Management report on WIKANA Group's operations

for the period 01.01.2016-30.06.2016

Lublin, 31 August 2016

CONTENTS:

1. Rules for preparing interim financial statements

The condensed interim financial statements cover the six-month period ended 30 June 2016.

The presented condensed interim financial statements are in compliance with IAS 34 Interim Financial Reporting, a standard relating to interim financial statements, and do not contain all of the information that is applicable to annual financial statements. The condensed interim financial statements should be read in conjunction with the annual financial statements (consolidated and separate, respectively).

The condensed consolidated interim financial statements of Wikana Group ("Group") are published together with the condensed separate interim financial statements. To obtain a complete understanding of the issuer's results and financial situation, the condensed separate interim financial statements of WIKANA S.A. ("Issuer," "Parent," "Company") should be read in conjunction with the Group's condensed consolidated interim financial statements.

Preparing financial statements in compliance with IFRS requires the use of certain critical accounting estimates. It also requires the Company's Management Board to apply own judgement in using the Group's adopted accounting principles. Matters that require a higher dose of judgement, more complex matters or those involving assumptions and estimates that are significant from the viewpoint of the financial statements did not change in relation to the previous year-end.

The condensed consolidated interim financial statements are prepared on the assumption that the Company and the Group will continue operating as a going concern for at least 12 months from the end of the reporting period.

During the reporting period and until the date on which the financial statements were prepared, there were no indications of a threat to continuing operations.

2. INFORMATION ABOUT THE GROUP

2.1. Description of the Group

WIKANA Group is one of the largest property developers in south-eastern Poland. To date, the Group has delivered over 2 100 residential units, with total area exceeding 121 000 sqm. The main object of the Group's companies is property development activities - construction and sale of residential properties. Property development projects are usually carried out through special purpose vehicles, construction is done in a general contractor system, commissioned to specialised external construction companies, while sales of residential units are largely through own sales offices.

In addition, the Company provides services, including management and accounting, to other Wikana Group companies.

The Group also has a renewable energy segment where it produces four main products: renewable energy, heating energy, green certificates and yellow certificates. Furthermore, companies in the renewables segment provide waste recovery services according to the R3 procedure as well as research and development.

The economic activities of Group companies also include the activities of head offices and holdings, except of financial holdings, accounting and bookkeeping, management of real estate on a fee or contract basis, renting of real estate and commissioned management of real estate.

As at the date of these financial statements, Wikana Group consisted of the following entities:

1. **Parent:**

- **WIKANA S.A.** - its core business is property development, consisting of preparing property development projects using its own land bank, to be developed by special purpose vehicles, and management of the Group as well as provision of services to Group companies.

2. **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.** - company that is the general partner in WIKANA FORTEM Sp. z o.o. ACER S.K. (formerly: WIKANA PROPERTY Sp. z o.o. ACER S.K., formerly: 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.** - 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 S.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. ALFA S.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 S.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 S.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.) - company whose 100% of shares had been acquired by Multiserwis S.A., based in Warsaw. On 6 November 2015, 100% of this company's shares were sold to the Parent. At the date on which this report was prepared, the company was general partner in WIKANA PRIM Sp. z o.o. BETA S.K.A. (formerly: 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, 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. 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 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. (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 S.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 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 - for both its own properties and those commissioned by housing cooperatives
- **ZIELONE TARASY S.A.** - company operating in the renewables segment; on 27 April 2016, 100% of this company's shares, which previously belonged to WIKANA FIZ, based in Warsaw, were sold to the Company

All of the above subsidiaries are subject to full consolidation.

Furthermore, as of 30 June 2016, the Parent held 100% of investment certificates in WIKANA FIZ, based in Warsaw ("WIKANA FIZ"), represented by Copernicus Capital TFI S.A. At the date on which this report was prepared, WIKANA FIZ was undergoing liquidation.

2.2. Share capital

At 30 June 2016 and the date on which this report was prepared, the Company's share capital amounted to PLN 40 029 594.00 and was divided into:

- 16 766 559 series G shares with a nominal value of PLN 2.00 each.
- 3 248 238 series H shares with a nominal value of PLN 2.00 each.

During the reporting period and until this report was published, neither the amount nor the structure of the Company's share capital changed.

2.3. Composition of WIKANA S.A.'s Management Board and Supervisory Board

a) Management Board

During the reporting period and until this report was published, neither the structure nor the composition of the Company's Management Board changed. At the date of this report, the composition of the Company's Management Board was as follows:

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

b) Supervisory Board

During the reporting period, composition of the Company's Supervisory Board was subject to the following changes:

- On 29 June 2016, Agnieszka Buchajska resigned on 30 June 2016 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 Dukała 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,
- Jakub Leonkiewicz - Member of the Supervisory Board,
- Maciej Węgorkiewicz - Member of the Supervisory Board.

2.4. Changes in Group structure and impact on Group operations

Changes in Group structure that took place in H1 2016 and until the date on which this report was prepared are as follows:

- return transfer of ownership of shares in selected Group companies that were assigned as collateral for a bondholder in connection with a series B bond issue by WIKANA MERITUM Sp. z o.o. CORYLUS S.K.A., based in Lublin.
- transfer to the Company of 100% of shares in three entities from the Group, which had been subsidiaries of the Company via WIKANA FIZ,
- dissolution of WIKANA FIZ,
- launch of liquidation proceedings for subsidiary Multiserwis S.A.,
- change in legal form of certain Group companies,

The Company's Management Board notes that the above changes were of a purely organisational nature, connected with the Group's restructuring, initiated in 2014 and aimed at streamlining and improving the Group's effectiveness in accordance with best practices for property developers.

The Company's Management Board also notes that both in the reporting periods as well as until the date on which this report was prepared, the Group was not subject to any of the following changes: business combinations, acquisitions or disposals or loss of control over subsidiaries, except as described above. Moreover, in the period being discussed, no control was lost or gained over long-term investments.

3. Significant events in H1 2016 and until publication of these financial statements

Aside from the arrangement referred to in point 7 of this report, the Company's Management Board considers as a material event taking place in H1 2016 a resolution passed on 18 February 2016 regarding the issue by WIKANA PROPERTY Sp. z o.o. ROSA S.K.A. (currently: WIKANA PROPERTY Sp. z o.o. ROSA S.K.) of up to 5 000 secured de-materialised bearer bonds series A, with total par value of up to PLN 5 000 000; allocation of the bonds took place on 24 February 2016 (details: current reports 6/2016 and 7/2016).

Furthermore, Group companies executed the following agreements in 2016 that the Management Board views as material:

- On 14 January 2016, WIKANA PROPERTY Sp. z o.o. ROSA S.K.A. (currently: WIKANA PROPERTY Sp. z o.o. ROSA S.K.) executed a contract with Przedsiębiorstwo Wielobranżowe DOM PLUS Michał Duda, Jacek Całka S.C. regarding construction services covering the construction of three multi-family residential buildings, together with installations, connections and land development, at ul. Misjonarska 12a in Lublin (details: current report 2/2016),
- On 28 January 2016, WIKANA PROPERTY Sp. z o.o. ACER S.K.A. (currently: WIKANA FORTEM Sp. z o.o. ACER S.K.) executed a construction works agreement with INVEST PARTNER ARKADIUSZ MATUŁA – S.K., concerning development of a subsequent phase of the MIASTECZKO WIKANA investment in Lublin, ul. Kasztelańska, i.e. three sets of residential single-family townhouses, together with installations and land development (details: current report 4/2016),
- On 10 February 2016, WIKANA MERITUM Sp. z o.o. MAGNOLIA S.K.A. (currently: WIKANA MERITUM Sp. z o.o. MAGNOLIA S.K.) executed an agreement with SKANSKA S.A. regarding construction work consisting of the development of B3 multi-family residential building with underground carpark, installations and land development, as part of the Sky House investment in Lublin (details: current report 5/2016),
- On 15 July 2016, WIKANA MERITUM Sp. z o.o. LAMDA S.K.A. executed an agreement with the Company's significant shareholder pursuant to which it incurred a promissory note liability of PLN 7.3 million (details: current report 41/2016),
- On 27 July 2016, WIKANA FORTEM Sp. z o.o. ACER S.K., based in Lublin, executed a construction loan agreement with RAIFFEISEN BANK POLSKA S.A. for up to PLN 8.6 million in liabilities and a VAT loan of up to PLN 0.4 million in liabilities, which was aimed at securing the financing for the Miasteczko Wikana B13 investment in Lublin (details: current report 43/2016),
- on 18 August 2016, WIKANA PRIM Sp. z o.o. BETA S.K.A. executed an agreement with LUBELSKIE PRZEDSIĘBIORSTWO BUDOWLANE Sp. z o.o. concerning comprehensive construction services consisting of the development of a set of residential multi-family buildings with services and closed-off underground parking lot along with essential infrastructure and land management, consisting of buildings A4 and A5, being built in Lublin, in the area of streets Ks. L. Zalewskiego and A.

Słomkowskiego under a subsequent phase of the Osiedle Marina investment (details: current report 45/2016),

- On 18 August 2016, WIKANA PROPERTY Sp. z o.o. JOTA S.K.A. executed an agreement with REM Sp. z o.o. concerning comprehensive construction services consisting of the development of residential multi-family building A together with underground parking lot and land management as first phase of the Nova Targowa investment in Tarnobrzeg, ul. Targowa (details: current report 46/2016),
- On 29 August 2016, WIKANA PROPERTY Sp. z o.o. BETULA S.K.A. executed an agreement with "ST INVEST" Zbigniew Tarłowski, Karol Szczech s.c., concerning construction services connected with the development of residential multi-family building B and land management under phase II of the Klonowy Park investment in Janów Lubelski (details: current report 47/2016).

Furthermore, on 31 March 2016, WIKANA PROPERTY Sp. z o.o. KROSNO S.K.A. executed an annex to an agreement pursuant to which it incurred a promissory note obligation of PLN 4 200 000, changing the promissory note redemption date from 31 March 2016, to 31 December 2016. (details: current report 8/2016).

4. Shareholders with at least 5% of voting rights at WIKANA S.A.'s general meeting

Presented in the table below are shareholders with at least 5% of votes at the Company's general meeting, directly or indirectly, as at the publication date for this report.

Table: **Major shareholdings at publication of this report**

Shareholder	Number of shares	Number of votes at GM	Nominal value per share	Stake in share capital	Stake in GM votes
Sarmira Limited*	6 880 260	6 880 260	13 760 520	34.38%	34.38%
MWM Investments Limited*	6 320 124	6 320 124	12 640 248	31.58%	31.58%
Palametra Holdings Limited**	1 612 000	1 612 000	3 224 000	8.05%	8.05%
Other entities	5 202 413	5 202 413	10 404 826	25.99%	25.99%
TOTAL:	**20 014 797**	**20 014 797**	**40 029 594**	**100.00%**	**100.00%**

(*) as per shareholder information dated 25 April 2016 Subsidiary of VALUE FIZ z Wydzielonym Subfunduszem 1, based in Warsaw. The total shareholding of VALUE FIZ z Wydzielonym Subfunduszem 1 is 13 200 384 shares, constituting 65.95% of the Company's share capital.

(**) as per shareholder information dated 25 April 2016

Changes in WIKANA S.A.'s shareholding structure during and after the reporting period

In the period from publication of the preceding quarterly report, i.e. 13 May 2016, to the date on which this report was published, the Company's shareholding structure did not significantly change.

On 26 July 2016, pursuant to art. 73 sec. 2 point 1) of the Act on Public Offerings of 29 July 2005, a tender offer was announced by Value Fundusz Inwestycyjny Zamknięty Subfundusz 1, based in Warsaw, to subscribe for the sale of 9 382 shares of the Company. The subscription acceptance period was 17-31 August 2016.

Dividends paid

During the period 1 January - 30 June 2016 and until this report was published, none of the Group's companies, including the Parent, paid a dividend.

5. Shareholding by Management Board and Supervisory Board members

The following table presents shareholdings by Management Board and Supervisory Board members at the date on which this report was published:

Table: The following table presents the number of shares in WIKANA S.A. held by members of the Management Board and Supervisory Board.

	NUMBER OF SHARES/VOTES	NOMINAL VALUE	SHARE IN CAPITAL/VOTES (%)
MANAGEMENT BOARD	**0**	**0**	**0**
SUPERVISORY BOARD, including:	**524 815**	**1 049 630**	**2.62**
BUCHAJSKI ADAM	524 815	1 049 630	2.62
TOTAL:	**524 815**	**1 049 630**	**2.62**

Members of the Management Board and Supervisory Board hold no special rights to the Issuer's shares.

During the period from when the last quarterly report was published, i.e. 13 May 2016, no changes in shares and rights to shares held by Management Board and Supervisory Board members took place.

6. Management's views on previously published guidance for H1 2016

The Company's Management Board does not publish financial forecasts for the Parent or for the Group.

7. 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 8 341 000, of which:

- PLN 4 326 000 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 suit company of PLN 4 189 000. The claim is viewed as justified.

- PLN 4 015 000 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 WIKANA S.A., based in Lublin, 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.

The Company's Management Board also points to the arrangement executed on 18 July 2016 between WIKANA NIERUCHOMOŚCI Sp. z o.o. w likwidacji 02 S.K.A. and WIKANA NIERUCHOMOŚCI Sp. z o.o. w likwidacji and a natural person running a business pursuant to which the above companies committed to paying, in instalments, PLN 516 000 to that person as fee for construction services.

8. Significant related-party transactions executed by Group companies on terms other than market terms

In the first half of 2016 and from 30 June 2016 to the date on which this document was prepared, no related-party transactions were executed on terms other than market terms.

9. Information on credit or loan sureties and guarantees issued

In the first half of 2016 and from 30 June 2016 to the date on which this document was prepared, Group companies neither received nor issued sureties and guarantees for the liabilities of entities from outside the Group.

10. Significant information regarding Company and Group activities

During the period ended 30 June 2016, Group companies continued their statutory activities.

As at 30 June 2016, total Group liabilities due and payable within the next 12 months (i.e. current liabilities) and current provisions amounted to PLN 98 152 000. This item mainly consists of credit facilities, financial leases, bonds, trade payables and deferred revenue (the PLN 13 724 000 in deferred revenue corresponds to the amounts paid by clients based on apartment purchase agreements in completed and on-going development projects). Within the total of PLN 99 045 000 in current liabilities, the company will actually have to repay up to PLN 85 321 000, 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. The 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 should definitely be excluded.

In the first six months of 2016 and until the date on which this document was drafted, the Group achieved the following tasks related to property development projects:

- the Group executed contracts for the construction of the following property development projects: building B3 in the Sky House investment in Lublin, building Misjonarska 12 in Lublin, 13th task (MW B13) in the Miasteczko Wikana investment in Lublin, building A4 and A5 in the Osiedle Marina investment, building A as first phase of the Nova Targowa investment in Tarnobrzeg and building B in Janów Lubelski as second phase of the Klonowy Park investment;
- preparations for commencement of further development projects located in the Lublin and Sub-Carpathian voivodships.

As at 30 June 2016, the Group's offering included property development projects totalling 247 flats, of which 218 were under construction.

Rent income (renting of real estate segment) in the first six months of 2016 was PLN 4 028 000, of which PLN 3 972 000 constituted rent income under continuing operations.

From 1 January to 30 June 2016, the Group's renewables segment generated PLN 741 000 in revenue.

As a result of the above, the Group generated PLN 22 463 000 in revenue during the reporting period, compared to PLN 29 368 000 in the comparative period. At the same time, selling costs declined from PLN 25 000 000 in H1 2015 to PLN 18 549 000, generating gross profit on sales of PLN 3 914 000 in the reporting period (compared to PLN 4 368 000 in H1 2015).

Thanks to a decrease in selling costs, administrative expenses and other operating costs in H1 2016, the Group generated PLN 379 000 in profit on continuing operations, compared to PLN 11 000 in the comparative period. Subtracting finance costs from the above figure (which cover one-off costs connected with the liquidation of WIKANA FIZ of PLN 1 256 000 and negative exchange differences of PLN 782 000), income tax and result on discontinued operations (retail footwear activities), the Group posted a net profit of PLN 5 679 000 in H1 2016 (compared to a loss of PLN 4 552 000 in H1 2015).

At the same time, the Issuer announces that the value of preliminary and development agreements signed by 30 June 2016, for which units have not yet been delivered to clients, i.e. from which no revenue has yet been recognised, amounted to PLN 24 568 000, including in investments being carried out in: Lublin - PLN 9 013 000, Zamość - PLN 4 552 000, Rzeszów - PLN 9 768 000, Krosno - PLN 1 235 000.

The Company's Management Board intends to continue activities aimed at improving the Group's financial standing, including through focusing on the key property-development segment.

According to the Company's Management Board, there are no significant threats to the Group's continuing operations over the 12 months from the date on which this report was prepared. The Company's Management Board is convinced that it is capable of providing the Group with sufficient capital to service its financial and trade liabilities and to continue operations uninterrupted, including property development projects.

11. Factors that might have an effect on results over at least the next three months

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

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 spaces and service facilities, which either are or will be introduced to the Group's portfolio in 2016,
- 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 30 June 2016 - and which will be made by clients in accordance with the timetables specified in such contracts,
- proceeds from lease of space in the Group's commercial properties,
- divestment process that covers the sale of certain assets that are unused in the Group's core business.

In addition, the Company's Management Board is analysing a number of solutions aimed at raising additional capital to ensure the Group's liquidity, to be used to repay financial and trade payables. As such, the following activities are currently at an advanced stage: new credit facilities, both to re-finance the existing liabilities and to finance property development projects.

The above list is not comprehensive, and the results of the above activities will be dependent on financial-market conditions and the potential benefits for the Group.

According to the Company's Management Board, a visible improvement on the residential property market will make it possible to fulfil apartment sales plans at a level ensuring uninterrupted operations, including repayment liabilities.

The Group expects to continue its present activities in subsequent reporting periods. The majority of property development projects will be executed via special purpose vehicles, therefore the Group's consolidated results will play a key role.

For at least the next 12 months, the growth strategy of the Company and the Group's development companies will focus on the following directions:

- activities aimed at a substantial increase in operating scale, including commencement of new investments on the Company'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.

With regard to the retail segment, in which the Group operated until the end of 2015, a decision was made in the first quarter of 2016 to initiate a process to dissolve the one company that operated in this segment. At the date on which this report was prepared, the only company within the Group that conducted retail sale/distribution of footwear was undergoing liquidation.

As regards the renewables segment, the Company's Management Board cannot exclude divestments within an economically justified time-frame. Until the date on which the financial statements were published, no decisions in this regard were made.

12.Description of key threats and risk in the remained of the year

1) Pricing risk

The Group 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 companies. Pricing risk is on the contractors' side, and their remuneration may only be changed with the Group's consent. Still, the Group is exposed to risk related to changes in construction costs and the Group's dependence on construction contractors, as described in point 5) below - "Description of other risk factors, along with the Company's exposure."

2) Credit risk, foreign exchange risk and interest rate risk

Exposure to credit risk and interest rate risk arises in the ordinary course of the Group'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 Group'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 Group'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 Group does not hedge against interest rate risk. The Group also does not hedge against foreign exchange risk. Current receivables and payables are not exposed to interest rate risk.

3) Cash flow risk

The Group has agreements with contractors and secured financing for its on-going investments therefore the Group's cash flows in subsequent reporting periods are already specified and allow minimising the cash flow risk.

4) Liquidity risk

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

5) Description of risk factors, along with the Group's exposure levels

- **Strategic objective risk**

The Group 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 Group'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 Group's financial results.

- **Risks associated with property development projects**

The Group'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 Group'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 Group's operations and financial situation.

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

The Group has executed, and will execute, agreements with construction contractors to execute property development 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 Group 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 executing projects - may have a negative impact on the Group's operations and financial situation.

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

The Group'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 Group's operations and financial situation.

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

Currently, all of the Group's projects are being executed in: Lublin, Zamość, Janów Lubelski, Rzeszów and Tarnobrzeg. The Group continuously analyses the property development market in other Polish cities, however, according to the Management Board, the results of expansion into other markets are incommensurate to the risk inherent in such decision. As a result, in the short- and medium-term, the Group's revenue and earnings will be dependent on the situation in the residential markets in which the Group is already present. Any decreases in conditions in those markets may have a negative impact on the Group'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 Group's business is primarily dependent on: the ability to commence new investments on the Group'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 Group'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 Group 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 Group's property development business is also directly dependent on apartment prices in Poland, and in particular in the cities where the Group is present. An oversupply of apartments due to there being too many units available may have a negative impact on apartment prices on the markets where the Group operates. In the case of a decrease in apartment prices, the Group cannot guarantee that it will be able to sell all finished apartments at prices ensuring the Group's expected margins.

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

- **Risk associated with adverse land conditions**

When procuring land for new property investments, the Group carries out a 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 Group may in the future be required to pay compensation, administrative penalties or reclamation costs resulting from environmental damage on the land it owns or procures cannot be excluded. This may have a negative impact on the Group'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 Group's operations and financial situation.

- **IT failure risk**

The Group 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 Group, particularly as regards contacts with its clients. The Group 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 Group's future needs could have an impact on the Group'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 Group 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 Group'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. A lack of 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 Group'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 Group 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 Group'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 Group 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 Group'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 Group, 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. A lack of stability in application of tax laws may have a negative impact on the Group'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 Group 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 Group will be raised in the future. The risk that such claims raised in the future might have a significant impact on the Group may not thus be excluded. This may result in an increase in project costs, delays or cancellations, which could have a substantial negative impact on the Group's operations, financial situation and results.

- **Economic and political risk**

The Group 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 Group'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 Group's operations and financial situation.

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

Parts of the land that the Group is using for investments, or plans to do so, is 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 Group'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 Group 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.

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