



**MANAGEMENT BOARD'S REPORT  
ON BUSINESS ACTIVITIES  
OF THE DEKPOL CAPITAL GROUP  
IN H1 2020**

Pinczyn, 28<sup>th</sup> of September 2020



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## 1. SELECTED FINANCIAL DATA

Selected financial data of the Dekpol Capital Group in H1 2020

Selected consolidated financial data	Thousands of PLN		Thousands of EUR	
	01.01.2020- 30.06.2020	01.01.2019- 30.06.2019	01.01.2020- 30.06.2020	01.01.2019- 30.06.2019
I. Net revenue from sales of products, goods, and materials	527475	423 447	118 766	98 752
II. Profit (loss) on operating activity	44 167	26 155	9945	6 100
III. Profit (loss) before tax	41 399	21 684	9321	5 057
IV. Net profit (loss)	33350	17 493	7 509	4 080
V. Earnings (loss) per ordinary share (in PLN / EUR)	3,99	2,09	0,90	0,49
VI. Net cash flows from operating activity	68 999	20 736	15 536	4 836
VII. Net cash flows from investment activity	(2 944)	(3 086)	(663)	(720)
VIII. Net cash flows from financial activity	(77 071)	34 113	(17 353)	7 955
IX. Total net cash flows	(11 016)	51 763	(2 480)	12 072
	30.06.2020	31.12.2019	30.06.2020	31.12.2019
X. Total assets	951 726	954 981	213 105	224 253
XI. Liabilities and provisions for liabilities	676 048	712 667	151 377	167 352
XII. Long-term liabilities	83 022	197 100	18 590	46 284
XIII. Short-term liabilities	593 026	515 567	132 787	121 068
XIV. Equity	275 678	242 314	61 728	56 901
XV. Share capital	8 363	8 363	1 873	1 964
XVI. Number of shares at the end of the period	8 362 549	8 362 549	8 362 549	8 362 549
XVII. Book value per share (in PLN / EUR)	33	29	7	7



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Selected financial data of the Company Dekpol S.A. in H1 2020

Selected separate financial data	Thousands of PLN		Thousands of EUR	
	01.01.2020- 30.06.2020	01.01.2019- 30.06.2019	01.01.2020- 30.06.2020	01.01.2019- 30.06.2019
I. Net revenue from sales of products, goods, and materials	374 733	449 573	84 375	104 844
II. Profit (loss) on operating activity	14 366	29 304	3 235	6 834
III. Profit (loss) before tax	13 381	25 787	3 013	6 014
IV. Net profit (loss)	10 822	20 846	2 437	4 861
V. Earnings (loss) per ordinary share (in PLN / EUR)	1,29	2,49	0,29	0,58
VI. Net cash flows from operating activity	28 505	(9 070)	6 418	(2 115)
VII. Net cash flows from investment activity	5 135	(10 912)	1 156	(2 545)
VIII. Net cash flows from financial activity	(56 463)	11 741	(12 713)	2 738
IX. Total net cash flows	(22 822)	(8 241)	(5 139)	(1 922)
	30.06.2020	31.12.2019	30.06.2020	31.12.2019
X. Total assets	763 200	775 316	170 891	182 063
XI. Liabilities and provisions for liabilities	513 807	536 745	115 049	126 041
XII. Long-term liabilities	47 659	164 962	10 672	38 674
XIII. Short-term liabilities	466 148	372 053	104 377	87 367
XIV. Equity	249 392	238 570	55 842	56 022
XV. Share capital	8 363	8 363	1 873	1 964
XVI. Number of shares at the end of the period	8 362 549	8 362 549	8 362 549	8 362 549
XVII. Book value per share (in PLN / EUR)	30	29	7	7

Individual items of the statement presented in EUR currency have been converted based on the average exchange rate set by the Polish National Bank for the day 30.06.2020 (4,4660 PLN/EUR) and for the day 31.12.2019 (4,2585 PLN/EUR).

Individual items of Statement of Comprehensive Income and Cash Flow Statement have been converted into EUR based the arithmetic average of average exchange rates for EUR set by the Polish National Bank on the last day of each month within 6 months ended on 30.06.2020 and within 6 months ended 30.06.2019 (4,4413 PLN/EUR and 4,2880 PLN/EUR respectively).



## 2. PRINCIPLES OF PREPARATION OF THE INTERIM CONDENSED SEPARATE AND CONSOLIDATED FINANCIAL STATEMENT

The interim condensed financial statement of Dekpol Capital Group for H1 2020 has been prepared in accordance with International Accounting Standards and International Financial Reporting Standards and related interpretations announced in form of regulations of European Commission (hereinafter referred to as IFRS). The interim condensed financial statement of the Dekpol Capital Group for H1 2020 has been prepared under assumption of further continuation of business activity in near future. Report presents financial position of the Capital Group as at 30<sup>th</sup> of June 2020 and 31<sup>st</sup> of December 2019, results achieved on Group's operations and cash flows for 6 months ended 30<sup>th</sup> of June 2020 and 30<sup>th</sup> of June 2019

Accounting principles (policies) applicable for preparation of the interim condensed consolidated financial statement are consistent with those applied to the preparation of the annual consolidated financial statement of the Group for the year ended on 31<sup>st</sup> of December 2019 and the application of new or amended standards and interpretations applicable to annual periods beginning on 1<sup>st</sup> of January 2020 and later.

Remaining new or changed standards and interpretations that were applied for the first time in 2020 do not have a significant impact on the Group's interim condensed consolidated financial statement.

In the first half of 2020, there were no changes in the applied accounting principles (policies). In the first half of 2020, there were also no significant changes to the estimated values.

The consolidation was prepared using the full method and covered all entities within Capital Group.

Interim condensed financial statement of the Company Dekpol S.A in H1 2020 has been prepared in accordance with International Accounting Standards and International Financial Reporting Standards and related interpretations announced in the form of regulations of European Commission (hereinafter referred to as IFRS). Interim condensed financial statement of the Company Dekpol S.A. in H1 2020 has been prepared under assumption of continuation of business by the Company in the foreseeable future. Statement presents financial position of Dekpol S.A. as of 30<sup>th</sup> of June 2020 and 31<sup>st</sup> of December 2019, results achieved with the Company's business



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operations and cash flow for the period of 6 months ended 30<sup>th</sup> of June 2020 and 30<sup>th</sup> of June 2019.

Accounting principles (policies) applied to prepare the interim condensed financial statements for H1 2020 are consistent with those applied to the preparation of the last annual financial statement. In the first half of 2020, there were no changes in the accounting principles (policies) applied. In the first half of 2020, there were also no significant changes in estimates.

Management Board's Report on business activities of Dekpol Capital Group in H1 2020 has been prepared in accordance with the Regulation of the Minister of Finance of 29 March 2018 on current and periodic disclosures to be made by issuers of securities and the conditions for recognition as equivalent of information whose disclosure is required under the laws of a non-member state (consolidated text: Dz. U. of 2018, Item 757 with further amendments).

Interim condensed separate and consolidated financial statements for the period of 6 months ended 30<sup>th</sup> of June 2020 were subject to review by a statutory auditor.

## 3. INFORMATION ABOUT DEKPOL CAPITAL GROUP

### 3.1 BUSINESS ACTIVITIES OF THE CAPITAL GROUP

*Dekpol Capital Group carries out its operations in three areas:*

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

As a part of ongoing reorganization of the Dekpol Capital Group, individual areas of activity are gradually transferred from the parent company Dekpol S.A. to newly created subsidiaries, and ultimately Dekpol S.A. will act as a holding company managing the Capital Group.



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### 3.2 STRUCTURE OF DEKPOL CAPITAL GROUP

As at 30<sup>th</sup> of June 2020 as well as as at publication date of this report (ie. 28<sup>th</sup> of September 2020), Dekpol Capital Group was composed of Dekpol S.A. as the parent entity and twenty-four subsidiaries.

Subsidiaries			
Dekpol 1 Sp. z o.o.	direct	Dekpol Royalties Sp. z o.o.	indirect via Dekpol 1 Sp. z o.o. S.K.A.
Dekpol 1 Sp. z o.o. S.K.A.	direct	Almond Sp. z o.o.	indirect via Dekpol 1 Sp. z o.o. S.K.A.
UAB DEK LTStatyba (Litwa)	direct	Dekpol Inwestycje Sp. z o.o.	indirect via Dekpol Deweloper Sp. z o.o.
Dekpol Deweloper Sp. z o.o.	direct	Dekpol Pszena Sp. zo.o.	indirect via Dekpol Deweloper Sp. z o.o.
Betpref Sp. z o.o.	direct	Nordic Milan Sp. z o.o.	indirect via Dekpol Deweloper Sp. z o.o.
Dekpol Steel Sp. z o.o.	direct	Smartex Sp. z o. o	indirect via Dekpol Deweloper Sp. z o.o.
Dekpol Budownictwo Sp. z o.o.	direct	Dekpol Inwestycje Sp. z o.o. Pastelowa Sp.k.	indirect via Dekpol Deweloper Sp. z o.o. and Dekpol Inwestycje Sp. z o.o.
		Dekpol Inwestycje Sp. z o.o. Rokitki Sp.k.	indirect via Dekpol Deweloper Sp. z o.o. and Dekpol Inwestycje Sp. z o.o.
		Dekpol Inwestycje Sp. z o.o. Development Sp. k.	indirect via Dekpol Deweloper Sp. z o.o. and Dekpol Inwestycje Sp. z o.o.
		Dekpol Inwestycje Sp. z o.o. Braniborska Sp. k	indirect via Dekpol Deweloper Sp. z o.o. and Dekpol Inwestycje Sp. z o.o.
		Dekpol Inwestycje Sp. z o.o. Myśliwska Sp. k.	indirect via Dekpol Deweloper Sp. z o.o. and Dekpol Inwestycje Sp. z o.o.
		Dekpol Pszena Sp. z o.o. Sp.k	indirect via Dekpol Deweloper Sp. z o.o. and Dekpol Pszena Sp. zo.o.
		Dekpol Inwestycje Sp. z o.o. WBH Sp. k.	indirect via Dekpol Deweloper Sp. z o.o. and Dekpol Inwestycje Sp. z o.o.
		Dekpol Inwestycje Sp. z o.o. Neo Jasień Sp. k.	pośrednio przez Dekpol Deweloper Sp. z o.o. and Dekpol Inwestycje Sp. z o.o.
		Dekpol Inwestycje Sp. z o.o. Grano Resort Sp. k.	indirect via Dekpol Deweloper Sp. z o.o. and Dekpol Inwestycje Sp. z o.o.





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		Dekpol Inwestycje Sp. z o.o. Sol Marina Sp. k.	indirect via Dekpol Deweloper Sp. z o.o. and Dekpol Inwestycje Sp. z o.o.
		Dekpol Inwestycje Sp. z o.o. Sobieszewo Development Sp. k.	indirect via Dekpol Deweloper Sp. z o.o. and Dekpol Inwestycje Sp. z o.o.

### **Direct subsidiaries of Dekpol S.A.:**

- 1) Dekpol 1 Sp. z o.o. - general partner of DEKPOL 1 Sp. z o.o. SKA;
- 2) Dekpol 1 Sp. z o.o. S.K.A. - is responsible in the DEKPOL Group for the management of subsidiaries appointed to perform specialized tasks as well as intangible and intellectual values in the DEKPOL Group;
- 3) UAB DEK LTStatyba – company established to support the Company's operations in Lithuania, as well as to manage future contracts in the General Contractor implemented in Lithuania;
- 4) Dekpol Deweloper Sp. z o.o. - the purpose of the creation was to separate an organized part of the Dekpol S.A. covering the property development activity and transferring it in kind to this company, which took place at the beginning of January 2019;
- 5) Betpref Sp. z o.o. – a company established to ensure the continuity of deliveries of precast concrete products used in the performance of contracts in general contracting;
- 6) Dekpol Steel Sp. z o.o. – the purpose of the creation was to separate an organized part of the enterprise of Dekpol S.A. covering the production of accessories for construction machinery and transferring it in kind to this company, which took place on 1<sup>st</sup> of January 2020;;
- 7) Dekpol Budownictwo Sp. z o.o. – the purpose of the creation was to separate an organized part of the Dekpol S.A. covering the property development activity and transferring it in kind to this company.

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

- 1) DekpolRoyalties Sp. z o.o. - a company responsible in the DEKPOL Group for brand service in the context of image and product promotion (the Company plans to liquidate the Company);
- 2) Almond Sp. z o.o. - company owning the property in Gdańsk at Toruńska street 12 (Hotel Almond).



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

- 1) Dekpol Inwestycje Sp. z o.o. – general partner in special purpose entities implementing individual development projects in the Dekpol Capital Group: Dekpol Inwestycje Sp. z o.o. Pastelowa Sp.k.; Dekpol Inwestycje Sp. z o.o. Rokitki Sp.k.; Dekpol Inwestycje Sp. z o.o. Development Sp. k., Dekpol Inwestycje Sp. z o.o. Braniborska Sp. k., Dekpol Inwestycje Sp. z o.o. Myśliwska Sp. k., Dekpol Inwestycje Sp. z o.o. WBH Sp. k., Dekpol Inwestycje Sp. z o.o. Neo Jasień Sp. k., Dekpol Inwestycje Sp. z o.o. Grano Resort Sp. k., Dekpol Inwestycje Sp. z o.o. Sol Marina Sp. k., Dekpol Inwestycje Sp. z o.o. Sobieszewo Development Sp. k.;
- 2) Dekpol Pszenna Sp. z o.o. – the general partner of the special purpose entity for the implementation of the development investment on Pszenna street in Gdańsk;
- 3) Nordic Milan Sp. z o.o. - the company operates in the real-estate development industry; owns a land property in Milanówek, where the property development project is has already been implemented;
- 4) Smartex Sp. z o. o. - owner of a plot of land in Wrocław at Braniborska street, where the Company, together with a privat person who owns 37.7% of shares in Smartex, intends to jointly implement a development project. Dekpol S.A. holds a 62.3% stake in Smartex and the right to acquire a 37.7% shares in Smartex. A special purpose entity was established for the implementation of the project - Dekpol Inwestycje Sp. z o.o. Braniborska Sp. k.

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

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

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

- 1) Dekpol Inwestycje Sp. z o.o. Pastelowa Sp.k. – a special purpose entity for the implementation of a development investment under the name Pastelowa in Gdańsk;
- 2) Dekpol Inwestycje Sp. z o.o. Rokitki Sp.k. – special purpose entity for the implementation of development investments in Rokitki and Śliwiny near Tczew;
- 3) Dekpol Inwestycje Sp. z o.o. Development Sp. k. – special purpose entity to carry out smaller development investments, including in Jurata, Hel and Gdańsk;
- 4) Dekpol Inwestycje Sp. z o.o. Braniborska Sp. k. – a special purpose entity for the implementation of a development investment in Wrocław;
- 5) Dekpol Inwestycje Sp. z o.o. Myśliwska Sp. k. – a special purpose entity for the implementation of a development investment named Foresta in Gdańsk;



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- 6) Dekpol Inwestycje Sp. z o.o. Grano Resort Sp. k. - a special purpose entity for the implementation of a development investment in Gdańsk on the Sobieszewska Island;
- 7) Dekpol Inwestycje Sp. z o.o. WBH Sp. k. - a special purpose entity for the implementation of a development investment in Warsaw;
- 8) Dekpol Inwestycje Sp. z o.o. Neo Jasień Sp. k. - a special purpose entity for the implementation of a development investment called Neo Jasień in Gdańsk;
- 9) Dekpol Inwestycje Sp. z o.o. Sol Marina Sp. k. - a special purpose entity for the implementation of a development investment in Wiślinka;
- 10) Dekpol Inwestycje Sp. z o.o. Sobieszewo Development Sp. k. - special purpose entity to carry out smaller development investments in Gdańsk on the Sobieszewska Island.

Dekpol S.A. owns 100% of shares in: Dekpol 1 Sp. z o.o., UAB DEK LT Statyba, Betpref Sp. z o.o., Dekpol Deweloper Sp. z o.o., Dekpol Steel Sp. z o.o., Dekpol Budownictwo Sp. z o.o. and 100% of shares in Dekpol 1 Sp. z o.o. S.K.A.

Dekpol 1 Sp. z o.o. S.K.A. owns 100% of shares in Companies Dekpol Royalties Sp. z o.o. and Almond Sp. z o.o.

Dekpol Deweloper Sp. z o.o. owns 100% of shares in Companies Nordic Milan Sp. z o.o., Dekpol Pszena Sp. z o.o. and Dekpol Inwestycje Sp. z o.o.

Dekpol Deweloper Sp. z o.o. owns 62,3% of shares in Smartex Sp. z o.o. and the right for acquisition of 37,7% of shares of Smartex Sp. z o.o.

Dekpol Deweloper Sp. z o.o. is the limited partner of the Companies Dekpol Inwestycje Sp. z o.o. Pastelowa Sp.k.; Dekpol Inwestycje Sp. z o.o. Rokitki Sp.k.; Dekpol Inwestycje Sp. z o.o. Development Sp. k., Dekpol Inwestycje Sp. z o.o. Myśliwska Sp. k., Dekpol Inwestycje Sp. z o.o. WBH Sp. k., Dekpol Inwestycje Sp. z o.o. Neo Jasień Sp. k., Dekpol Inwestycje Sp. z o.o. Grano Resort Sp. k., Dekpol Inwestycje Sp. z o.o. Sol Marina Sp. k., Dekpol Inwestycje Sp. z o.o. Sobieszewo Development Sp. k., owning in those companies 99,5% of shares in profits, while 0,5% of shares in profits owns Dekpol Inwestycje Sp. z o.o. acting as the general partner of those companies.

Dekpol Deweloper Sp. z o.o. is the limited partner of the Company Dekpol Inwestycje Sp. z o.o. Braniborska Sp. k., owning in this company 49,9% of shares in profits, while 0,1% of shares in profits owns Dekpol Inwestycje Sp. z o.o. acting as the general partner of this company.

Dekpol Deweloper Sp. z o.o. is the limited partner of the Company Dekpol Pszena Sp. z o.o. Sp.k. owning in this company 99,5% of shares in profits, while Dekpol Pszena Sp. z o.o. acting as the general partner of this company owns 0,5% of shares in profits, providing, that the profit to be divided among the companies from the



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Dekpol Group is reduced by PLN 500, attributable to the other limited partner of the company.

All companies directly and indirectly dependent on the Issuer are subject to full consolidation.

On 9<sup>th</sup> of April 2020 into the National Court Register was entered an associate company called MineralGroup sp.z o.o., in which Dekpol Deweloper Sp. z o.o. holds 50% of shares. The company was established for the purpose of prospecting, identifying and possibly mining and selling amber deposits. The associated company is valued by using the ownership method.

### **3.3 CHANGES IN THE STRUCTURE OF THE CAPITAL GROUP AND IN H1 2020 AND AFTER BALANCE SHEET DATE**

On 1<sup>st</sup> of January 2020, there was a transfer to Dekpol Steel Sp. z o. o. of an organized part of the enterprise of Dekpol S.A. functioning under the name of the Bucket Production Department (ZCP) and covering in particular production and sales of buckets and accessories for construction machines. The organized part of the enterprise was a separate department within the Issuer's structures and an independent enterprise carrying out the above tasks independently.

The ZCP included, among others built-up real estates, rights and obligations under employment contracts and all employee files regarding transferred employees, related to ZCP receivables and payables, stocks of materials, fixed assets and movable property, and elements of equipment, rights from bank accounts, rights arising from contracts with customers, subcontractors, suppliers, customers, intellectual property rights, obtained administrative decisions, concessions, licenses, permits, permits, certificates and others.

The transfer of ZCP took place by way of an in-kind contribution to cover the share capital in connection with the acquisition by Dekpol S.A. on 31<sup>st</sup> of December 2019, of 1,000,000 new shares in Dekpol Steel with a total nominal value of PLN 50 million. After the increase, the share capital of Dekpol Steel amounts to PLN 50.005,000.

As at the date of publication of this report, there are ongoing activities related to the separation of an organized part of the enterprise operating under the name Department of General Contracting Services and transferring it to Dekpol Budownictwo Sp. z o.o.

The above events are result of actions taken in 2019 related to reorganization of the Company and the Dekpol Capital Group aimed at introducing of management



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system tailored to the increasing scale of the Company's operations and its individual segments, the expanded structure, as well as further development plans.

In the period of H1 2020 and until the date of publication of this report, there were no changes in the structure of the Dekpol Capital Group.

## 4. INFORMATION ABOUT THE COMPANY DEKPOL S.A.

### 4.1 GOVERNING BODIES OF DEKPOL S.A.

#### 4.1.1 MANAGEMENT BOARD

The Issuer's Management Board is composed of one or more Members. The Supervisory Board entrusts one of the Members of the Management Board with the function of the President of the Management Board. Other Members of the Management Board may be entrusted with the function of Vice Presidents of the Management Board. The term of office of the Members of the Management Board is 5 (five) years and is not joint.

As at 30<sup>th</sup> of June 2020 and as at publication date of this report, the Issuer's Management Board composes of:

Name and surname	Function
Mariusz Tuchlin	President of Management Board
Michał Skowron	Vice-President of Management Board
Katarzyna Szymczak-Dampc	Vice-President of Management Board

The term of office of the President of the Management Board Mr. Mariusz Tuchlin will expire on 4<sup>th</sup> of June 2024, term of office of Vice-President of the Management Board Mr. Michał Skowron will expire on 1<sup>st</sup> of January 2023, while term of office of the Vice-President of the Management Board Mrs. Katarzyna Szymczak-Dampc will expire on 31<sup>st</sup> of December 2025.

Mrs. Katarzyna Szymczak-Dampc was appointed to Management Board of the Company as of 1<sup>st</sup> of January 2020 by resolution of the Supervisory Board of dated 30<sup>th</sup> of December 2019 regarding appointment to the Management Board and



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entrusting the function of Member of Management Board. On 25<sup>th</sup> of August 2020, Supervisory Board of Dekpol S.A. adopted resolution regarding changing of the function of the Member of the Management Board of Mrs. Katarzyna Szymczak-Dampc by entrusting her with the function of Vice-President of Management Board.

In the first half of 2020 and until the date of publication of this report, there were no changes in the composition of Company's Management Board.

#### 4.1.2 SUPERVISORY BOARD

Articles of Association of Dekpol S.A. provides, that Supervisory Board consists of three to five members, whereas in case of obtaining by the Issuer the status of a public company from five to seven members. Vocation as well as dismissal of members of the Supervisory Board follows through resolution of General Meeting of Shareholders. This body elects the Chairman of Supervisory Board, may also entrust the function of Vice-president to another member. The term of office of Supervisory Board members takes 5 years and cannot be joint.

As at 30<sup>th</sup> of June 2020 and as at publication date of this report, the Issuer's Supervisory Board composes of:

<b>Name and surname</b>	<b>Function</b>
<b>Roman Suszek</b>	Chairman of Supervisory Board
<b>Jacek Grzywacz</b>	Vice-president of Supervisory Board
<b>Wojciech Sobczak</b>	Member of Supervisory Board
<b>Grzegorz Wąsacz</b>	Member of Supervisory Board
<b>Jacek Kędzierski</b>	Member of Supervisory Board

Terms of office of Mr. Grzegorz Wąsacz will end on 7<sup>th</sup> of March 2022. Terms of office of Mr. Wojciech Sobczak will end on 28<sup>th</sup> of May 2023. Terms of office of Mr. Roman Suszek and Mr. Jacek Grzywacza will end on 1<sup>st</sup> of April 2024. Terms of office of Mr. Jacek Kędzierski will end on 30<sup>th</sup> of June 2024.

In H1 2020 and as at publication date of this report, there were no changes in the composition of Supervisory Board of the Company.



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## 4.2 SHARE CAPITAL STRUCTURE

As of 30<sup>th</sup> of June 2020 and as of the day of publication of this report, share capital of Dekpol S.A. amounts PLN 8 362 549,00 and is divided into 83,625,549 ordinary bearer shares with a nominal value of PLN 1 each, including:

- a) 6 410 000 series A ordinary bearer shares,
- b) 1 952 549 series B ordinary bearer shares,

which entitle to 8.362.549 votes at the General Meeting of Shareholders of the company.

## 4.3 SHAREHOLDING STRUCTURE

Shareholders of Dekpol S.A. holding more than 5% of total number of votes at the Company's General Meeting of Shareholders as of the day of publishing of report, i.e. 28<sup>th</sup> of September 2020 and to the best knowledge of the Management Board of Dekpol S.A.:

Shareholder	Number of shares / number of votes	Participation in Share capital and general number of votes (%)
Mariusz Tuchlin	6.449.860	77,13%
Familiar S.A., SICAV-SIF*	679.583	8,13%
Other shareholders	1.233.106	14,74%
Total	8.362.549	100%

\* based on the number of registered shares for the Ordinary General Meeting of Shareholders convened for 28<sup>th</sup> of June 2019

Between publication date of the latest periodic report, which was report for Q1 2020 published on 15<sup>th</sup> of June 2020, and until publication date of this report, there were no changes in shareholding structure of the Company.

## 4.4 NUMBER OF SHARES HELD BY MANAGEMENT BOARD AND SUPERVISORY STAFF

Shares in possession by Members of Management Board and Supervisory Board of Dekpol S.A. as of the day of publication of report i.e. 28<sup>th</sup> of September 2020 and as of publication date of latest periodic report, which was report for Q1 2020 published on 15<sup>th</sup> of June 2020:



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Item	Number of shares as of the day of publication of annual report of 2019	Changes	Number of shares as of the day of publication of report for 1Q 2020
Mariusz Tuchlin – CEO	6.449.860	-	6.449.860

Other members of Management and Supervisory Board of Dekpol S.A. do not hold Issuer's shares.

To the best knowledge of the Company, Members of Management Board and Supervisory Board do not hold and did not hold in given period from the publication date of report for Q1 2020 until the day of publication of this report of any rights to shares of the Issuer.

#### 4.5 STANDPOINT OF MANAGEMENT BOARD REGARDING POSSIBILITY OF ACHIEVING PROJECTED RESULTS

The Company did not publish forecasts of the Company's and the Dekpol Capital Group's financial results for 2020.

## 5. BUSINESS OPERATIONS OF THE COMPANY AND THE DEKPOL CAPITAL GROUP IN H1 2020 AND AFTER ITS COMPLETION

### 5.1 SUMMARY OF BUSINESS ACTIVITIES OF THE DEKPOL CAPITAL GROUP

#### Operational activities of the Dekpol Capital Group

Sales revenues of the Dekpol Capital Group in H1 2020 amounted to PLN 527 475 thousands, thus of about 25% more than in the corresponding period of the previous year. At the same time, the Dekpol Capital Group in the period from January to June 2020 reached PLN 33350 thousands of net profit.

In the period covered by financial report, the Group carried out similar operations comparing to 2019, i.e. dealt with: general contracting services, property development activities, manufacture of equipment for construction machines.





### General contracting segment

Within general contracting segment, at the end of Q2 2020 Dekpol S.A. implemented contracts for external clients with a total contractual value of almost PLN 650 million net. After the reporting period for implementation remained projects with a total value of over PLN 350 million net, of which the vast majority of works will be finished in 2020.

Nevertheless, the projects acquired at the turn of the two half-years of 2020 build in some part their values in the revenue of financial year 2021. General contracting segment - as a part of short- and medium-term strategy - focuses its activities around industrial and logistics construction, which, as the Company expects, will account for approximately 80% of the expected turnover for 2020. In the remaining part, the Company implements projects consisting in the construction of commercial and public utility facilities, including a premium car showroom and passenger service areas with accompanying infrastructure. In addition, the Issuer in General Contracting segment implements intra-group development projects with a total value remaining amounting to over PLN 100 million net. The main area of activity is the Pomeranian Voivodeship, however, the company is also developing its activities in the Voivodeships: Mazowieckie, Małopolskie, Podkarpackie, Dolnośląskie, Kujawsko-Pomorskie, Lubelskie, Zachodniopomorskie, where further projects are being implemented and where more engineering teams are being built. In its activities, the General Contracting Segment is focused on creating and maintaining an upward trend in the sales value of its services.

List of contracts significant from the point of view of the Company's turnover, performed by General Contracting segment as at 30<sup>th</sup> of June 2020:

- construction of a production-storage plant with office facilities in Skórcz for Iglotex S.A.
- construction of a production-storage plant with office facilities in Rumia for TricityNorth Sp. o.o.
- comprehensive implementation of construction works as well as construction and installation works together with the supply of materials and equipment including construction of a warehouse, production and office object with social and office facilities in Gdańsk for 7R Projekt 22 Sp. z o.o.
- construction of the storage center with social-office facilities for Kallisto 14 Sp. z o.o. in Swaróżyn.

On 13<sup>th</sup> of March 2020, state of epidemiological threat was announced in Poland in connection with the SARS-CoV-2 coronavirus pandemic. Until the date of publication



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of this report, the above threat did not have a direct and significant impact on the Group's operations. Management Board of Dekpol S.A. undertakes necessary preventive and educational activities on an ongoing basis. Despite diligence, it is not able to predict further development of the situation, and thus the impact of the pandemic on the activities of the Company and the Capital Group.

### Property development segment

In property development segment, the Dekpol Capital Group maintains a stable position on the market. In the first half this year contracting within the meaning of preliminary, development and reservation agreements amounted to 53 apartments. For comparison, in the same period of the previous year, contracting was at the level of 227 units.

In the revenues of the property development segment in the first half of this year, 437 units were sold. For comparison, in the same period of the previous year, there were 209 recognized premises, and in whole 2019 all over 490 premises.

As at 30<sup>th</sup> of June 2020, there were 136 apartments in the Company's sales offer.

In H1 2020, there were 3 investments handed-over for use :

Foresta – jointly 157 apartments,

Nowe Rokitki V,VI - jointly 139 apartments,

Grano Residence - jointly 282 apartments.

A number of factors related to pandemic situation resulted in decrease in the number of sales transactions in the first half of 2020, compared to the same period in the previous year. Difficult economic situation, restrictions introduced by the public authorities, growing bank requirements resulting in difficulties in obtaining a mortgage loans as well as customer fears related to job insecurity had a negative impact on customer's demand.

Management Board of Dekpol Deweloper Sp. z o.o., analyzes the situation on the housing market on an ongoing basis, however, due to the short data observation horizon, is not able to estimate the impact of the epidemic on the development activities of the Dekpol Capital Group in the long-term perspective.

The Group continues implementation of housing and commercial projects in Gdańsk and surrounding area. Currently implemented projects include construction of housing estates, luxury apartment buildings as well as condo and apart-hotels. The company is gradually increasing its share in sale of projects of higher prestige and standard addressed to more demanding customers.



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### Segment of production of accessories to construction machines

The first half of 2020, and in particular the second quarter, was the greatest test of the management systems implemented, as well as the actions taken earlier to expand sales network. Collapse of the construction machinery market related to the Covid-19 pandemic has had a negative impact on orders from OEM customers. In May and June, the Group recorded relatively smaller orders from above-mentioned customers. Thanks to intensive work, the newly created sales department managed to obtain orders from the aftermarket market, which minimized the losses resulting from the closure of many OEM factories in Europe. The second quarter of this year, Dekpol Steel Sp. z o.o. ended with a 20% drop in orders compared to the same period last year.

Through decisive actions of the Management Board of Dekpol Steel, the continuity of the factory's operation was maintained without reducing employment or suspending production processes. In June this year, a large-scale recruitment campaign was carried out in order to recruit new production employees. This action allowed to recruit the new employees, dismissed from other companies at a critical moment in the second quarter. In the same period, a decision was made to purchase a fully robotic stand for the production of loader buckets. Through automation of the welding process, the efficiency of this area will increase. The period of reduced production was used for further optimization of production processes as well as tightening of inventory reporting. The Covid-19 pandemic has prompted more inquiries from OEM clients regarding production of accessories currently manufactured in China and in other countries outside of Europe.

Summing up, Dekpol Steel Sp. z o.o. came out unscathed from difficulties accumulated in the second quarter by increasing employment, establishing new business relations with new customers, as well as automation of production processes. In June the Company started business talks with the largest manufacturer of construction machinery in the world, aimed at locating production of the largest accessories and buckets in Dekpol Steel Sp. z o.o..

## 5.2 SIGNIFICANT ACHIEVEMENTS AND FAILURES AND THE MOST IMPORTANT EVENTS IN BUSINESS ACTIVITIES FO THE DEKPOL CAPITAL GROUP IN H1 2020

### **Prolongation of a term of loan agreement with BGŻ BNPParibas S.A.**

On 2<sup>nd</sup> of January 2020, Management Board of the Company received the consent of Bank BGŻ BNP Paribas S.A. (Bank) for prolongation of the loan availability period in connection with binding parties multi-purpose credit line agreement of dated 11<sup>th</sup> of



December, 2015 (as amended). The end of the current loan availability period was February 2020. On 21<sup>st</sup> of February 2020, the Company and the Bank signed an annex to the abovementioned agreement. According to the annex, the end of the current availability period for overdraft, revolving credit facility and guarantee line was set at the end of March and July 2020 and at the end of January 2021, respectively, and the total credit limit was set at PLN 17 million (previously 34 PLN million). The annex to the contract was concluded at the request of the Company in connection with the reorganization of the Company and the Dekpol Capital Group

About the above mentioned events the Company announces in current reports no. 1/2020 dated 2<sup>nd</sup> of January 2020 and no. 8/2020 dated 21<sup>st</sup> of February 2020.

### **Conclusion of the agreement regarding general contracting of a retailpark – Karuzela in Kołobrzeg**

On 21<sup>st</sup> of January 2020 the Company received from Karuzela Kołobrzeg Sp. z o.o. ("Ordering Party") a mutually signed contract, followed by an annex to the contract for general contracting of the investment involving construction of the Karuzela Kołobrzeg shopping mall along with other facilities such as a roundabout, parking spaces, etc. (hereinafter jointly as the Agreement).

As part of Agreement, the Company was to perform comprehensive earthworks and a roundabout (Works 1) and, subject to the conditions set out below, works involving construction of a shopping gallery - a one-level building facility with all connections and land development (Works 2). The deadline for completion of Works 1 and Works 2 was set on June 2020 and May 2021, respectively. The flat-rate net remuneration was to be about 2% for Works 1, and about 10% for the sales of Dekpol Capital Group for the year 2018. Implementation of Works 2 was to take place only if the contracting authority delivers the contractor a written notification of the commencement of Works 2, but no later than by 30<sup>th</sup> of April 2020, while the Ordering Party was not obliged to submit the above notification. In the absence of notification, the scope of work covered by the contract and the contractor's remuneration were to be limited to Works 1 only.

On 9<sup>th</sup> of April 2020 (event after the balance sheet date) Company received information, that because of the current situation, which is appearance of SARS-CoV-2 epidemic and its negative consequences for the Ordering party, the Ordering party was forced to suspend immediately the execution of the investment. In the meaning of the Ordering party, current situation of epidemic constitutes a force majeure, which causes the extraordinary change of relations referred to in art. 357 (1) of the Civil Code.

On 20<sup>th</sup> of May 2020 (event after balance sheet date) the Company signed with the Ordering Party an annex to the Agreement, in which the parties decided to continue



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the contract, while modifying the schedule and scope of works covered by the Agreement in such a way, that as at the date of conclusion of the Annex, Contractor was commissioned to carry out works involving construction of a traffic circle and all necessary works for its implementation, as well as works, which at the moment of signing of Annex have already been carried out by Contractor (jointly as "Works 1"). Completion date for Works 1 was scheduled for April 2021.

At the same time, due to the fact, that by 30<sup>th</sup> of April 2020, the Ordering Party did not deliver to the Contractor a written notification of the beginning of implementation of Works 2, referred to in current report No. 3/2020 (including construction of a shopping gallery - a single-level building facility along with all connections and land development works), which was qualifies as a condition for beginning of implementation of these works, and the will of the Parties of the Agreement was finalization of the Investment, the Parties agreed a new deadline for delivery by the Contractor of a notification of the beginning of implementation of Work 2. It was agreed, that the notification may be delivered by 31<sup>st</sup> of August 2020. The Ordering Party is not obliged for submission the above mentioned notification. If the notification will not be delivered, the scope of the works covered by the Agreement as well as Contractor's remuneration shall be limited to Works 1. If the Contractor will be delivered with the notice within prescribed time limit, the scope of works will be increased with Works 2, which together with Works 1 will constitute the entire subject of the Agreement, and all deadlines concerning Works 2 will be extended by the total period of limitation of the scope of works, i.e. from 10<sup>th</sup> of April 2020 to the delivery date of notification to Contractor. Due to changes in the scope of Works 1 and Works 2, the flat-rate net remuneration has changed and amounts: for Works 1 about 1%, and for Works 2 about 12% of sales revenues of the Dekpol Capital Group for the year 2019.

On 25<sup>th</sup> of September 2020 the Company received the signed by Karuzela Kołobrzeg Sp. z o.o. another annex to the Agreement ("Annex no. 3"). Pursuant to Annex no. 3, parties extended scope of Works 1, referred to in current reports no. 3/2020 and 13/2020 in such a way, that the Contractor was commissioned to carry out works related to execution of the platform along with works dedicated to Leroy Merlin Inwestycje Sp. z o.o. and the scope of Works 2 referred to in these current reports has been limited accordingly. At the same time, due to the fact that by 31<sup>st</sup> of August 2020, the Ordering Party did not provide the Contractor with a written notice of the commencement of Works 2, referred to in current reports no. 3/2020 and 13/2020 (covering construction of a shopping mall - a single-level building with all connections and land development works), which was a condition for the commencement of these works, the parties agreed a new deadline for the Ordering Party's delivery of the notice on the commencement of Works 2, setting it for 2



months from the conclusion of Annex 3. The Ordering Party is not obliged to submit this notification. If the notification will not be delivered, the scope of works covered by Agreement and the Contractor's remuneration will be limited to Works 1 only.

Annex no. 3 indicates that the detailed deadlines for the execution of works are adjusted to the changes made and it was agreed, that the remuneration for the performance of works, by which the scope of Works 1 was extended, would amount to approx. 2% of sales revenues of the Dekpol Capital Group for the year 2019, and the remuneration for Works 2 will be reduced to the level of approx. 9% of sales revenues of the Dekpol Capital Group for the year 2019. The amount of total remuneration for Works 1 and Works 2 has not been changed.

Agreement with z Karuzela Kołobrzeg Sp. z o.o. contains provisions regarding contractual penalties due in the case of, among other things, delay in keeping deadline for the final completion of the Agreement, in execution of individual stages of works arising from Agreement, as well as removal of defects, however the limit of listed penalties has been set on 10% of remuneration value. In addition, Parties of the Agreement dispose the right to demand payment of a contractual penalty in the amount of 10% of the remuneration value in case of withdrawal from the Agreement through the fault of the contractual party. Ordering Party has the right to claim compensation exceeding the amount of reserved contractual penalties up to the full amount including loss of profit. The Issuer may entrust the execution of a part of works and supplies to subcontractors, however, it is responsible for their actions as if it were carrying out these works and deliveries by itself. Agreement includes provisions concerning the right of withdrawal from the Agreement to be issued by Ordering Party. The Agreement contains provisions regarding the right of withdrawal by the Ordering Party from the Agreement in whole range or in some part, among other things, when Contractor fails to meet work deadlines set in the schedule or fails to deliver the subject of the Agreement in the required quality and in accordance with the agreed conditions.

About the above mentioned events the Company announced in current report no. 3/2020 dated 21<sup>st</sup> of January 2020 and no. 10/2020 dated 9<sup>th</sup> of April 2020, no. 13/2020 dated 20<sup>th</sup> of May 2020 and 23/2020 dated 25<sup>th</sup> of September 2020.

### **Conclusion of an annex to the agreement on general contracting services for Iglotex S.A.**

On 31<sup>st</sup> of January 2019 Dekpol S.A. concluded with Iglotex S.A. an annex to the letter of intent regarding the selection of the Issuer as the General Contractor for the implementation of works consisting in the design, agreement and construction of a production and storage facility in Skórcz prolonging deadline for





conclusion of the general contracting agreement to 14<sup>th</sup> of February 2020 (initially 31<sup>st</sup> of January 2020).

The Agreement for general contracting of investments in the "design and build" formula (Contract) was finally concluded on 18<sup>th</sup> of February 2020 (event after the balance sheet date). In accordance with Agreement, Iglotex ordered and Contractor was entrusted with execution, under conditions set in Agreement, of works consisting in projecting and execution –a as general contractor of the project –of an investment covering construction of a production-storage hall of the Company Iglotex in Skórcz of net area of 24 thousands of m<sup>2</sup> along with internal installations, belonging land works and external car park. Completion by the Issuer of the subject of the Agreement as well as obtaining of the use permit has been scheduled on August 2020, whereby the Agreement provides for the possibility of extending of the date of Agreement's completion in the cases specified therein. For the proper execution of the subject of the Agreement, the Contractor will receive a fix-rate remuneration in the amount of approximately 10% of the revenues of the Issuer's Capital Group for 2019.

On 6<sup>th</sup> of May 2020 (event after the balance sheet date), the Issuer signed with Iglotex S.A. an annex to the Agreement introducing performance of additional works consisting in implementation of the office part of the above-mentioned of investment, as a result of which, the deadline for completing the works covered by the Agreement was set at the end of September 2020. Due to this change, the total value of the Issuer's net remuneration for the performance of the Agreement increased and will amount to approx. 11% of sales revenues of the Dekpol Capital Group for 2019.

Agreement provides contractual penalties, among other things for failure in meeting deadlines specified in the Agreement, delay in removing defects, in providing collateral for the due performance of the Agreement and providing warranties and guarantees, etc. In addition, Agreement provides, that the Party of the Agreement is obliged to pay a contractual penalty in the amount of 10% of net remuneration in case of withdrawal from the Agreement for reasons attributable to the other party. The maximum amount of contractual penalties set in the Agreement calculated by any of parties may not exceed 10% of the net remuneration sum. At the same time, stipulation of any contractual penalty in the Agreement does not deprive parties of the right to seek compensation exceeding this contractual penalty, in particular for all penalties and damages incurred by the parties due to the non-execution or improper execution of the Agreement by the other party. Agreement contains provisions regarding the right of withdrawal by the Ordering Party from Agreement, i.e. when the Contractor delays the commencement or completion of works to such an extent,



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that it is unlikely, that he will be able to meet deadlines, the execution of the works will be delayed by more than 14 days in relation to the specified deadlines, and this condition will be maintained, etc. Contractor is entitled to entrust execution of some part of works to subcontractors.

About the above mentioned events the Company announced in current report no. 4/2020 dated 31<sup>st</sup> of January 2020 and no. 7/2020 dated 18<sup>th</sup> of February 2020.

### **Conclusion of the agreement on construction works: production-storage center in Ożarów Mazowiecki commune**

On 11<sup>th</sup> of February 2020 the Company received concluded with PDC Industrial Center 126 Sp. z o.o. (entity picked out by Panattoni Development Europe Sp. z o.o., further "Ordering Party") mutually signed agreement on construction works covering execution and hand-over for use production-storage center along with office-social backrooms, a guardhouse and pump-room ("Object"), as well as execution of all other additional works and project works ("Agreement"). Completion by the Issuer of all works on Object, as well as obtaining the use permit is expected to take place in June 2020. The Issuer's flat-rate net remuneration for the Object's execution has been set at around 5% of the Issuer's Capital Group revenues for 2018 (converted at the euro exchange rate from 11<sup>th</sup> of February 2020.). Contract was completed on time.

About the above mentioned event the Company announced in current report no. no. 6/2020 dated 11<sup>th</sup> of February 2020.

### **Conclusion by subsidiary of loan agreements with Alior Bank S.A.**

On 19<sup>th</sup> of March 2020, Dekpol Inwestycje Sp. z o.o. Sol Marina Sp. k. ("Borrower") concluded with Alior Bank S.A. ("Bank") two agreements on revolving loan in the amount of PLN 59,2 million ("Loan1") and the other revolving loan in the amount of PLN 4,8 million ("Loan2"). Funds from Loan1 will be used on financing/refinancing of costs connected with execution of real-estate development project called "Sol Marina" in Wiślinka near Gdańsk, about which the Issuer announced in current report no. 27/2019 dated 30<sup>th</sup> of September 2019 ("Investment"), while the funds from Loan2 will be used for financing of VAT (Value Added Tax) tax connected with investment execution costs. Both loans have been granted for the period until 31<sup>st</sup> of July 2020. The interest rates are equal to WIBOR 3M rate plus the Bank's margin. The loans will be released after meeting the formal and legal conditions. Collateral for the Bank's claims under Agreements are, inter alia., contractual mortgage up to PLN 95.9 million on the Borrower's right of ownership of the property on which the Investment is being carried out, pledge on the Borrower's accounts maintained at the Bank, transfer of receivables from the general contracting agreement concluded with the general contractor of the Investment - Dekpol S.A., surety





granted by Dekpol S.A., a statement of the Borrower, limited partner of the Borrower and the Issuer on voluntary submission to enforcement pursuant to art. 777 of the Code of Civil Procedure, as well as a support agreement concluded with the Borrower's limited partner and the Borrower, including commitment to cover the costs of Investment execution exceeding the investment budget approved by the Bank.

About the above mentioned event the Company announced in current report no 9/2020 dated 19<sup>th</sup> of March 2020.

### **Conclusion of an annex to the agreement concerning construction of a storage-production centre in Rumia at Działkowców Street**

On 14<sup>th</sup> of April 2020 the Company received from TricityNorth Sp. z o.o. bilaterally signed annex to the Agreement regarding construction works covering execution and hand-over for use of a storage-production centre along with social-office backroom, guardhouse and pumping station in Rumia at Działkowców Street of a total area of approximately 45 thousands of m<sup>2</sup>, introducing additional works for implementation, as a result of which, the deadline for completion of the last stage of works covered by Agreement has been set on the end of October 2020. In connection with this change, the total value of Issuer's net remuneration for execution of works set in Agreement increased and will amount to approximately 10% of sales revenues of the Dekpol Capital Group for 2019 (converted at Euro exchange rate for 14<sup>th</sup> of April 2020)

The agreement provides for a number of contractual penalties, including in case of a delay for reasons attributable to the Contractor resulting in a delay in meeting the deadlines for completion of works, a delay of the so-called early access, deadlines indicated in the schedule and deadlines for removing defects, with the limit of the listed penalties being 10% of the contract price. In addition, the parties to the Agreement have the right to demand payment of a contractual penalty of 10% of the contract price for withdrawal from the Agreement for reasons attributable to the other party to the Agreement. The parties have the right to claim supplementary compensation for damages up to the full amount of the damage. The issuer may entrust subcontractors with some construction works, however he is responsible for their actions and omissions as for his own. The Agreement contains provisions regarding the right to withdraw from the Agreement by Tricity, including if the Contractor fails to perform any of his significant duties in accordance with the schedule, the Contractor will carry out work in a manner that violates the provisions or if due to force majeure or third party actions the project implementation becomes impossible or the schedule will be shifted by at least 3 months.



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About the above mentioned event the Company announced in current report no. 11/2020 dated 14<sup>th</sup> of April 2020.

### **5.3 FACTORS AND EVENTS, INCLUDING UNTYPICAL ONES, WHICH HAD MATERIAL EFFECT ON FINANCIAL STATEMENT**

In H1 2020, there were no factors or events other than those described in remained points of this quarterly report, including those untypical ones, which had a material effect on financial statement of the Issuer and the Capital Group.

### **5.4 EVENTS AFTER BALANCE SHEET DATE**

#### **Conclusion of the agreement with Pruszcz Logistics sp. z o.o. on execution of storage-office building**

On 3<sup>rd</sup> of July 2020 the Company received signed by contracting partner i.e. Pruszcz Logistics Sp. z o.o. ("Ordering Party") agreement on execution of storage-office building of the space approximately 26,4 thousands of m<sup>2</sup> along with belonging infrastructure and accompanying site improvement in Wojanowo ("Agreement" and "Object" respectively). The Object will be implemented in two stages: stage no. I covering a building with an area of approximately 13,2 thousands of m<sup>2</sup>, along with adjacent roads, parking lots and the necessary infrastructure, with completion date scheduled for August 2020 as well as stage no. II covering a building with an area of approximately 13,2 thousands of m<sup>2</sup>, along with adjacent roads, parking lots and the necessary infrastructure, whereby implementation of the second stage is optional and must be confirmed by the Ordering Party in advance by 31<sup>st</sup> of March 2021. In case of the implementation of stage no. II, the deadline for its implementation has been set at 4 months from the date of release to implementation, i.e. confirmation by the Ordering Party and forwarding of final guidelines to the abovementioned stage. The contract also contains provisions regarding implementation of the second building as stage no. III of the investment, while its implementation is optional and must be confirmed in advance by the Ordering Party. The scope of works and implementation schedule of the 3<sup>rd</sup> stage will be agreed by Contracting Parties after confirmation of its implementation.

As part of the Agreement, the Issuer has been obliged for drawing up of an executive design project, all technical documentation, for conclusion of agreements with architects, design consultants and appraisers for the purposes of implementation of the Agreement as well as for obtaining of a final occupancy permit for the Object. General Contractor's flat-rate net remuneration for the implementation of the Agreement amounts to over 12% of sales revenues of the Dekpol Capital Group for the year 2019, converted according to the euro exchange



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rate from 3<sup>rd</sup> of July 2020, whereby remuneration for stage no. I will represent over 25% of the total amount of remuneration quote. The Agreement contains provisions regarding contractual penalties, inter alia in case of delays in implementation of a given stage of the Object. The total amount of contractual penalties may not exceed 10% of the remuneration for a given stage of works. The Ordering Party is entitled to claim damages exceeding the amount of reserved contractual penalties.

About the above mentioned event the Company announced in current report no. 15/2020 dated 3<sup>rd</sup> of July 2020.

### **Conclusion of loan agreements with SGB-Bank S.A.**

On 15<sup>th</sup> of July 2020 the Company concluded with SGB-Bank S.A. ("Bank") agreement regarding bank overdraft in the amount of PLN 15 million ("Credit 1"), as well as agreement regarding revolving credit in the amount of PLN 30 million ("Credit 2"). The purpose of Credit 1 granted in the form of a revolving credit line is to finance Issuer's current business operations. The purpose of Credit 2 is to finance the Issuer's current business related to contracts on construction works, whereby Credit 2 replaces the previous revolving credit granted to the Company by the Bank in the year 2017, about which the Issuer announced in Current Report no. 71/2017 dated 14<sup>th</sup> of December 2017. The Company is entitled: to use Credit 1 by 14<sup>th</sup> of July 2022 and is obliged to make repayment by 14<sup>th</sup> of July 2022, as well as: to use Credit 2 by 14<sup>th</sup> of October 2021 and is obliged to make repayment by 14<sup>th</sup> of July 2022. Interest rates on Credit 1 and Credit 2 are variable based on WIBOR 3M rate plus Bank's margin. Credit 1 collateral consist, among other things: blank promissory note with promissory note declaration, contractual mortgage up to PLN 22,5 million on the right of perpetual usufruct and separate ownership of a building located in Gdańsk, guarantee PLG-FGP of the Bank Gospodarstwa Krajowego (BGK). In turn, Credit 2 is secured by, among other things: blank promissory note with promissory note declaration, PLG-FGP guarantee from the Bank Gospodarstwa Krajowego (BGK), as well as by transfer of receivables from contracts on construction works. Credit agreements contain formal and legal conditions, fulfillment of which is necessary for starting of financing, as well as obligations, among other things to maintaining the Group's debt ratios at specific levels.

About the above mentioned event the Company announced in current report no. 17/2020 dated 15<sup>th</sup> of July 2020.

### **Conclusion of annexes to preliminary agreement on sales of a property and general contracting agreement with Kallisto 14 Sp. z o.o.**

On 17<sup>th</sup> of July 2020, the Company concluded with Kallisto 14 Sp. z o.o. (Buyer, Ordering Party) annexes to the preliminary property sales agreement (Preliminary



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Agreement) as well as general contracting agreements for execution of the investment (GW Agreement). The above-mentioned agreements were concluded in December 2019. Pursuant to the Preliminary Agreement, the parties undertook to conclude, under certain conditions, a promised agreement for sale of a land property developed with a building in Swaróżyn with a total area of approximately 14.6 ha ("Property") and the right to design documentation ("Promised Agreement"). As at the date of conclusion of agreements, the property composed of a land property with a total area of 12,7 ha owned by the Issuer ("Property 1") and an adjacent land property with an area of 1,9 ha, which the Issuer intended to purchase from a natural person ("Property 2").

In order to conclude the Promised Agreement, Dekpol S.A. was obliged, inter alia, to construct a warehouse and office facility on the Property (Building 1) as a part of the 1<sup>st</sup> stage of the investment on the Property and to obtain a use permit decision for the Building 1 by 1<sup>st</sup> of August 2020 as well as to purchase by 15<sup>th</sup> of May 2020. of the Property no. 2. The Property no. 2 was purchased by the Issuer in May 2020, thus one of the above-mentioned conditions have already been met. The Issuer also commenced construction of Building no. 1, thus implementing provisions of the Preliminary Agreement.

Pursuant to the Preliminary Agreement concluded, sales price of the Property developed with Building 1 and the rights to the design documentation was set on approx. 8% of revenues of the Dekpol Capital Group for the year 2018. The price was to be increased by value of the expenditure resulting from implementation of the 2<sup>nd</sup> stage of the investment on the Property incurred before conclusion of the Promised Agreement which agreement was to be concluded after meeting certain conditions, but no later than by 17<sup>th</sup> of August 2020. The second stage of the investment is carried out on the basis of the General Contracting Agreement providing for performance in the general contracting system and in "design and build" formula a comprehensive construction-building works and construction-installatory works, including delivery of materials and equipment, the result of which was to be a turnkey construction of two warehouse-production and office buildings with social spacers in 7R Park Tczew in Swaróżyn with accompanying infrastructure (Building 2 and Building 3).

Pursuant to the annexes concluded in July this year, the parties changed the structure of the investment in progress, in such a way that instead of Building no. 1 as a part of the 1<sup>st</sup> stage of the investment project will be executed Building no. 2, which will be qualified as one of conditions for conclusion of the Promised Agreement, whereas Building no. 1 will be constructed within the 2<sup>nd</sup> stage of the whole investment project.



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In the light of the above and taking into account changes made, in order to conclude the Promised Agreement, the Issuer is mainly obliged to construct on the Property the Building no. 2 and obtain by 31<sup>st</sup> of August 2020 of use permit for Building no. 2. In accordance with annexes concluded, the Promised Agreement should have been concluded until 25<sup>th</sup> of September 2020, provided that the relevant public administration authorities will issue at least a conditional use permit for Building no. 2 and the constructed public road. If within this period the above mentioned condition will not be met, each Party is entitled to demand conclusion of the Promised Agreement after fulfilling the above mentioned condition no later than by 31<sup>st</sup> of March 2021. If the condition will not be met within the above mentioned period, the Parties will not be obliged to conclude the Promised Agreement. The deadline for possible withdrawal from the Preliminary Agreement by the Purchaser, among other things in the event of delays or breaches of the Seller in meeting its obligations was extended until 30<sup>th</sup> of September 2021.

As at the date of publication of this report, execution of construction works of Building 2 and the public road has been completed, the Issuer has received use permit for Building 2, but is currently awaiting the issuance of a use permit for the public road. In connection with the above mentioned, in accordance with the will of both parties, the Promised Agreement will be concluded after receiving the above-mentioned permits, probably in October this year.

Sales price of the Property developed with Building 2 and the rights to design documentation will amount to approx. 4% of sales revenues of the Issuer's Capital Group for 2019. The price will be increased by value of expenditure resulting from implementation of Building 1 incurred before conclusion of the Promised Agreement.

Pursuant to concluded In July annexes, under GC Agreement, the Issuer is obliged to construct the Building no. 1 as well as Building no. 3, construction of Building no. 1 is in advanced progress, however at the moment has been suspended, and the construction of Building no. 3 has not been initiated by today by the Purchaser. Completion date for Building no. 1 was set for November 2020, and for Building no. 3 - 8 months since informing the Contractor about the commencement of works related to Building no. 3. The flat-rate net remuneration of the Contractor for construction of both buildings will amount to approx. 9% of sales revenues of the Dekpol Capital Group for the year 2018, however it may be changed in the cases specified in the GC Agreement. Joint conditions for the entry into force of the GC Agreement, which need to be met are: acquisition by the Ordering Party from the Contractor of the ownership right of the Property, as well as commencement of works related to Building no. 3 by the Ordering Party, whereas the above mentioned conditions are reserved in favor of the Ordering Party.



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About the above mentioned event the Company announced in current report no. 18/2020 dated 17<sup>th</sup> of July 2020.

### **Treaty to the agreement regarding construction works in Oława**

On 20<sup>th</sup> of July 2020, the Company signed a treaty with ERGO Elżbieta Jeżewska on the termination of the agreement on construction works regarding reconstruction, extension and partial superstructure of a commercial and service building in Oława (Agreement), the conclusion of which was announced by the Company in current report no. 7/2019 dated 29<sup>th</sup> of March 2019. After resolving discrepancies regarding implementation and termination of the Agreement, which arose when the Agreement was largely implemented and in the context of revenues generated by the Group, they became issues of less importance, the parties agreed on terms of termination of cooperation and mutual settlement, and renounced and undertook not to pursue any existing and future claims against the other party under Agreement.

## **6. FACTORS, WHICH MAY AFFECT ACHIEVED RESULTS IN PERSPECTIVE OF AT LEAST NEXT QUARTER**

The future results of the Issuer and the Group will depend on the success in implementing the development strategy and investment plan specified in the strategy of the Dekpol Capital Group.

Internal factors affecting the Company's and the Group's results in the subsequent periods will be:

- acquisition of new construction contracts and its execution on time,
- further extension of production plant for accessories to construction machines,
- products deliveries on time and keeping of its high value,
- fast acquisition of construction permits of real-estate development projects,
- on time execution of real-estate development projects,
- appropriate sales policy of premises regarding its prices, surface structure and extension of range of services offered to Clients (assistance in finding of financing sources, design services, finishing works services, defects removal services),
- improvement of cooperation with financial institutions, which shall ensure the Company the capital enabling the execution of plans.





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- execution of current projects.

To the factors, which appeared in 1<sup>st</sup> half of 2020 and after its end, which have or could have an impact on financial result of the Company in further periods should be numbered also events presented under point 5 of this report.

Impact on results will have external, macroeconomic factors, such as: general condition of polish economy, inflation, GDP dynamics, tax policy, interest rates, labor market and unemployment rate, investments scale, value of demand on internal market, FX, governmental programs supporting development of residential construction sector. Increase of GDP, society wealth and enterprises development affect increase of demand on construction services both in residential construction area, as well as industrial construction. All those factors affect the positive results of the Issuer and his Capital Group.

It should also be pointed out that the impact on results achieved, in the perspective of at least the next quarter, will have the COVID-19 virus, which spread throughout the world in the first months of 2020, and its negative impact affected many countries. Exchange rates have changed, the value of stocks in the markets has fallen, and commodity prices are fluctuating. As the situation is still developing, the Issuer believes that it is not possible to provide quantitative estimates of the potential impact of the current situation on the Group. Although this situation is still changing at the time of publication of this report, it seems that the negative impact on global trade and the Group may be felt. A possible description of the impact on the operations of the Capital Group will be included in subsequent periodic reports.

At the same time, it should be noted that the situation related to the COVID virus may also have a positive impact on the Group's operations. Recently, there has been a change in the approach of international entities to issues related to the diversification of their activities. It is an activity aimed at securing supply chains that have been broken or paralyzed during the lock-down. The company sees an opportunity in this regard through the prospect of transferring by these entities, whether production or new investments, e.g. from the area of logistics projects to Poland. The impact of COVID may also be reflected in the approach to the e-commerce area, which is now even more important.

Situation related to the virus also influenced actions taken by Dekpol S.A. and Dekpol Steel in the scope of using public aid pursuant to Art. 70 of the Act of 2<sup>nd</sup> of March 2020 on special solutions related to the prevention, prevention and eradication of COVID-19, other infectious diseases and crisis situations caused by them. They also benefited from public aid pursuant to Art. 15gg of the Act of 2<sup>nd</sup> of March 2020 on special solutions related to the prevention, prevention and eradication of COVID-19,



other infectious diseases and crisis situations caused by them by Dekpol S.A. and Betpref Sp z o.o..

## 7. RISK AND THREATS FACTORS

From the point of view of the Issuer's future and the Capital Group, the main risks associated with its operation are as follows:

### **Risks related directly to the operations of the Issuer and the Capital Group**

#### *Risk related to the construction process*

The main feature of construction activity is the necessity of engaging significant funds throughout the investment implementation period, up to the moment the facility is handed over to the counterparty. The services provided by the Capital Group are of individual nature, developed under given conditions and using the available procedures and technologies. Due to the length of the entire construction process, there may be various changes to the conditions set at the beginning. The entire production and executive process carries a variety of risks. During this time, the following risks may occur:

- current design and executive changes at almost every stage of the process,
- incorrect initial estimation of project implementation costs,
- significant change in costs during the project implementation (increase in the costs of material purchase, increase in employment costs),
- limited employment opportunities for qualified staff,
- mistakes made in managing the entire construction process,
- errors related to the applied technical and technological solutions.

All this may have an impact on extending the entire product development process, resulting in increased costs and a delay in payment, which in turn leads directly to a decrease in the Capital Group's result and disruption of the financial balance.

#### *Risk related to weather conditions*

Conducting activity on the wider construction market, the Capital Group is particularly dependent on atmospheric factors. They have an impact not only on the implementation of construction projects, but also on the seasonality of revenues from sales. Revenues from this activity are traditionally the largest in the summer periods, while they usually decrease in winter periods, in particular in the first quarter of a given year. Weather anomalies may have an adverse effect on the timing of projects, the extension of which may result in increased project costs and customer





claims due to non-compliance with contractual conditions. The Capital Group, while creating a project implementation schedule, assumes typical atmospheric conditions for the given seasons. The Capital Group is trying to plan implementation schedules so that during winter periods, it will ensure finishing works inside buildings and perform tasks that can be performed at sub-zero temperatures. In spite of undertaking actions aimed at flattening the revenue structure, it should be taken into consideration the diversity of financial results in individual quarters of the year.

*The risk of changes in prices and availability of materials, raw materials and goods*

In case of the activity conducted by the Capital Group, due to the length of the entire production process, the risk of material price increases is significant, which translates directly into the disruption of the investment budget and its profitability. The same applies to the availability of the necessary materials and raw materials. Their limitation would entail disruption of the entire production process and delay in the completion of projects. In addition, the risk of rising fuel prices, which is an important price-creating factor, must also be taken into account. However, if the overall level of investment increases, there is a risk of lengthening the waiting time for the necessary materials. The occurrence of such a situation may have a negative impact on the Capital Group's financial result and its development prospects. Therefore, actions are taken to minimize this type of risk by concluding long-term contracts with key suppliers. Thanks to this, it is possible to balance unfavorable factors and more accurate cost planning, translating directly into the Capital Group's profitability.

*The risk related to underestimating contracts*

The Capital Group's contracts are based on their previous cost estimation. There is a risk that some of the works may be omitted from incomplete or incorrect recognition, and in the light of the lump-sum character of remuneration for work - the necessity of bearing their costs by the Capital Group itself, and as a result - losses on the investment. This may have a negative impact on the Issuer's operations, financial position or results. It should be explained that the Capital Group makes due diligence in the preparation of offers and employs qualified and experienced cost estimators, while during the implementation of the investment, it verifies the costs incurred in relation to the assumed ones.

*Risk related to the contracts being performed, including defects and failures*

Due to the fact that the construction process is very complex, in itself it can be a source of risk for the Capital Group. Despite cooperation with renowned and proven contractors and suppliers, as well as ongoing supervision over the performance of works, the Capital Group is not able to fully guarantee the absence of failures or defects in the completed investments. The disclosure of failures or defects may have



a negative impact on the Issuer's market image and its financial result due to the need to incur additional costs related to the removal of the defect or failures. In addition, long-term removal of defects and failures may lead to failure to meet project deadlines, which will also adversely affect the Capital Group's financial situation, due to the need to pay potential contractual penalties to clients with whom term contracts or payment of amounts resulting from claims for damages have been concluded. It cannot be ruled out that materials used to carry out construction works will have hidden defects that may affect the quality of the investment. In connection with the above, the Issuer applies various methods of protection against this type of risk. First of all, the implemented procedures minimizing delays are applied in the implementation of the investment. Agreements are concluded with permanent and proven suppliers and subcontractors who provide the Capital Group with high quality and timely work as well as deferred payments. Also important here are the efficient procedures for ongoing internal control and monitoring of individual orders. It is worth emphasizing that in the Issuer's current operations such events have occurred sporadically.

*Risk related to the concentration of activities on the local market*

The majority of investments carried out by the Issuer in the scope of General Contracting segment as well as property development activities are located in the area of the Pomeranian Voivodship. The concentration of activities on the local market causes dependence on the local market situation. As a result, the Capital Group must compete with a large number of domestic and foreign business entities serving the property development and construction market. Such local restrictions mean that the Issuer's revenues largely depend on the level of activity of investors in the region, who have a demand for the Capital Group's services and the demand on the housing market. A significant reduction in the level of local investments, or a lot of competitive housing investments may have an impact on reducing the Capital Group's revenues. This translates directly into the financial result and prospects of the Capital Group's development in the future. To mitigate this risk, new contracts are being sought on a wider market, which will allow for greater independence from the situation on the local market and will contribute to the development of the Capital Group. The Capital Group also focuses on strengthening its market position and increasing its competitive advantage by providing high-quality services and timely delivery as well as offering comprehensive solutions for both private investors and investors representing international concerns developing their operations in Poland.

*Risk related to changes in market trends*

One of the most serious risks is the possibility of changes in market trends. The demand for investment goods is affected by many variables independent of the Capital Group. On the other hand, the revenue generated by the conducted



activity is directly affected by demand and supply for construction services. There is a risk of deterioration in the construction market by limiting the amount of investment, which may translate into the level of the margin, and thus - the profitability of the Capital Group. In addition, the Capital Group's revenues depend to a large extent on the activity of investors in the region. A reduction in the level of investment may have an adverse effect on its financial results and development prospects. To mitigate this risk, the Capital Group is looking for new contracts in the wider market. This serves to minimize the risk of concentration of activity only on the local market. In addition, the Management Board, in case of adverse market changes, will implement measures aimed at adapting the Capital Group to the changing market realities, e.g. through actions aimed at reducing costs.

*Risk related to non-payment of receivables by ordering parties*

Contracts for the execution of construction works usually include clauses concerning payments for individual construction stages and provisions guaranteeing partial invoicing for performed works. As a result, the risk of payment default for services provided is low. However, there is a risk that, despite the implementation of a given stage of work, the principal fails (or does not meet his / her agreed dates) from the agreed payments, which may lead to limitation of the Capital Group's financial liquidity and, in extreme cases, lead to financial losses. The Issuer tries to limit the above risk by signing contracts with reliable contractors, however, it cannot guarantee that such losses may incur in the future. In addition, all customers who are interested in using the trade credit are subject to verification procedures, and the Issuer monitors the receivables on an ongoing basis. It is also important that this type of risk is limited to a certain extent by the provisions of the Civil Code regarding payment guarantees for construction works.

*Risk related to current financing of operations*

The Capital Group finances its operations also with use of funds from bank loans. As at the date of this report, there are no indications that there may be difficulties with the Capital Group's performance of obligations under loan agreements. However, the risk of such problems in the future cannot be completely eliminated. In an extreme case, in order to meet obligations, the Issuer may be forced to sell some assets, which could negatively affect the Capital Group's financial situation and opportunities for further development.

*Risk related to the implementation of real-estate development projects*

The property development project cycle is a long-term cycle (over 24 months), characterized by the need to incur significant financial outlays and the total return of incurred expenses only after the minimum of 2 years. The following financial results may have a fundamental impact on the financial results realized as part of the



property development activities, in particular: - the need to incur additional costs; - postponing the date of completion of construction; - delay in obtaining consent for use; - delays in completing the documentation necessary to sign the notary deeds of sale.

*The risk related to the change of apartments price as a part of the real-estate development activity*

Profitability of property development activity depends on the prices of sold premises, for which the Capital Group has no direct influence. The current level of prices is mainly influenced by the level of wealth of the society, the availability of loans and the level of interest rates. During the price reduction period, the Capital Group may significantly reduce the sale of constructed premises, and in extreme conditions, stop the implementation of selected projects. Such a situation, in case of its occurrence, may have a negative impact on the Capital Group's financial result.

*Risk associated with the use of clauses not allowed in contracts concluded as part of the real-estate development activity*

The Capital Group operates, among others in the property development industry, selling premises largely to consumers. In relations with consumers, the Capital Group uses usually developed contract templates. There is a risk of accusation against the Issuer that the formulas used contain prohibited contractual provisions, which, pursuant to Art. 385 (1) §1 of Civil Code it is understood as such unconcerned individual clauses that shape its rights and obligations in a manner contrary to good customs, grossly violating its interests. This may have a negative impact on the Capital Group's operations, financial position or results. It should be explained that the Issuer negotiates contracts with clients and provides the possibility to individually agree their provisions. So far, there have been no proceedings against the Capital Group regarding recognition of the provisions of the template as prohibited.

*Risk of accidents at the construction site*

Dekpol Capital Group, as conducting construction works as a general contractor during the implementation of individual projects, is responsible for its employees. Exclusion is subject to liability for employees of subcontractors, except for cases resulting from misconduct, negligence on the part of the Capital Group. Minimizing the indicated risk takes place through appropriate organization of work and strict compliance with health and safety at work regulations. However, the risk associated with possible claims for damages in case of an accident at the construction site, which may also affect the timeliness of the work carried out, cannot be excluded.



### *Risk related to subcontractors*

One of the factors that have a significant impact on the correct course of contracts' implementation is cooperation with subcontractors. In addition to its own human resources, the Capital Group uses the services of subcontractors, at the same time taking over from investors the risk associated with improper performance of contract terms or late performance of the subject of the contract by subcontractors. This may result in the Capital Group's violation of the contract with the investor and lead to claims against the Capital Group and expose him to the loss of the status of a reliable contractor, which adversely affects the financial result of the Capital Group. The Capital Group tries to limit this risk by intensifying activities aimed at building its own base of qualified employees. In addition, the Capital Group, while constructing contracts with subcontractors, defines the terms and conditions in an attempt to protect it against non-performance or improper performance of the terms of the agreement by these entities. The risk related to improper performance of works by subcontractors is further reduced by appropriate selection of subcontractors, i.e. verified subcontractors with whom the Issuer has been cooperating for many years, possessing appropriate certificates and experience. Limited availability of external subcontractors may also result in an increase in costs incurred for subcontractors, and thus not affect the Capital Group's financial results and financial situation, which tries to limit the impact of this phenomenon by expanding its own executive forces. It should also be noted that if the Capital Group uses the services of subcontractors without obtaining the consent of the investor or contractor, he exposes himself to the risk of terminating the contract. In addition, in such cases the provision of article 6471 of the Civil Code providing for joint and several liability of an entity concluding a contract with a subcontractor, investor and contractor for payment of remuneration for services performed by a subcontractor. The Capital Group, being aware of this risk, each time seeks to obtain appropriate approvals from investors or contractors.

### *Risk associated with acquiring new contracts*

The nature of the business activity conducted by the Capital Group means that a significant number of contracts is obtained through a tender. The Capital Group's Management Board prepares offers, defines and optionally negotiates the terms of bids, and prepares the Company for the implementation of these contracts, however, it does not affect the criteria for the assessment of bids, which are the basis for their selection. One of the key factors contributing to the success of the Capital Group is the consistent implementation of the development strategy focused on acquiring contracts with the highest profitability. The Capital Group has developed an effective contract valuation system, which, combined with strict cost control, means that the Capital Group is currently executing contracts at assumed profitability and achieving good financial results. The Capital Group pays attention



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to the restructuring and minimization of all cost elements, both at individual stages of the contract execution as well as the general management costs of the Company. It cannot be ruled out that changing market conditions will negatively affect the Issuer's ability to acquire new contracts and achieve a satisfactory level of margin. In order to minimize this risk, the Capital Group aims to continuously improve the project management system including the process of bidding and budgeting contracts. In addition, high activity in tender procedures contributes to the continuous improvement of efficiency in obtaining new contracts.

### *Risk related to competition*

Construction market in Poland is served by a large number of business entities, both domestic and foreign, including significant European groups / construction companies. In terms of competition, the Capital Group on the one hand deals with small companies that provide their services on local markets, and on the other with strong capital groups that carry out large and complex construction projects. The Capital Group implements industrial construction facilities in the general contracting system. The Capital Group focuses on strengthening its market position and increasing its competitive advantage by providing high quality services and timeliness, as well as offering comprehensive solutions for both private investors and investors representing international concerns developing their operations in Poland. In order to minimize the risk associated with competition, the Capital Group carries out his work with the utmost diligence, building the best possible relations with clients. In addition, the Capital Group limits the risk in question by diversifying its operations (implementation of investments as part of general contracting, property development activities, steel structures and elements of construction machines).

## **Risks related to the environment in which the Issuer and the Capital Group operate**

### *Risk related to virus pandemic (COVID-19)*

The risk that has an increasing impact on the global and Polish economy is the Covid-19 pandemic spreading as at the date of publication of this report. The Dekpol Capital Group identifies potential risk that may affect particular areas of the Group's operations arising directly or indirectly from the current situation. In relation to the general contracting segment and the production of accessories to construction machines these are primarily: limited availability of administrative and production employees, subcontractors' employees as well as limiting or suspending production at plants supplying materials or elements for the investment. It cannot be excluded that in the current situation there may be delays in implementation of projects due to force majeure. In real-estate development segment, we can indicate the risk of temporary reduction in the number of physically signed legal acts transferring ownership of premises to new buyers. The postponement of their conclusion in the





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Group's assessment should in long-term period to affect the Group's results, but only in the next few months. Delays in obtaining construction permits and other administrative decisions necessary to start or continue construction process are also possible.

The Group reserves, however, that due to the unprecedented scale of the phenomenon and the dynamics of events, it is difficult as at the date of publication of this report to predict further development of situation and to assess the impact of potential effects of a pandemic, as well as to assess possible scenarios of behavior of major investors, customers, suppliers and subcontractors. Dekpol conducts activities adapting functioning of companies to changing conditions, so as to securely ensure continuity of operations. The Group also undertakes necessary preventive actions in the scope of projects implemented by the Group as well as educational actions in relation to employees. At the same time, management boards of individual Group's companies will react to changing market conditions on an ongoing basis.

### *The risk related to the macroeconomic situation*

Results obtained by Dekpol Capital Group depend on the macroeconomic situation and the pace of economic growth in the markets on which its operations are conducted. Due to the fact that the Dekpol Capital Group operates mainly on the Polish market, the shaping of the economic and political situation in Poland has a significant impact on the financial results achieved and the implementation of the strategy. Unfavorable changes, including in particular a slowdown in economic growth, may negatively affect the level of investment expenditures in the economy, lead to a deterioration of the construction market, including through a smaller supply of projects for general contracting, and cause a slowdown in development and deterioration of the Capital Group's profitability.

### *Risk of instability of the Polish tax system*

Regarding the Polish tax system, there are frequent amendments, incoherence and lack of uniform interpretation of tax law. These inaccuracies entail significant risks related to the tax environment in which the Capital Group operates. Questioning by the tax authorities of tax settlements made by the Issuer, due to discrepancies or changes in interpretation or non-uniform application of tax law by various tax administration authorities, may result in imposing relatively high penalties or other sanctions on the Capital Group. Considering the relatively long period of limitation of tax liabilities, the assessment of tax risk is particularly difficult, however the fulfillment of the risks described above may have a material adverse effect on the Capital Group's operations, financial position or results.



*Risk related to the lack of stability of the Polish legal system*

Polish legal system is subject to numerous changes that have a huge impact on the Capital Group's operations. The most important for him are changes made in the following legal provisions: - construction law, - commercial law, - tax law, - labor and social insurance law, - law established by local government units. Introduced legal changes can potentially create a risk related to interpretation problems, lack of case-law practice, unfavorable interpretations adopted by courts or public administration bodies. It should also be remembered that currently interpretation of the provisions is made not only by Polish courts and public administration bodies, but also by the courts of the European Community. These changes may cause problems resulting directly from the lack of a uniform interpretation of the law. Since the knowledge of Community jurisprudence is not common in Poland, and the Polish courts do not always apply it, a situation may arise where the sentence pronounced in Poland will be repealed as incompatible with European law. Implemented legal changes can potentially create a risk related to interpretation problems, lack of case-law practice, unfavorable interpretations adopted by courts or public administration bodies. It should also be remembered that currently interpretation of the provisions is made not only by Polish courts and public administration bodies, but also by the courts of the European Community. These changes may cause problems resulting directly from the lack of a uniform interpretation of the law. Since the knowledge of Community jurisprudence is not common in Poland, and the Polish courts do not always apply it, a situation may arise where the sentence pronounced in Poland will be repealed as incompatible with European law. Changes in law or various interpretations may create some threats. Inconsistency, lack of uniform interpretation of legal provisions, frequent amendments and existing contradictions between the provisions of laws and executive acts entail a serious risk in running a business. Possible changes in the regulations may lead to negative effects on the Issuer's operations. The entry into force of the new regulations on business transactions may be connected with interpretation problems, inconsistent court decisions, unfavorable interpretations adopted by public administration bodies, etc. Changes in law related to this may affect the legal environment of business operations, including the Capital Group's. In order to minimize the above-described risk, the Capital Group monitors the changes of the law on an ongoing basis and uses professional legal assistance.

*Risk associated with building regulations*

Due to the type of activity conducted by the Capital Group, the most important legal acts are regulations in the field of construction law and general execution of implemented investments. The basic duties that should be met and implemented by the Capital Group during the implementation of the investment, as well as before





and after its completion, are defined by the Construction Law Act of 7<sup>th</sup> of July 1994. (Journal of Laws 2019, item 630). In addition, the provisions of the Civil Code regulating the issue of contracts and construction works provide for additional restrictions related to the occurrence of the Capital Group as a general contractor or investor. They were included in Title XVI of the CC, which defined the form and scope of the contract, scope of works, payment guarantee and its amount, information on obstacles and damages at the construction site, a form of partial acceptance, as well as the risk of destruction of the facility. An inappropriate manner of performance of duties is connected with the risk of a delay in the performance of a given project, its suspension or non-performance, and may have a negative impact on the financial result and the operations or organizational situation obtained by the Capital Group. However, according to best knowledge, contracts for construction works, to which the Capital Group was or is a party, contain provisions in accordance with the provisions of the Civil Code.

### **Risks related to financial instruments**

#### *Currency risk*

The Capital Group operates mainly in Poland. In the field of export activity, the Capital Group is exposed to the risk of exchange rate fluctuations. Strengthening the exchange rate of the Polish currency against the currencies of the countries to which the Capital Group's products are exported, will lead to a reduction in sales proceeds, which in turn will have a negative impact on the financial results achieved by the Capital Group.

#### *Interest rate risk*

The Capital Group finances its activities, among others with variable rate debt (including working capital loans and bonds). Therefore, it is exposed to interest rate risk. In case of a significant increase in interest rates, the Capital Group's financial results may deteriorate due to increase in financial costs. In addition, high exposure associated with this risk and inappropriate assessment of this risk may adversely affect the Capital Group's financial results.

#### *Risks related to bonds issued*

Due to bonds issued, the Capital Group's assets may be depleted, as in case of defaults on repayment of liabilities, including interest payments, the bondholders have grounds to enforce their early redemption, which may significantly deplete the Capital Group's current assets. Nor can it be ruled out that, in case of non-payment of obligations, bondholders - creditors may exercise their right to apply to court to declare bankruptcy. As at the date of publication of this document, the Capital Group has no problem with timely debt bond service. The Capital Group, as at the



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date of publication of this document, does not identify real risks related to bonds issued. However, taking into account all the risks directly related to the operating activity, the Capital Group does not rule out that in the future there may be problems in the timely repayment of liabilities.

### *Risks related to concluded loan agreements*

Due to credit obligations, the Capital Group's assets may be depleted, because banks in case of fail to meet the loan obligations may have grounds to terminate loan agreements and may proceed with the enforcement of loan repayments or take advantage of the assets subject to collateral. It cannot be ruled out that if the liabilities fail to be settled, the banks-creditors may exercise their right to apply to bankruptcy. Not servicing the credit obligations by the Issuer will cause that interest will increase which will increase its indebtedness.

## 8. SURETIES AND GUARANTEES

In the first half of 2020, the Company and its subsidiaries did not provide any sureties or guarantees regarding financial liabilities of other entities. The company provided guarantees and received guarantees regarding construction works performed, however, the total value of existing sureties and guarantees is not significant in the Company's opinion in the context of the scale of the Capital Group's operations and its financial results

In the first half of 2020, between the Issuer and affiliates mutual sureties and guarantees were granted, including the following sureties for financial liabilities of companies from the Dekpol Capital Group.

<b>Beneficiary</b>	<b>Financial product</b>	<b>Amount in thousands of PLN</b>	<b>Debt as at 30.06.2020 in thousands of PLN</b>	<b>Type of collateral</b>	<b>Repayment date</b>
Dekpol Inwestycje Sp. z o.o. Sol Marina Sp. k.	Working capital loan in Alior Bank, umowa nrU0003400195815A	59 162	0	Surety by Dekpol SA	2022-07-31
Dekpol Inwestycje Sp. z o.o. Sol Marina Sp. k.	Working capital loan in Alior Bank, agreement no. U0003400195815B	4 800	0	Surety by Dekpol SA	2022-07-31
Dekpol Steel Sp. z o.o.	Factoring in Santander, agreement no. 3673/54472019	21600	10 319	Surety by Dekpol SA	2021-06-30



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Dekpol Deweloper Sp. z o.o.	A-series bonds	30 000	30 000	Surety by Dekpol SA	2022-06-19
Dekpol S.A.	Factoring in BPS, agreement no. 377/377/2020	15 000	0	Surety by Dekpol Budownictwo Sp. z o.o.	2021-06-29

As at 30<sup>th</sup> of June 2020, the total balance of guarantees and sureties granted and received by the Dekpol Capital Group is presented in the table below:

Item	30.06.2020	31.12.2019
Conditional liabilities towards affiliates - guarantees of satisfactory performance of contracts	0	0
Conditional liabilities towards affiliates – guarantees and sureties of repayment of financial liabilities	0	0
Other conditional liabilities	0	0
Conditional liabilities towards affiliates	0	0
Granted guarantees of satisfactory performance of contracts - insurance	51 188	28 180
Granted guarantees of satisfactory performance of contracts - banking	25 780	35 581
Granted guarantees and sureties of repayment of financial liabilities	0	0
Court litigations	0	0
Other conditional liabilities	0	0
Conditional liabilities towards non-affiliates	76 968	63 762
<b>Conditional liabilities</b>	<b>76 968</b>	<b>63 762</b>
Received guarantees of satisfactory performance of contracts from affiliates	0	0
Received guarantees and sureties of repayment of financial liabilities from affiliates	0	0
Other conditional assets	0	0
Conditional assets from affiliates	0	0
Received guarantees of satisfactory performance of contracts from non-affiliates - insurance	4 126	2 396
Received guarantees of satisfactory performance of contracts from non-affiliates - banking	2 572	2 414
Received guarantees and sureties of repayment of liabilities from non-affiliates	0	0
Conditional receivables - Court litigations	0	0
Other conditional assets from non-affiliates	0	0
Conditional assets from non-affiliates	6 698	4 810
<b>Conditional assets</b>	<b>6 698</b>	<b>4 810</b>



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As at 30<sup>th</sup> of June 2020, the total balance granted and received by the Issuer guarantees and sureties are presented in the table below:

Item	30.06.2020	31.12.2019
Conditional liabilities towards affiliates – guarantees and sureties of repayment of financial liabilities	0	0
Conditional liabilities towards affiliates - guarantees of satisfactory performance of contracts	0	0
Other conditional liabilities	0	0
Conditional liabilities towards affiliates	0	0
Granted guarantees and sureties of repayment of financial liabilities	51 188	28 180
Granted guarantees of satisfactory performance of contracts - insurance	25 780	35 581
Granted guarantees of satisfactory performance of contracts - banking	0	0
Court litigations	0	0
Other conditional liabilities	0	0
Conditional liabilities towards non-affiliates	76 968	63 762
<b>Conditional liabilities</b>	<b>76 968</b>	<b>63 762</b>
Received guarantees and sureties of repayment of liabilities from non-affiliates	0	0
Received guarantees of satisfactory performance of contracts from non-affiliates - insurance	0	0
Received guarantees of satisfactory performance of contracts from non-affiliates - banking	0	0
Conditional receivables - Court litigations	0	0
Other conditional assets from non-affiliates	4 126	2 396
Conditional assets from non-affiliates	2 572	2 414
Received guarantees and sureties of repayment of financial liabilities from affiliates	0	0
Received guarantees of satisfactory performance of contracts from affiliates	0	0
Other conditional assets	0	0
Conditional assets from affiliates	6 698	4 810
<b>Conditional assets</b>	<b>6 698</b>	<b>4 810</b>

## 9. TRANSACTIONS WITH AFFILIATES

In 1<sup>st</sup> half 2020 neither Issuer nor any of its subsidiaries entered into any transaction with affiliates on other than market terms.



## **10. PROCEEDING BEFORE A COURT, ARBITRATION BODY OR PUBLIC ADMINISTRATION AUTHORITY**

Within the period of the 1<sup>st</sup> half of 2020 there were no proceedings pending before government authorities, courts, or arbitration bodies in terms of receivables or liabilities of the Company or its subsidiaries.

At the same time, it needs to be considered that the specificity of the Company's operations involves multiple proceedings related to claims regarding completed projects. It also happens that the Company is the defendant – usually this is related to projects carried out as part of property development operations.

## **11. OTHER SIGNIFICANT INFORMATION NECESSARY FOR EVALUATION OF THE CAPITAL GROUP'S POSITION**

There are no other information which, in the Company's opinion, are significant for the assessment of the personnel, property, financial situation, financial result of the Company and the Capital Group and their changes, and information that are significant for the assessment of the ability to meet obligations by the company and the Dekpol Capital Group.

In September 2020, Dekpol S.A. signed a Letter of Intent with 01Cyberaton S.A., a company listed on the NewConnect market regarding cooperation in the implementation of projects on the photovoltaic market. The parties expressed their will to cooperate in preparation and development of projects on this market, including land lease, purchase of ready-made projects and creation of a consortium for construction of photovoltaic power plants. Parties anticipate that, as a part of cooperation, some tasks would be carried out by special purpose vehicle T&T Inwestycje 01 Sp. z o.o., currently 100% subsidiary of 01Cyberaton S.A., to which the Issuer would join. At the execution of projects shall be used, on the one hand, professional experience on the RES (OZE) market and the know-how of T&T Proenergy Sp. z o.o., which is currently being taken over by 01Cyberaton S.A., and on the other hand – broad competences of Dekpol S.A. in the field of comprehensive project management and construction activities. The possible cooperation will allow



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to start building competence and references of Dekpol S.A. on the photovoltaic market. Valuing perspectives for the RES (OZE) market, at the time of publishing this report, Management Board of the Company does not anticipate, that in the near future the implementation of projects of this type could be treated as another segment of the Dekpol Capital Group's business operations.

## 12. FINANCIAL INDICATORS

Debt to EBITDA Ratio - meaning the ratio of the total net debt (total balance sheet value of Dekpol Capital Group's consolidated interest bearing liabilities minus cash and cash equivalents) to EBITDA (total operating result and depreciation / amortization) amounts to as of 30<sup>th</sup> of June 2020: 1,19.

Indebtedness to Equity - meaning the ratio of the total net debt (as above) to the equity of the Dekpol Capital Group amounts to as of 30<sup>th</sup> of June 2020: 0,43.

## 13. CONTACT

Name(business name):	Dekpol Spółka Akcyjna
Abbreviated name:	Dekpol S.A.
Address of the registered office:	ul. Gajowa 31, 83-251 Pinczyn
Phone:	(58) 560-10-60
Fax:	(58) 560-10-61
Website address:	<a href="http://www.dekpol.pl/">http://www.dekpol.pl/</a>
E-mail address:	dekpol@dekpol.pl

### Signatures of all Members of Management Board:

Mariusz Tuchlin	President of Management Board
Michał Skowron	Vice-President of Management Board
Katarzyna Szymczak-Dampc	Vice-President of Management Board