4 Sureties and guarantees

In 2015, the Company neither received nor issued sureties and guarantees for the liabilities of entities from outside the Group.

Information on sureties and guarantees is presented in note 6.31 of the separate financial statements.

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 2015, the Company posted a PLN 3 159 000 net loss. Net revenue from sales was PLN 16 513 000. It should be noted that the Company's Management Board, appointed by the Supervisory Board in 2014, decided to carry out detailed analysis of the Company's finances and adopted accounting policy, and to introduce amendments to the latter. These changes were aimed at ensuring full transparency of data in the financial statements, presenting them in a clear and understandable manner not only for professional analysts and institutional investors but also so that they constitute a useful source of information for retail investors. Moreover, in 2014 the Company's Management Board launched a restructuring programme at the Group, which was implemented in 2014 and 2015.

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 2015, the total amount of the Company's liabilities due to be repaid in 2016 (i.e. current liabilities), excluding current provisions, was PLN 21 899 000. This item mainly comprises borrowings and trade payables. Within the total of PLN 22 965 000 in current liabilities, the Company will actually have to repay up to PLN 21 829 000, i.e. after subtracting the amount of provisions and deferred revenue, which according to the accounting methodology for development projects (as specified in IAS 18), will be recognised in revenue from the sale of apartments after delivery to clients. Repayment of these liabilities towards apartment buyers would be necessary in the event of non-performance of the executed apartment sales agreements, e.g. as a result of discontinuing or major delays in construction, which according to the Management Board may be definitely excluded.

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

- proceeds from new sale agreements concerning apartments, parking spaces, storage rooms and service units introduced to the Company's offering in 2015,
- proceeds from payments under sales agreements concerning apartments, parking spaces, storage spaces and service facilities in on-going development projects, which were executed prior to 31 December 2015 - and which will be made by clients in accordance with the timetables specified in such agreements,
- excess cash raised from transactions with subsidiaries within Wikana Group. Given the fact that the Company's debt, including mostly liabilities on issue of bonds, 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.

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, thanks in part to the restructuring activities implemented in 2014 and 2015 and intensification of apartment sales, there is no threat to the Company's continuing operations over a period of 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.

The Company finances its investments mainly using proceeds from bond issues, as well as borrowings, advance from clients and own funds. Depending on the investment objectives, it arranges adequate sources of finance. The Company has full capacity to fulfil its investment

objectives. Also of significance is the financing provided by banks/bondholders to the Company's subsidiaries.

According to the Company's Management Board, an atypical event that took place in 2015 was execution of an agreement to sell two properties located in Lublin, as discussed in point 1.2 of this report, however this did not have material impact on the Company's operating results in 2015.

4.2 Use of proceeds from securities issues

In 2015, the Company did not issue shares or bonds.

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 2015.

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 2015 contains the information required by par 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 2015 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 par 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 Company's land,
- Consistent increase in apartment sales volumes, alongside margin growth,
- Reinforcement of the Company's position on the markets in which it is present,

- Adaptation of the product portfolio to market needs and project schedule to current and expected 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,
- Increasing client trust for the WIKANA brand,
- Adapting the organisational structure and employment to the expected operational scale,
- Further optimisation of administrative expenses,
- Expansion of the land bank, correlating expenditure with the expected needs of the Company and Group.

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 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.

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**

The Company has agreements with contractors and 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 Company 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**

The Company's property projects 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**

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 shutdown 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 an increase in 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 Company's projects are being executed in: Lublin, Zamość and Rzeszów. 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 with 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 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 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 is using, or plans to use, for investments, are not covered by valid spatial development plans, making 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 (Polish Journal of Laws of 2009 no. 33, item 259, as amended), and complying with the responsibilities resulting from Resolution No. 1013/2007 of the Management Board of Giełda Papierów Wartościowych w Warszawie S.A. (the "WSE") of 11 December 2007 on establishing the scope and structure of reports on application of corporate governance standards by listed companies in connection with § 2 of Resolution No. 1014/2007 of the Management Board of the WSE of 11 December 2007 on partial waiver of the requirement to publish reports on application of corporate governance standards effective on the WSE's main market and in connection with § 2 of Resolution No. 718/2009 of the Management Board of the WSE of 16 December 2009 on disclosure by listed companies of reports on application of corporate governance standards, and based on art. 49 sec. 2 point 8 of the Accounting Act of 29 September 1994, the Management Board of WIKANA S.A., based in Lublin, provides hereby a declaration on application of corporate governance standards at the Company in 2015, which contains the information that are required by the above regulations.

6.1 Corporate governance standards applied

In 2015, WIKANA S.A., based in Lublin (the "Company") - as a listed company - was subject to corporate governance standards contained in an Annex to WSE Council's Resolution No. 19/1307/2012 "Best Practices of WSE-Listed Companies" (the "Best Practices"), adopted on 21 November 2012 by the WSE's Council.

The content of this document is available at the WSE's corporate governance website (https://www.gpw.pl/lad_korporacyjny_na_gpw).

WIKANA S.A. makes every effort to apply the corporate governance standards outlined in "Best Practices of WSE-Listed Companies."

Across all of its operations, the Company 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.

In 2015, the Issuer did not (fully or in part) apply the following corporate governance standards:

1) As regards part II of "Best Practices of WSE-Listed Companies," in reference to rule 1.9a), part II of "Best Practices of WSE-Listed Companies" which states as follows:

"The company maintains a corporate website and publishes, aside from the legally-required information, minutes from general meetings, in audio or video format."

According to the Company, performance of information obligations in accordance with the binding provisions of law, in particular by publishing the relevant current reports and placing the relevant information on its website, ensures that shareholders have access to all material information concerning general meetings.

The Company's decision not to apply the above rule was communicated via current report EBI 1/2015 of 30 January 2015.

2) As regards part IV of "Best Practices of WSE-Listed Companies," in reference to principle 10 from part IV of "Best Practices of WSE-Listed Companies," point 10, which states as follows:

"The company should ensure that shareholders may participate in general meetings using electronic means of communications, which consist of: 1) real-time transmission of general meetings, 2) two-way communications in real time, whereby shareholders may make verbal statements during the general meetings from another location."

According to the Issuer, application of the above principle carries risk of a technical, as well as legal, nature, which may 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.

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 2015, 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., 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

On 26 November 2015, in a regular transaction on the Warsaw Stock Exchange, the Company

sold all of its own shares (i.e. 293), which were purchased by the Company pursuant to an authorisation contained in Resolution 9/XI/2014 of the Company's Extraordinary General Meeting on 5 November 2015 in order to round up fractional shares ("Resolution"). The shares were sold in order to round up fractional shares under the Resolution after receiving a positive opinion from the Company's Supervisory Board. The shares constituted 0.0015% of the Company's share capital and entitled to 293 votes at the General Meeting.

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

At 31 December 2015, the Company had three shareholdings directly or indirectly controlling over 5% of the Company's shares, i.e.:

- **AGIO RB FIZ, based in Warsaw**, with 6 320 124 shares of WIKANA S.A., constituting 31.58% of the Company's share capital and entitling to 6 320 124 votes at the Company's General Meeting, which constituted 31.58% of total votes;
- **Ipnihome Limited, based in Larnaca**, with 4 935 222 shares of WIKANA S.A., constituting 24.66% of the Company's share capital and entitling to 4 935 222 votes at the Company's General Meeting, which constituted 24.66% of total votes;
- **Dekra Holdings Limited, based in Larnaca**, with 3 027 026 shares of WIKANA S.A., constituting 15.12% of the Company's share capital and entitling to 3 027 026 votes at the Company's General Meeting, which constituted 15.12% of total votes;

Table. Major shareholdings at 31 December 2015

Shareholder	Number of shares / votes	Share in capital / votes
AGIO RB FIZ	6 320 124	31.58%
Ipnihome Limited*	4 935 222	24.66%
Dekra Holdings Limited	3 027 026	15.12%
Other	5 732 425	28.64%

* entity controlled by Adam Buchajski (aggregate number of shares owned directly and indirectly by Adam Buchajski: 5 460 037, entitling to 5 460 037 votes at the Company's general meeting and constituting a 27.78% share of capital/votes).

The Company's shareholding structure did not change neither in the period from publication of the most recent quarterly report, i.e. 13 November 2015, nor during the entire financial year 2015.

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.

	TOTAL NUMBER OF SHARES	TOTAL NOMINAL VALUE
COMPANY	WIKANA S.A.	
MANAGEMENT BOARD	0	0
SUPERVISORY BOARD, including:	6 055 322	12 110 644
BUCHAJSKI ADAM*	5 460 037	10 920 074
BUCHAJSKA AGNIESZKA**	595 285	1 190 570
TOTAL:	6 055 322	12 110 644
* total shareholding, i.e. directly and indirectly via an entity controlled by Adam Buchajski;		
* total shareholding, i.e. directly and indirectly via an entity controlled by Agnieszka Buchajska;		

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 2015, 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 2015, the Company's Management Board comprised two people:

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

On 11 June 2015, acting pursuant to art. 338 § 2 and 3 of the Polish Commercial Companies Code and § 29 sec. 2 of the Company's Articles of Association and art. 368 § 4 of the Polish Commercial Companies Code as well as § 31 and § 33 sec. 1 of the Company's Articles of Association, the Company's Supervisory Board adopted a resolution on the appointment of the Company's Management Board for a subsequent term, running from 2015 to 2018. The resolution, which entered into force on 30 June 2015 after approval of the Company's financial statements for 2014 by the Ordinary General Meeting, confirmed the structure and composition of the Management Board, effective from 1 January 2015.

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.

The Management Board Regulations are published on the Company's website, which fulfils principle 1 in part II of "Best Practices of WSE-Listed Companies" (the Company maintains a corporate website and publishes legally-required information: 1) main corporate documents, in particular the articles of association and regulations of the company's authorities).

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

in PLN 000s	1 Jan 2015	31 Dec 2015
-------------	------------	-------------

Robert Pydzik	24
Agnieszka Maliszewska	24

Management Board remuneration	48
--------------------------------------	-----------

Management Board remuneration for serving on the management board or supervisory board of subsidiaries

in PLN 000s	1 Jan 2015	31 Dec 2015
-------------	------------	-------------

Robert Pydzik	97
Agnieszka Maliszewska	72

Management Board remuneration	169
--------------------------------------	------------

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

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 2015, the structure and composition of the Company's Supervisory Board was subject to the following changes:

- on 16 February 2015, 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 Jakub Leonkiewicz as Supervisory Board member,
- on 17 February 2015, Tomasz Filipiak resigned as member of the Supervisory Board,
- on 17 March 2015, 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 Robert Buchajski as Supervisory Board member,
- on 12 November 2015, Robert Buchajski resigned as member of 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,
- Agnieszka Buchajska - Member of the Supervisory Board,
- Tomasz Dukała - Member of the Supervisory Board,
- Jakub Leonkiewicz - 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 1 points 1 and 2 in part III of "Best Practices of WSE-Listed Companies," the Supervisory Board on 2 June 2015 prepared and approved the WIKANA S.A. Supervisory Board Report for 2014, 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 29 June 2015.

In addition, pursuant to principle 1 point 3 in part III of "Best Practices of WSE-Listed Companies," 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, and to this end a

Supervisory Board meeting was held on 11 June 2015, while other opinions on resolutions were obtained by circulation.

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 Supervisory Board Regulations (available on the Company's website), which fulfils principle 1 in part II of "Best Practices of WSE-Listed Companies" (the Company maintains a corporate website and publishes, in addition to legally-required information, the following: 1) main corporate documents, in particular the articles of association and regulations of the company's authorities).

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. With the appointment of Robert Buchajski, the composition of the Company's Supervisory Board exceeded five people, hence an Audit Committee was convened, composed of the following:

- Krzysztof Misiak;
- Robert Buchajski;
- Jakub Leonkiewicz.

In connection with Robert Buchajski's resignation, the Company's Supervisory Board returned to a five-person composition, therefore in line with its regulations it passed a resolution on dissolution of the Audit Committee and transfer of its tasks to the Supervisory Board.

6.5.2.4 Supervisory Board remuneration

in PLN 000s	1 Jan 2015
	31 Dec 2015
Agnieszka Buchajska	51
Adam Buchajski	30
Tomasz Filipiak	4
Tomasz Dukała	30
Krzysztof Misiak	30
Robert Buchajski	34
Jakub Leonkiewicz	26
Supervisory Board remuneration	205

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.

Both the Company's Articles of Association and the General Meeting Regulations are published on the Company's website, which fulfils principle 1 in part II of "Best Practices of WSE-Listed Companies" (the Company maintains a corporate website and publishes legally-required information: 1) main corporate documents, in particular the articles of association and regulations of the company's authorities).

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.

In accordance with principle 1 point 3 of part III 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. A negative opinion or a lack of opinion from the supervisory board does not constitute a hindrance in adopting a resolution by the general meeting.

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 2015.

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.

General meetings have been taking place at the Company's registered office in Lublin or at the Management Board office, which fulfils principle 7 in part II of "Best Practices of WSE-Listed Companies" (the company establishes the location and date of the general meeting in a manner that allows the largest possible number of shareholders to participate).

General Meetings were attended by at least one Management Board member, who was prepared to provide technical responses to questions posed during the meeting, which is in compliance with principle 6 in part II of "Best Practices of WSE-Listed Companies" (management board members should participate in general meetings so as to facilitate provision of technical answers to questions posed during the general meeting).

In addition, invited to the General Meetings were members of the Company's Supervisory Board, which is in compliance with principle 3 in part III of "Best Practices of WSE-Listed Companies" (supervisory 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 On-going proceedings in courts, arbitration bodies or public administration authorities

According to the Company's best knowledge, on the date on which this report was prepared, the Company and its subsidiaries were parties to on-going proceedings in court, arbitration body or public administration authority in aggregate worth PLN 11 008 661.11, of which:

- PLN 4 296 741.89 constituted the total value of proceedings concerning receivables due to the Company and its subsidiaries. The highest-value proceeding was instigated by Wikana S.A. 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 4 188 951.46. The claim is viewed as justified.
- PLN 6 711 919.22 constituted the total value of proceedings concerning the Company's and its subsidiaries' liabilities. The largest item in this group is a lawsuit received on 30 January 2015 by WIKANA PROPERTY Sp. z o.o. 02 SKA, based in Lublin, and WIKANA NIERUCHOMOŚCI Sp. z o.o. w likwidacji, based in Lublin, for payment of the following amount: PLN 2 544 994.00 to a natural person carrying out economic activities (the Issuer is not disclosing details of the claimant due to personal data protection regulations). 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 2015 is BDO Sp. z o.o., with which the Company executed an agreement on 15 June 2015.

Fees for the tasks carried out in 2015 are as follows:

- 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 entity authorised to audit the Company's financial statements for 2014 received the following fees:

- PLN 60 000 for audit of the Company's separate financial statements for 2014,
- PLN 45 000 for audit of the Group's consolidated financial statements for 2014,
- PLN 42 000 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 2015.

Table. Employment at 31 December 2015

Employment contract	20
Contract of mandate	3
Contract for specific work	0
White collar workers	20
Blue collar workers	0
Women	16
Men	4

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 2015, the Company ceased being the name sponsor for the men's basketball team WIKANA START S.A. 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, WIKANA S.A.'s separate financial statements for 2015 and comparative data are prepared in accordance with International Accounting Standards and International Financial Reporting Standards, as approved by the EU, i.e. in compliance with the existing accounting principles, and that they fairly, reliably and clearly present WIKANA S.A.'s asset position and financial results. The annual management report on WIKANA S.A.'s operations contains an accurate depiction of the Company'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 2015, was selected in accordance with the law. The entity and its statutory auditors performing the audit met the

conditions to issue an impartial and independent opinion on the audited annual separate 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, 21 March 2016