

## Management Board's report on activities

of Dekpol Deweloper Spółka z ograniczoną odpowiedzialnością headquartered in Pinczyn

for the period from 1<sup>st</sup> of January 2020 to 31<sup>st</sup> of December 2020

Name and seat of the person drawing up the financial statement (lower-level parent, higher-level parent drawing up the consolidated financial statement is Dekpol S.A.):

### DEKPOL DEWELOPER Spółka z ograniczoną odpowiedzialnością

ul. Gajowa 31, 83-251 Pinczyn

### Registry Court, register no.:

District Court for Gdańsk-Północ in Gdańsk, 7th Commercial Division of the National Court Register, under KRS number 0000758272

The main shareholder of the company is DEKPOL S.A.

The company has a tax identification number NIP 592-227-52-51 and a REGON number 381840584.

### Duration of the Company:

The duration of the Company is unlimited.

### The main area of activity:

According to the National Court Register, the core business of the Company is:

Name	PKD
Realization of building projects related to erection of buildings	PKD – 41.1.Z
Building works related to erection of residential and non-residential buildings	PKD – 41.20.Z
Buying and selling of own real estate	PKD – 68.10.Z
Rental and operating of own or leased real estate	PKD – 68.20.Z
Management of real estate on a fee or contract basis	PKD – 68.32.Z
Performing finishing construction works	PKD – 43.3
Activities of head office and holding companies, excluding financial holding companies	PKD – 70.10.Z
Business and other management consultancy activities	PKD – 70.22.Z
Other specialized construction activities	PKD – 43.9
Real estate agencies	PKD – 68.31.Z

### Shareholding structure

The company is part of the Dekpol S.A. Capital Group and is a direct subsidiary of Dekpol S.A.

Dekpol S.A. owns 100% of shares in Dekpol Deweloper Sp. z o.o.

As at 31<sup>st</sup> of December 2020, the Deweloper Group comprised the following subsidiaries:

1. Dekpol Inwestycje Spółka z ograniczoną odpowiedzialnością Rokitki Sp.k.
2. Dekpol Inwestycje Spółka z ograniczoną odpowiedzialnością Pastelowa Sp.k.
3. Dekpol Inwestycje Spółka z ograniczoną odpowiedzialnością Development Sp.k.
4. Dekpol Pszena Spółka z ograniczoną odpowiedzialnością
5. Dekpol Pszena Spółka z ograniczoną odpowiedzialnością Spółka komandytowa
6. Dekpol Inwestycje Spółka z ograniczoną odpowiedzialnością Myśliwska Spółka komandytowa
7. Dekpol Inwestycje Spółka z ograniczoną odpowiedzialnością
8. Dekpol Inwestycje Spółka z ograniczoną odpowiedzialnością Grano Resort Spółka Komandytowa
9. Dekpol Inwestycje Spółka z ograniczoną odpowiedzialnością SOL MARINA Spółka Komandytowa
10. Dekpol Inwestycje Spółka z ograniczoną odpowiedzialnością Neo Jasień Spółka Komandytowa
11. Dekpol Inwestycje Spółka z ograniczoną odpowiedzialnością WBH Spółka Komandytowa
12. Dekpol Inwestycje Spółka z ograniczoną odpowiedzialnością Sobieszewo Development Spółka Komandytowa
13. Nordic Milan Spółka z ograniczoną odpowiedzialnością
14. Dekpol Inwestycje Spółka z ograniczoną odpowiedzialnością Braniborska Spółka komandytowa
15. Smartex spółka z ograniczoną odpowiedzialnością

As at 31<sup>st</sup> of December 2020, Dekpol Deweloper Limited Liability Company is a 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. Neo Jasień Sp. k. (formerly Dekpol Inwestycje Sp.z o.o.Osiedle Zielone Sp.k.), Dekpol Inwestycje Sp. z o.o. Grano Resort Sp. k., Dekpol Inwestycje Sp. z o.o. Sol Marina Sp. k., Dekpol Inwestycje Sp. z o.o. Sobieszewo Development Sp. k., Dekpol Inwestycje Sp. z o.o. WBH Sp. k., with 99.5% of shares in profits and losses in these companies, and a 0.5% share in profits and losses is held by Dekpol Inwestycje Sp. z o.o. being the general partner of these companies.

Dekpol Deweloper Sp. z o.o. until 21<sup>st</sup> of December 2020, he was a limited partner of Dekpol Inwestycje Sp. z o.o. Braniborska Sp. k. Dekpol Inwestycje Sp. z o.o. being the general partner of this company.

Dekpol Deweloper Sp. z o.o. is a limited partner of Dekpol Pszena Sp. z o.o. Sp.k. having a 99.5% share in profits and losses in this company, while Dekpol Pszena Sp. z o.o. being a general partner of this company has a 0.5% share in profits and losses, with the reservation that until 12<sup>th</sup> of July 2020 that the profit to be divided between companies from the Dekpol Group is reduced by the amount of PLN 500, attributable to the other limited partner in the profits. On 13<sup>th</sup> of July 2020, BSWW Trust Sp z o.o. acted as a limited partner of Dekpol Pszena Sp z o.o. Sp.k. and ceased to have a share in the profits.

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

On 26<sup>th</sup> of March 2020, Dekpol Deweloper Sp. z o.o. acquired shares in Mineral Group Sp. z o.o. - an entity established to conduct activities related to the exploration and extraction of mineral resources. Dekpol Deweloper Sp. z o.o. holds 50 out of 101 shares in the share capital of this company (amounting to PLN 5,000).

Until 22<sup>nd</sup> of December 2020, Dekpol Deweloper Sp. z o.o. owned 62.3% of shares in Smartex Sp. z o.o. and the right to acquire 37.7% of shares in Smartex Sp. z o.o. On 22<sup>nd</sup> of December 2020, Dekpol Deweloper Sp. z o.o. purchased 93 shares from Zbigniew Andrzej Korzeniowski and thus became the sole shareholder of Smartex Sp z o.o.

As at the date of publication of this report, the Management Board of the Company operates in the following composition:

<b>Name and surname</b>	<b>Function</b>
<b>Sebastian Barandziak</b>	President of the Management Board
<b>Sebastian Leszczyński</b>	Vice-President of the Management Board
<b>Rafał Dietrich</b>	Member of the Management Board

Personal relationships with other companies in which Mr. Mariusz Tuchlin (acting as the President of the Management Board of Dekpol S.A., owning 100% of Dekpol Deweloper Sp. z o.o.) is a significant shareholder as at the date of publication of this report:

<b>Company's name</b>	<b>KRS</b>	<b>Nature of connection</b>	<b>Information about the company</b>
City Apart Management Sp. z o.o.	0000300191	- 98% of shares belong to Mariusz Tuchlin, 98% of votes, 2 % of shares and votes belong to City Apart Management Sol Marina Sp. Z o.o.	The company operates in the hotel industry
Dekpol Serwis Sp. z o.o. (till 29.01.2021 general partner of Dekpol Serwis Sp. z o.o. Sp. k., currently OMT Serwis Mariusz Tuchlin Sp. j.)	0000629533	- 90% of shares belong to Mariusz Tuchlin (President of Management Board in the Company)	The company does not conduct operating activities. The company operated as central companies and holding companies with the exception of financial holdings
OMT Serwis Mariusz Tuchlin Sp. j.( till 07.04.2021 OMT Serwis Mariusz Tuchlin Sp. K.)	0000893460	- Mariusz Tuchlin holds 99% of share in profits and losses of the Company, Mariusz Tuchlin is also a partner entitled to its representation	The company operates in the field of passenger and delivery vehicle rental, as well as construction machinery and equipment
City Apart Management Sol Marina Sp. z o.o.	0000711010	- 9090% of shares belong to Mariusz Tuchlin (procurent	The Company will operate in the hotel

Company's name	KRS	Nature of connection	Information about the company
		in the Company), 90% of votes	industry
City Hotel Management Sp. z o.o.	0000589930	- 100 % of shares belongs to OMT Holding Sp. z o.o. in which 98% shares are holding by Mr. Mariusz Tuchlin	Company operates in the hotel industry
OMT Holding Sp. z o.o.	0000852695	- 98% of shares belong to Mariusz Tuchlin (President of Management Board in the Company)	The company operates as central companies and holding companies, excluding financial holdings
OMT Nieruchomości Sp. z o.o.	0000849933	- 90% of shares belong to Mariusz Tuchlin (President of Management Board in the Company)	The company operates as central companies and holding companies, excluding financial holdings
City Apart Management Pszenna Sp. z o.o.	0000710859	- 90% of shares belong to Mariusz Tuchlin (procurent in the Company), 90% of votes	The company operates as central companies and holding companies, excluding financial holdings
City Apart Management Pszenna Sp. z o.o. Sp. K.	0000711812	- Mariusz Tuchlin holds 99% of share in profits and losses of the Company (procurent in the Company)	The company operates in the hotel industry
Flats For Rent Sp. z o.o.	0000750704	- 100% of shares belong to Mariusz Tuchlin, 100% of votes	The company operates as central companies and holding companies, excluding financial holdings
Flats For Rent Sp. z o.o. Sp. K.	0000751229	- Mariusz Tuchlin holds 99% of share in profits and losses of the Company	The company operates in the field of real-estate management and real-estate rental

#### SELECTED FINANCIAL DATA

Selected consolidated financial data	Thousands of PLN		Thousands of EUR	
	01.01.2020-31.12.2020	01.01.2019-31.12.2019	01.01.2020-31.12.20120	01.01.2019-31.12.2019
I. Net revenue from sales of products, goods, and materials	275 734	72 383	61 628	16 826
II. Profit (loss) on operating activity	38 288	26 065	8 558	6 059
III. Profit (loss) before tax	34 231	24 232	7 651	5 633
IV. Net profit (loss)	27 074	20 367	6 051	4 735

V. Earnings (loss) per ordinary share (in PLN / EUR)	10,03	7,54	2,24	1,75
VI. Net cash flows from operating activity	66 637	(14 344)	14 894	(3 334)
VII. Net cash flows from investment activity	(420)	(8 803)	(94)	(2 046)
VIII. Net cash flows from financial activity	(61 553)	46 373	(13 757)	10 780
IX. Total net cash flows	4 664	23 226	1 042	5 399
	<b>31.12.2020</b>	<b>31.12.2019</b>	<b>31.12.2020</b>	<b>31.12.2019</b>
X. Total assets	338 003	440 737	73 243	103 496
XI. Liabilities and provisions for liabilities	137 710	271 586	29 841	63 775
XII. Long-term liabilities	28 830	75 522	6 247	17 734
XIII. Short-term liabilities	108 881	196 064	23 594	46 041
XIV. Equity	200 293	169 151	43 402	39 721
XV. Share capital	135 005	135 005	29 255	31 702
XVI. Number of shares at the end of the period	2 700 100	2 700 100	2 700 100	2 700 100
XVII. Book value per share (in PLN / EUR)	74	63	16	15

The above financial data for 2020 and the corresponding period of 2019 have been converted into EUR according to the following principles:

- individual items of assets and liabilities - according to the average exchange rate announced on the day:

- 31<sup>st</sup> of December 2020 – 4,6148 PLN / EUR
- 31<sup>st</sup> of December 2019 – 4,2585 PLN / EUR

- individual items of the profit and loss account and the cash flow statement - according to the exchange rate being the arithmetic mean of the average exchange rates set by the National Bank of Poland on the last day of each month of the financial period:

- from 1<sup>st</sup> of January till 31<sup>st</sup> of December 2020 – 4,4742 PLN / EUR,
- from 1<sup>st</sup> of January till 31<sup>st</sup> of December 2019 – 4,3018 PLN / EUR.

## MARKETS AND SUPPLY SOURCES

The sales of Dekpol Deweloper in the period from 1<sup>st</sup> of January 2020 to 31<sup>st</sup> of December 2020 concern only the Polish market and no change in this structure should be expected in the near future.

## Significant events and agreements in the area of the Company's operating activities in the financial year 2020 and after its end

In connection with the COVID-19 coronavirus pandemic that lasted in the financial year, the Management Board of the Company points out that restrictions in the work of public administration offices had an impact on the speed of issuing administrative decisions necessary to start new

investments, as well as to complete existing ones. This had a significant impact on the delay in obtaining construction permits and occupancy permits for already completed buildings.

The fact that interest rates are cut and interest rates are kept low may have a major impact on reducing the possible bad effects of the epidemic. In the opinion of the Management Board, this may facilitate the maintenance of the very good economic situation on the housing market. Nevertheless, the Management Board identifies potential risks that may arise in connection with the coronavirus pandemic, and manifested primarily in the lengthening of administrative, construction and sales procedures. In connection with the above-described factors, the Company has taken the following actions to minimize potential business risks:

- sales offices are prepared to reduce the physical presence of staff in stationary offices,
- the possibility of signing premises reservation agreements using electronic communication channels was introduced to a greater extent than before,
- the construction sites operate in the current scope, of course introducing additional measures to protect employees,
- office workers largely carry out their work remotely from their place of residence.

Moreover, possible limitations in the work of notary offices may result in delays in both starting new ventures and in signing new property development and preliminary agreements. On the other hand, delays in construction works in existing investments may arise as a result of potential disruptions in the supply of materials, limited availability of construction workers (sick or quarantined persons). The occurrence of all or some of the indicated risk factors may contribute to shifting some of the expected revenues to future periods.

#### **Annex to the investment agreement and acquisition of the remaining shares in Smartex sp. z o.o.**

On 22<sup>nd</sup> of December 2020, Dekpol Deweloper Sp. z o.o. concluded with a natural person an annex to the investment agreement of November 2017 regarding the purchase of over 60% of shares in Smartex Sp. z o.o. and the implementation of a property development project on a plot of land located in Wrocław at Braniborska street. The annex to the contract concerned the acquisition by Dekpol Deweloper Sp. z o.o. the remaining 37.7% of shares in the company Smartex Sp. z o.o. for a gross price of PLN 10.5 million.

In the annex, the parties agreed on changes to the rules for the implementation of the development investment, deciding in particular that Dekpol Deweloper will conclude with a subsidiary of the above-mentioned natural person, a cooperation agreement, and that the above-mentioned natural person will remain committed to supporting Dekpol Deweloper in the implementation of this investment.

At the same time, as part of the implementation of the provisions of the investment agreement, the ownership right to the above-mentioned land property was brought in by Smartex Sp. z o.o. as an in-kind contribution to a special purpose vehicle established to implement the investment in question - Dekpol Inwestycje Sp. z o.o. Braniborska Sp.k., and Smartex Sp. z o.o., as a limited partner, in accordance with the agreement of this company, is entitled to 89.4% of its profits and losses.

The Company informed about the event in the current report No. 39/2020 of 22<sup>nd</sup> of December 2020.

### **The contract of Dekpol Inwestycje Sp. z o.o. Braniborska Sp. k. with an institutional investor**

An entity from the Issuer's Group - Dekpol Inwestycje Sp. z o.o. Braniborska Sp. k. (the Seller) concluded a preliminary sale agreement with the institutional investor (Buyer), pursuant to which:

- An entity from the Issuer's Group undertook to implement a residential investment on a property located in Wrocław at Braniborska street, which is a multi-storey residential building with a total area of approx. 18 thousand sqm with accompanying infrastructure,
- The parties undertook to conclude an agreement on the transfer of rights to the real estate together with the completed investment (Promised Agreement) for the total price being the equivalent of approx. 20% of the consolidated revenues of the Issuer's Capital Group for 2019.

The condition for concluding the Final Agreement is, in particular, the signing of the final investment acceptance protocol. The financing of individual stages of the investment will be carried out by the Buyer in the form of an advance (10% of the price), and then advance funding. Completion of the investment and signing of the Final Agreement is planned for the second half of 2023.

The Preliminary Agreement contains provisions on contractual penalties due in case of, inter alia, delays in investment implementation. The maximum total amount of contractual penalties was set at a few percent of the price. Each party has the right to withdraw from the preliminary contract in the event of a material breach of obligations by the other party. If the Buyer withdraws from the contract for reasons attributable to the Seller, the Seller shall reimburse the Buyer for all amounts paid by the Buyer towards the price, and the down payment will be refunded in double amount. A formal condition was included in the preliminary contract, which was met on 26<sup>th</sup> of March 2021.

The agreement was the subject of the Issuer's current report No. 11/2021 of 9<sup>th</sup> of March 2021. In addition, the Issuer informed about the signing of a letter of intent (current report 26/2020) and the change of the deadline for the conclusion of the preliminary agreement (current reports No. 26/2020, 33/2020, 37/2020, 3/2021 and 6/2021).

In the past, the Issuer also informed about an investment concerning real estate in Wrocław at Braniborska street - in current reports No. 62/2017 of 15<sup>th</sup> of November 2017 and 39/2020 of 22<sup>nd</sup> of December 2020.

### **Series B bonds issue**

On 15<sup>th</sup> of January 2021, the Management Board of Dekpol Deweloper Sp. z o.o. adopted a Resolution on the issue of series B bonds with a total nominal value of no more than PLN 15 million. On February 1, 2021, the Management Board of Dekpol Deweloper Sp. z o.o. adopted a Resolution on the allocation of series B bonds. The Management Board decided to allocate 10,000 series B bearer bonds not in the form of a document with a nominal value of PLN 1,000 each bond and a total nominal value of PLN 10 million in accordance with the allocation list established by Michael / Strom Dom Maklerski S.A. with headquarters in Warsaw acting as an offeror. The bonds were issued at an issue price of PLN 1,000 each. The bonds are secured bearer securities, not in the form of a document, with an interest rate equal to WIBOR 6M and a margin. Interest is payable in six-month

periods. Only cash benefits are payable under the bonds. The redemption of the bonds will take place on 1<sup>st</sup> of August 2024. Moreover, the Company may demand early redemption of the bonds on each of the interest payment days, starting from the third interest period, paying a specific premium on this account (0-1.25% of the value of the redeemed bonds). The bondholder may request early redemption of the bonds in the event of min. the Group's capital group exceeds certain debt ratios. The funds from the bond issue were allocated to the Company's day-to-day operations, in particular to finance the purchase of land.

### **Obtaining a building permit for the second stage of a multi-family housing estate as part of the Osiedle Pastelowe project**

On March 12, 2021, Dekpol S.A. received information that the Issuer's subsidiary - Dekpol Inwestycje Sp. z o.o. Pastelowa Sp. k. received, issued by the President of the City of Gdańsk, a building permit for the construction of the 2<sup>nd</sup> stage of an estate of multi-family residential buildings as part of the "Osiedle Pastelowe" project, along with underground garage halls, internal installations and other necessary infrastructure, in Gdańsk at Pastelowa Street.

As part of the above-mentioned During the investment stage, the construction of 5 residential buildings is planned, which will include 350 apartments with storage rooms with a total usable area of approx. 16 thousand. sq m and 401 parking and garage spaces. The estimated value of revenues obtained from the implementation of the above-mentioned stage is approximately PLN 108 million net. The second stage of the Osiedle Pastelowe investment will be completed and put into use in the fourth quarter of 2022, and the first premises will be delivered to clients in the first quarter of 2023. The project will be implemented by the Subsidiary, and the investment outlays will be financed from own funds, with the possibility of partial financing with external capital.

### **Change of use of the real estate located at Sobieszewska street in Gdańsk and its contribution in kind to the SPV**

Property located in Gdańsk at Sobieszewska street with an area of 5,1666 ha, the land and mortgage register KW GD1G/00106869/5 changed its purpose from real estate related to development activities to investment real estate. The reason for this is that at present the future use of the land in question is undefined. On 13<sup>th</sup> of April 2021, the property was transferred in kind from Dekpol Deweloper Sp. z o.o. to Dekpol Inwestycje Sp. z o.o. Grano Resort Sp. k. The real estate remains investment real estate. The value of the property was determined on the basis of an appraisal by an independent appraiser. For the purposes of the valuation, the comparative method was selected

### **Contribution in kind of real estate located at Nadwiślańska street in Sobieszewo to the SPV**

Undeveloped land property located in Gdańsk, Nadwiślańska street no. 50, Sobieszewo precinct with an area of 0,3797 ha, land and mortgage register KW GD1G/00102087/1 remains an investment property. On 8<sup>th</sup> April 2021, the real estate was transferred in-kind from Dekpol Deweloper Sp. z o.o. to Dekpol Inwestycje Sp. z o.o. Sobieszewo Development Sp. k. and did not change its purpose. The value of the property was determined on the basis of an appraisal by an independent appraiser using a comparative approach.

### **Contribution in kind of real estate located in Świbno, at Kempingowa street to SPV**



Property located in Świbno at Kempingowa street with an area of 0,8171 ha, land and mortgage register KW GD1G/00002000/7, on 8<sup>th</sup> of April 2021 was transferred in-kind from Dekpol Deweloper Sp. z o.o. to Dekpol Inwestycje Sp. z o.o. Sobieszewo Development Sp. k. and did not change its purpose. The value of the property corresponds to the current carrying amount.

#### **In-kind contribution of real estate located in Sobieszewo, plot 25/1 to SPV**

The real estate located in Sobieszewo, plot no. 25/1, with an area of 0,0239 ha, land and mortgage register KW GD1G/00137308/1, on 8<sup>th</sup> of April 2021 was transferred in kind from Dekpol Deweloper Sp. z o.o. to Dekpol Inwestycje Sp. z o.o. Sobieszewo Development Sp. k. and did not change its purpose. The value of the property corresponds to the current carrying amount.

#### **Transfer of the perpetual usufruct right to the real estate located in Warsaw at Prądyńskiego street to the SPV**

The property is located in Warsaw, plot no. 63, with an area of 0,5878 ha, land and mortgage register KW WA4M/00386892/3, on 8<sup>th</sup> of April 2021, the perpetual usufruct right to this property was transferred by an in-kind contribution from Dekpol Deweloper Sp. z o.o. to Dekpol Inwestycje Sp. z o.o. WBH Sp. k .. The property has not changed its purpose, and its value corresponds to the current carrying amount.

#### **Issue of series C bonds**

On 24<sup>th</sup> of June 2021, the Management Board of Dekpol Deweloper Sp. z o.o. adopted resolutions on the issue and allocation to selected investment funds of 15.650 series C secured bearer bonds with a nominal value of PLN 1.000 each and a total nominal value of PLN 15.650,000 (Bonds). The bonds were issued pursuant to Art. 33 point 2 of the Act of 15<sup>th</sup> of January 2015 on bonds, in a way that does not require the preparation of a prospectus or information memorandum.

The bonds were issued at an issue price of PLN 975 each, with a fixed interest rate of 7% per annum, and the maturity date on 24<sup>th</sup> of June 2025. Interest on the Bonds is payable in six-month periods. Only cash benefits are payable under the Bonds. The Company is obliged to early redeem on 30<sup>th</sup> of June 2024 the Bonds with the principal value of PLN 5.650.000. Moreover, the Company may demand early redemption of all or part of the Bonds, paying in such a case a specific premium on this account (0-2% of the value of the redeemed Bonds depending on the maturity date). The bondholder may request early redemption of the Bonds in the cases specified in the Terms and Conditions of the Bonds Issue, inter alia in the event that the Company or entities from the Dekpol Capital Group exceed certain debt ratios or delays in the implementation and sale of specific development investments. The Bonds are secured by: a surety granted by Dekpol S.A., assignment of claims for the return of the loans referred to below, established for the benefit of the security administrator and the issuer's and guarantor's declarations of submission to enforcement for the benefit of the bondholders. The funds from the issue of the Bonds may be allocated to the Company's day-to-day operations, including granting loans to Dekpol Inwestycje Sp. z o.o. Neo Jasień Sp.k. and Dekpol Inwestycje Sp. z o.o. Pastelowa Sp.k. for financing of own property development investments and refinancing the purchase of land in the scope of Neo Jasień and Osiedle Pastelowe investments, respectively.

#### **Amendments to the Terms of Issue of Series A Bonds**

On 24<sup>th</sup> of June 2021, Dekpol Deweloper Sp. z o.o. concluded an agreement with the investment fund, which is the sole bondholder of A-series bonds, to amend the Terms and Conditions of the

Bonds Issue. Series A bearer bonds were issued by the Company pursuant to the resolution of the Management Board of 19<sup>th</sup> of June 2019 in the number of 30.000 secured, non-documentary bonds with a nominal value of PLN 1.000 each and a total nominal value of PLN 30.000.000 (Bonds). The bonds were issued at an issue price of PLN 985,00 each, with a variable interest rate based on the WIBOR 6M rate + margin and the maximum redemption date on 19<sup>th</sup> of June 2022. On 19<sup>th</sup> of December 2020, the Issuer made an early redemption of 8.500 Bonds in accordance with the provisions of the Bond Issue Terms.

The amendment to the Terms of Issue of Series A Bonds included, inter alia, extending the redemption date of the Bonds until 30<sup>th</sup> of August 2023 and changing the interest rate on the Bonds in the extended period to a fixed interest rate. Moreover, the Issuer also undertook to redeem 9.000 Bonds earlier on 19<sup>th</sup> of June 2022.

### **Obtaining a building permit for the 2nd and 3rd stage of the Sol Marina investment in Wiślinka**

On 23<sup>rd</sup> of July 2021, Dekpol Inwestycje Sp. z o.o. Sol Marina Sp. k. received the final permit issued by the Gdańsk Staroste for the construction of a complex of apartment buildings as part of the II and III stage of the Sol Marina project together with the necessary infrastructure and road system with parking lots in Wiślinka. As part of the above-mentioned stages of the Sol Marina investment, construction of 31 apartment buildings is planned, which will include 267 apartments with a total usable area of approx. 12 thousand sqm and 293 parking spaces and 129 berths. The estimated value of revenues obtained from the implementation of the above-mentioned stages of the investment will amount to approx. 26% of the revenues of the Dekpol Capital Group for 2020. The implementation of stage II and stage III of the investment will be completed in the 2<sup>nd</sup> quarter of 2023 and the 2<sup>nd</sup> quarter of 2024, respectively. The first premises will be commissioned in the 2<sup>nd</sup> quarter of 2023 and in the 2<sup>nd</sup> quarter of 2024.

### **Continuation of the activity**

The statement has been prepared with the assumption that the Company will continue its business activities in the foreseeable future and that it does not intend and does not have to discontinue its activities or significantly reduce its scope. According to the knowledge of the Management Board of the Company, there are no circumstances indicating a threat to the continuation of the activity. The company's strategy assumes a stable further development of the business.

### **Anticipated development of the company**

The company's strategy assumes a stable further development of the business. In addition, the Company plans to carry out a merger in 2021 in accordance with the provisions of Art. 492 § 1 point 1 of the Code of Commercial Companies and Partnerships (merger by acquisition), i.e. by transferring all assets of the acquired companies to the Company ("Merger). As a result, the merged companies will be dissolved without liquidation, and all their rights and obligations will be taken over by way of universal succession by the acquiring company - Dekpol Deweloper Sp. z o.o. The acquired companies will be: Dekpol 1 Spółka z ograniczoną odpowiedzialnością spółka komandytowo-akcyjna, Dekpol 1 limited liability company and Dekpol Royalties Spółka z ograniczoną odpowiedzialnością. The decision is related to the fact that splitting the broadly understood real estate development / rental activity and trademark management into several entities - i.e. the acquired companies, currently does not find business justification, and generates additional costs related to servicing the

companies involved in this activity. The planned mergers are therefore the next stage in the reorganization of the Dekpol capital group, which began in 2017. As a result, it will come to:

1. rationalize financial management;
2. lowering the operating costs;
3. simplifying the organizational structure of the Group.

### Major achievements in the field of research and development

In the financial year, the Company did not conduct research and development activities.

### Current and projected financial situation

The management of the Company's financial resources should be considered correct. The financial situation is stable. The company is able to meet its obligations in a timely manner and does not see any threats to it in the future. The Management Board positively assesses the financial situation and sees no threats to it.

### SPECIFICATION OF FINANCIAL LIABILITIES

Item	31.12.2020	31.12.2019
Other long-term financial liabilities	0	0
Loans and borrowings	3 308	28 004
Long-term debt instruments	21 056	29 650
<b>Long-term financial liabilities</b>	<b>24 364</b>	<b>57 654</b>
Other short-term financial liabilities	0	5
Credits, loans and short-term debt instruments	16	16 300
<b>Short-term financial liabilities</b>	<b>16</b>	<b>16 305</b>
<b>Total financial liabilities</b>	<b>24 380</b>	<b>73 959</b>

As at 31<sup>st</sup> of December 2020, Dekpol Deweloper sp.z o.o. has debt due to the issue of series A bonds in the amount of PLN 21.055.968,94. On 17<sup>th</sup> of December 2020, the Company redeemed 8 500 bonds with a nominal value of PLN 1 000 each. On 19<sup>th</sup> of December 2020, the Company compulsorily depreciated 8 500 bonds.

### Bonds (nominal value):

Bonds at the end of the reporting period as of 31.12.2020	Value	Balance	Currency	Interest rate	Date of repayment
<b>Long-term</b>					
series A bonds (Dekpol Deweloper Sp. z o.o.)	21 500	21 500	PLN	WIBOR 6M+ margin	19.06.2022
<b>Total long-term bonds</b>	<b>21 500</b>	<b>21 500</b>	<b>PLN</b>	-	-
<b>Short-term</b>					
<b>Total short-term bonds</b>	<b>0</b>	<b>0</b>	<b>PLN</b>	-	-

	<b>Collateral</b>
series A bonds (Dekpol Deweloper Sp. z o.o.)	guarantee

<b>Bonds at the end of the reporting period as of 31.12.2019</b>	<b>Value</b>	<b>Balance</b>	<b>Currency</b>	<b>Interest rate</b>	<b>Date of repayment</b>
<b>Long-term</b>					
series A bonds (Dekpol Deweloper Sp. z o.o.)	21 500	21 500	PLN	WIBOR 6M+ margin	19.06.2022
<b>Total long-term bonds</b>		<b>21 500</b>	<b>PLN</b>	-	-
<b>Short-term</b>					
series A bonds (Dekpol Deweloper Sp. z o.o.)	8 500	8 500	PLN	WIBOR 6M+ margin	19.12.2020
<b>Total short-term bonds</b>		<b>8 500</b>	<b>PLN</b>	-	-

	<b>Collateral</b>
series A bonds (Dekpol Deweloper Sp. z o.o.)	guarantee

## SIGNIFICANT LOAN AGREEMENTS

On 19<sup>th</sup> of March 2020, Dekpol Inwestycje Sp. z o.o. Sol Marina Sp. k. (the Borrower) concluded with Alior Bank S.A. two agreements (Agreements) - for a non-revolving loan in the amount of PLN 59,2 million (Loan 1) and for a revolving loan in the amount of PLN 4,8 million (Loan 2). The funds from Loan 1 will be used to finance / refinance the costs of implementing the development project called "Sol Marina" in Wiślinka near Gdańsk (Investment), and the funds from Loan 2 will be used to finance VAT related to the costs of the Investment. Both loans were granted for the period until 31<sup>st</sup> of July 2022. The interest rate is equal to the WIBOR 3M rate increased by the Bank's margin. The loans were released after meeting the formal and legal conditions. The collaterals of the Bank's receivables resulting from the Agreements include, inter alia, contractual mortgage up to PLN 95,9 million on the Borrower's ownership of the property on which the Investment is carried out, pledge on the Borrower's accounts kept with the Bank, transfer of receivables under the general contracting agreement concluded with the general contractor of the Investment - Dekpol S.A., surety granted by Dekpol S.A., a declaration of the Borrower, Borrower's limited partner and the Issuer on voluntary submission to enforcement pursuant to Art. 777 of the Code of Civil Procedure and the support agreement concluded with the Borrower's limited partner and the Borrower, including commitment to cover the costs of carrying out the Investment in excess of the Investment's budget approved by the Bank's decision.

## TRANSACTIONS WITH RELATED ENTITIES

During the reporting period, the issuer and its subsidiaries did not conclude any transactions with related parties on terms other than market terms.

## FACTORS AND EVENTS, INCLUDING UNUSUAL NATURE, AFFECTING THE BUSINESS AND FINANCIAL STATEMENTS

In 2020, there were no factors or events other than those described in other sections of this report, including those of an unusual nature, which had a significant impact on the operations or results of the Company and on the separate or consolidated financial statements.

## STATEMENT OF FINANCIAL SITUATION

Item	Note	31.12.2020	31.12.2019
<b>Fixed assets</b>		<b>81 029</b>	<b>73 133</b>
Property, plant and equipment	1.	404	3
Intangible assets		0	3
Goodwill	3.	0	0
Investment properties	2.	78 555	72 434
Stocks and shares		24	0
Receivables		1 100	0
Other long-term financial assets		0	0

Long-term deferred charges		0	0
Deferred income tax assets		946	694
<b>Current assets</b>		<b>256 974</b>	<b>367 604</b>
Inventory	6.	186 415	273 261
Receivables due to contracts with clients		0	0
Trade receivables and other receivables	7.	26 893	52 020
Other short-term financial assets		0	0
Short-term deferred charges	9.	1 744	5 065
Cash and cash equivalents		41 923	37 259
including cash on escrow accounts		19 016	27 635
Assets classified as held for sale		0	0
<b>Assets in total</b>		<b>338 003</b>	<b>440 737</b>

#### STATEMENT OF FINANCIAL SITUATION

Item	Note	31.12.2020	31.12.2019
<b>Equity</b>		<b>200 293</b>	<b>169 151</b>
Share capital		135 005	135 005
Equity from sales of shares over its nominal value		806	806
Other equities		40 675	7 810
Own shares (-)		0	0
Exchange differences on conversion		0	0
Reserve capital		0	0
Profits saved:		23 807	25 530
<b>Equity falling to shareholders of parent entity</b>		<b>200 293</b>	<b>169 151</b>
<b>Non-controlling shares</b>		<b>0</b>	<b>0</b>
<b>Long-term liabilities</b>	<b>13.</b>	<b>28 830</b>	<b>75 522</b>
Deferred income tax provision		4 434	5 943
Liabilities and provisions on employee benefits		2	0
Other long-term provisions		0	0
Loans, borrowings and long-term debt instruments		24 365	57 653
Other long-term financial liabilities		0	0
Other long-term liabilities		30	11 926
<b>Short-term liabilities</b>	<b>13.2.</b>	<b>108 881</b>	<b>196 064</b>

Liabilities and provisions on employee benefits	0	0
Other short-term provisions	6 200	30
Loans, borrowings and short-term debt instruments	16	16 299
Other short-term financial liabilities	0	5
Liabilities due to contracts with clients	0	0
Trade liabilities and other liabilities	102 644	179 706
Receivables from future terms	20	24
<b>Liabilities connected to assets intended for sale</b>	<b>0</b>	<b>0</b>
<b>Liabilities in total</b>	<b>338 003</b>	<b>440 737</b>

## CASH FLOW STATEMENT

(indirect method)

Item	01.01.-31.12.2020	01.01.-31.12.2019
<b>Profit (loss) before tax</b>	<b>34 231</b>	<b>24 232</b>
<b>Adjustments:</b>	<b>1 978</b>	<b>1 006</b>
Depreciation	17	61
Change of fair value of investment properties	0	0
Change in fair value of financial assets (liabilities) valued by the result	0	0
Write-offs updating financial assets	0	0
Profit (loss) from sales of non-financial tangible assets	0	0
Profit (loss) on the sale of financial assets (other than derivatives)	4	0
Profits (losses) from foreign exchange differences	0	0
Interests and shares in profits	1 956	944
Other adjustments	0	0
<b>Change in working capital</b>	<b>23 270</b>	<b>-43 447</b>
Changes in stocks	86 846	-98 928
Changes in receivables	24 027	-23 574
Changes in liabilities	-95 341	78 322
Changes of provisions and deferred charges	7 726	733
Other adjustments	12	0

<b>Income tax paid</b>	<b>0</b>	<b>0</b>
<b>Net cash from operating activities</b>	<b>66 637</b>	<b>-14 344</b>
Expenses related to acquisition of intangible assets	0	0
Inflows from sales of intangible assets	0	0
Expenses related to acquisition of property, plant and equipment	-396	-3
Inflows from sales of property, plant and equipment	0	0
Expenses related to acquisition of investment properties	0	-8 800
Inflows from sales of investment properties	0	0
Net expenses for the acquisition of subsidiaries	0	0
Repayments received from loans granted	0	0
Loans granted	0	0
Expenses related to acquisition of other financial assets	-24	0
Inflows from sales of other financial assets	0	0
Interest received	0	0
<b>Net cash from investment activities</b>	<b>-420</b>	<b>-8 803</b>
Net inflows from issue of shares	0	0
Acquisition of own shares	0	0
Inflows from issue of debt securities	0	29 550
Redemption of debt securities	-8 500	0
Inflows from loans and borrowings taken out	8 166	41 842
Repayment of loans and borrowings	-45 668	-23 374
Repayment of liabilities under finance lease	0	0
Interest paid	-6 667	-1 645
Dividends paid	0	0
Inflows from received grants	0	0
Other inflows (expenses) from investment activities	-8 884	0
<b>Net cash from financial activities</b>	<b>-61 553</b>	<b>46 373</b>
Change in net cash and cash equivalents without foreign exchange differences	4 664	23 226
Change in cash and cash equivalents due to foreign exchange differences	0	0
Change in net cash and cash equivalents	4 664	23 226
<b>Cash and cash equivalents at the beginning of the period</b>	<b>37 259</b>	<b>14 033</b>
<b>Cash and cash equivalents at the end of the period</b>	<b>41 923</b>	<b>37 259</b>
Including cash of limited disposal right	19 016	27 635



## **EVALUATION OF MANAGEMENT OF FINANCIAL RESOURCES**

The management of the Company's financial resources should be considered correct. The financial situation is stable. The Group companies are able to meet their obligations and the Management Board of Dekpol S.A. does not see any threats to this in the future.

## **FINANCIAL INSTRUMENTS**

In 2020, Dekpol Deweloper and its subsidiaries had financial resources, including own funds and funds from bonds, loans and borrowings. The companies do not conclude any derivative transactions. The resources held enable the Company to fully meet its financial obligations without threatening to the loss of financial liquidity. Both Dekpol Deweloper and its subsidiaries maintain financial liquidity and regulate their liabilities on an ongoing basis. The Management Board of Dekpol Deweloper positively assesses the liquidity of the entire Dekpol Deweloper Group and does not see any threats to it.

## **STRATEGY AND DEVELOPMENT DIRECTIONS**

In Dekpol Deweloper and its subsidiaries, activities were constantly carried out to adapt the operations of the companies to the changing conditions, so as to safely ensure the continuation of operations. The companies also took the necessary preventive actions in the scope of their projects, as well as educational activities in relation to employees.

The strategy of Dekpol Deweloper assumes the continuation of development activities both in the popular construction segment, as well as in the premium segment, and in the investment segment, i.e. construction of apartments for rent or hotels. The company will focus on the implementation of high-margin projects and systematic improvement of the achieved financial results.

In the following years, the Company plans to acquire attractive plots for the construction of residential premises throughout the country. Expansion to other markets will enable the Company to continue its dynamic development and increase its recognition. Both adjusting the offer to the financial capabilities and expectations of customers, as well as intensified marketing activities will allow us to maintain a satisfactory level of sales. The land bank owned by the Company enables new investments to be launched for sale until 2025. In 2021, the intention of the Company is to start the construction of 9 new projects. The company also plans to develop cooperation with financial institutions on the PRS market, thus ensuring access to capital enabling the implementation of development plans in an optimal way. Most of the investments will be implemented in the Pomeranian Voivodeship, where Dekpol Deweloper maintains a leading position on the market. On the land bank it has, the Company may offer approx. 5 thousand premises with about 220 thousand sqm of usable area.

In 2021, sales of 350 new apartments are planned. The sale of premises recognized in the Group's financial result is planned at the level of 300 premises, and the level of revenues from property development activities is to amount to PLN 210 million. The company also expects an increase in the gross margin on sales.

Dekpol Deweloper's business strategy also includes the implementation of property development projects for institutional clients (PRS). In 2020, the Company signed a letter of intent for the implementation of a real estate development project in Wrocław in this formula.

In the above plans, the Company took into account the current situation related to the possible negative effects of the COVID-19 pandemic and adopted a precautionary action scenario.

The decrease in the number of customers visible in 2020 was caused by restrictions introduced by the authorities and the uncertainty of the society related to the slowdown of the global economy. If the epidemic persists, its lasting impact on the economy and the introduction of more restrictive restrictions, the decrease in the number of buyers for the property development products offered by the Company must be taken into account in the future. A positive effect in the form of lifting restrictions and frostbite the economy may be brought by the vaccination program against COVID-19, launched at the end of 2020.

In addition, the Management Board of the Company ensures that it constantly monitors the development of the situation related to the continuing effects of the spread of the COVID-19 virus and their impact on the Company's operations.

### **IMPLEMENTATION OF THE STRATEGY OF THE COMPANY AND THE DEKPOL CAPITAL GROUP IN 2020**

Since January 2019, the property development segment of the Dekpol Capital Group operates within the newly established company Dekpol Deweloper Sp. z o.o. The management of the organized part of the enterprise allowed for the separation of the real estate development activity from the remaining areas of the Group's operation, and, consequently, to reduce the business and legal risk, while increasing the organizational and financial independence of Dekpol Deweloper within the Dekpol Capital Group.

The owned and constantly expanded land bank, including lands in Gdańsk, Warsaw or Wrocław, will allow for an increase in the number of property development investments offered by the Company in subsequent periods.

Taking into account the schedule of handover of premises in 2020, already possessed building permits for the construction of further development investments and - with regard to the sale of premises recognized in the financial result - already signed reservation, development and preliminary agreements, in February 2020 the sales targets for 2020 were adopted, according to which the intention of the Group in the development segment was to achieve sales on the basis of reservation, development and preliminary agreements at the level of 400 units with a value of PLN 200 million and the sale of premises recognized in the Group's financial result at the level of 650 units with a value of PLN 320 million, while increasing the gross margin on sales to a level above 20%. Moreover, a change in the sales structure was planned, consisting in increasing the share of high-standard holiday apartments from 14% to 31% of the Group's sales, while reducing the share of the popular segment to 44%, which in 2019 accounted for 61% of the Group's sales.

In October 2020, taking into account the situation related to the COVID-19 pandemic and the related sales results achieved in the three quarters of 2020, as well as the schedule of premises handover in 2020, the construction permits held and - in relation to the sale of premises recognized as a result of financial - already signed reservation, development and preliminary agreements, the Group updated its sales targets for 2020 as follows:

- sale based on reservation, development and preliminary agreements: 150 units with a value of PLN 75 million,
- sale of premises recognized in the Group's financial result: 630 premises worth PLN 290 million,

with a gross margin on sales of more than 20%.

Information on sales targets for 2020 was provided by the Company in the current report No. 5/2020 of 10<sup>th</sup> of February 2020 and No. 28/2020 of 19<sup>th</sup> of October 2020.

Ultimately, the Group in the development segment in 2020 achieved the following sales results:

- number of premises sold: 148 premises with a total value of PLN 78 million, compared to 382 premises sold in 2019 (based on the concluded reservation, development and preliminary agreements),
- number of premises that have been recognized in the financial result: 622 premises with a total value of PLN 282 million, compared to 490 premises recognized in 2019.

### **BUSINESS DEVELOPMENT PROSPECTS IN THE NEXT FINANCIAL YEAR**

In accordance with the sales targets for 2021 adopted in January 2021, the Group's intention in the property development segment is to achieve revenues of PLN 210 million in 2021, which will include, in particular, the sale of 300 units recognized in the financial result and revenues from investment implementation from an institutional entity implemented in Wrocław at Braniborska street, which is discussed in more detail in point 3.4. of this report. On the other hand, the target for 2021 with regard to the sale of premises under reservation, development and preliminary agreements is 350 premises.

In addition, on 20<sup>th</sup> of April 2021 (an event after the balance sheet date), the Company provided information on the activities of the Dekpol Capital Group in the development segment in the first quarter of 2021:

- number of premises sold: 79 premises compared to 27 premises sold in the first quarter of 2020 (based on the concluded reservation, development and preliminary agreements),
- number of premises that will be recognized in the Group's financial result: 148 premises compared to 178 premises recognized in the first quarter of 2020.

As at 30<sup>th</sup> of June 2021, the total number of units offered by the Group for sale was 565.

In the first half of 2021, the following investments were in sales offer:

- Grano Marina Hotel - a building with a total of 130 service premises, located in Wiślinka near Sobieszewo Island,
- Lazor Park – a residential building with a total of 36 residential premises, located on the Sobieszewo Island,
- Villa Neptun – apartment building with a total of 40 commercial premises, located on the Sobieszewo Island,
- Baltic Line – apartment building with a total of 60 commercial premises, located on the Sobieszewo Island,
- Baltic Porto - apartment building with a total of 72 commercial premises, located on the Sobieszewo Island,
- Osiedle Pastelowe etap II - 3 residential buildings with a total of 225 residential premises, located in Gdańsk.

In H1 2021, final occupancy permits were issued for 3 multi-family residential buildings (180 units) included in the Osiedle Pastelowe stage I investment (sales in this investment amounted to 98% as at

30<sup>th</sup> of June 2021) and apartment buildings (222 units) included in the Sol Marina stage I investment (sales in this investment reached 44%).

### **Risk factors and threats**

From the point of view of the future of Dekpol Developer and its subsidiaries, the main risk factors related to its operation are:

- risk of an increase in production costs - it is associated with a possible increase in personnel costs, changes in the prices of construction materials during the construction process, as well as economic (inflation), financial (increase in financing costs), legal and political factors (changes in legal, tax or government policy) that may have an impact on an increase in investment costs.

- delays in the implementation of the investment - the investment process is a complex, multi-stage process and usually takes several years, therefore, during its duration, many risks may arise, which may result in an extension of the deadline for the implementation of a development project. Such delays are related to the need to pay interest, contractual penalties and / or damages related to the possible loss of benefits by the Customers. The consequence of this may be lower profitability of individual projects, and thus a worse financial result of the Company.

- problems with obtaining external financing - development projects are characterized by high capital intensity; therefore, external financial support is necessary. Its amount depends, among others, on factors beyond the control of the Company, e.g. market conditions. When applying for external support, difficulties may arise in meeting the requirements set by financial institutions or the financing conditions may turn out to be unfavorable for the company.

- risk of an increase in interest rates - the Company is a party to bond, loan and lease agreements as well as loans from related entities, where the interest rate is calculated using variable interest rates, therefore the Company is exposed to the risk of changes in interest rates. A significant increase in interest rates may adversely affect the business, financial condition, results and development prospects.

- the risk of not achieving the assumed amount of usable space - the company implements its projects based on previously prepared architectural designs, which provide for the construction of a certain amount of usable space within individual stages of the projects. After their preparation, however, it may be necessary to introduce design modifications or adapt it to the changes introduced in the local spatial development plan in order to optimize the use of the available space. If these changes result in a decrease in the amount of usable space, it may have a negative impact on the financial situation of the Company.

- infrastructure risk - a development project may be implemented provided that adequate infrastructure required by law is provided. Failure to provide such infrastructure may result in the withholding of the building permit until it is provided. This may have a significant impact on the investment completion date and an increase in the costs associated with the construction of infrastructure, and thus affect the financial situation of the Company.

- risk of competition - the Company focuses its activities in Polish cities that are attractive in terms of locations, where the competition is relatively high. A deterioration in the economic situation on a

given market or a significant increase in competing entities carries the risk of the necessity to lower the offer prices.

- risk related to the implementation of property development projects; - the development project cycle is a long-term cycle (over 24 months), characterized by the necessity to incur significant financial outlays and the total return of the incurred expenditure only after a minimum of 2 years. The next stages of projects are usually launched at intervals of 6 to 12 months. The company usually has to pay for the land in full, and the complete development of the land may take place even up to several years after its acquisition date. A long delay in the sale may, in particular in case of an unfavorable macroeconomic situation, result in the non-recovery of some or all of the invested funds. Therefore, the moment of obtaining revenues may be significantly distant in relation to the expenditure incurred for the implementation of a given project.

Costs related to the implementation of a development project and, consequently, the company's financial results may be influenced, in particular, by such factors as:

- the need to incur additional costs (also as a result of their incorrect estimation) or the occurrence of circumstances causing a significant change in costs;
- changes in the scope of the project and changes in the architectural design;
- non-performance of works by contractors within the agreed deadlines and in the agreed standard;
- delay in obtaining an occupancy permit;
- delays in completing the documentation necessary to sign notarial deeds transferring ownership, issued by administrative bodies.

Should the above risk factor occur, the scale of the negative impact on the company's operations and financial standing could be quite significant. The Company assesses the probability of this risk as medium.

- risk of reduced availability of mortgage loans - the financial crisis and economic slowdown may adversely affect the liquidity and financial situation of apartment buyers, which in turn may result in a weakening of the demand for apartments offered by the company. Demand in the housing market is largely dependent on the availability of housing loans and the ability to service them. Due to the economic crisis caused by the Covid-19 pandemic, banks significantly changed their policy related to granting mortgage loans by tightening the criteria for assessing creditworthiness. In particular, a noticeable trend in the mortgage market is the temporary exclusion of income from certain types of economic activity (industries) when assessing creditworthiness, or a significant limitation by banks of access or the amount of credit in relation to people employed under civil law contracts. In this regard, it should also be mentioned that many banks have introduced a requirement to make a higher own contribution (lowering the LTV ratio), as well as increasing margins and commissions.

A possible decrease in the availability of mortgage loans as well as a deterioration in the creditworthiness of potential buyers of residential premises may have a negative impact on the company's revenues. Changes in regulatory policy affecting banks' creditworthiness assessment and banks' policies in this regard may cause a decline in demand for new apartments, and thus may have a negative impact on the company's operations, development prospects, financial standing or results.

Should the above risk factor occur, the scale of the negative impact on the company's operations and financial standing could be significant. The Company estimates the probability of this risk as high.

- the risk related to the coronavirus pandemic (COVID-19) - in the property development industry, the company also recognizes the risk of temporary hotel closings during a pandemic, which may translate into reduced demand for apartments and condo hotels under construction. There is also a risk of a temporary reduction in demand for residential real estate, which may result in a smaller number of contracts concluded in connection with the sale of these real estate, including reservation, preliminary and development contracts. The postponement of their conclusion, in the company's opinion, should not affect the results in the long term, but only in the coming months.

In addition, restricting the work of public administration offices or remote work of officials may cause delays in issuing administrative decisions, both construction permits and occupancy permits. This may result in delays in starting new construction projects as well as delays in handing over residential premises to final buyers on completed investments. At the same time, the potential risk of suspension or slowdown of construction works and the occurrence of logistical difficulties may cause delays in the implementation of construction projects, resulting in the inability to complete the investment on time. The above, in turn, may increase the risk of potential withdrawal by buyers from already concluded contracts or charging contractual penalties.

The company also notes that the economic crisis caused by the Covid-19 pandemic may have an impact on the financial situation of the company's contractors, which may result in delays in the payment of the company's receivables, or even complete insolvency of these contractors. In the event of a significant increase in this phenomenon, the Issuer's financial liquidity may deteriorate, despite the financial provisions existing as at the date of this report, intended to cover operating losses.

The company, however, stipulates that due to the unprecedented scale of the phenomenon and the dynamics of events, it is difficult to predict the further development of the situation and assess the impact of the potential effects of the pandemic, as well as assess possible scenarios for the behavior of major investors, customers, suppliers and subcontractors. The Management Board conducts activities aimed at adapting the company's operations to changing conditions, so as to safely ensure the continuation of operations. The Management Board also undertakes the necessary preventive actions in the scope of projects implemented by it, as well as educational activities in relation to employees. At the same time, the management board responds to changing market conditions on an ongoing basis.

- risk related to initiatives of public authorities regarding condo hotels and aparthotels - as part of its development activities, the entity offers and intends to offer the sale of premises in the future also in the condohotel and aparthotel model. The subject of the offer is the ownership of a non-residential premises, and the conclusion of a lease agreement for this premises with the entity that will operate in a given hotel facility. In 2019, the Office of Competition and Consumer Protection (UOKiK), the Polish Financial Supervision Authority and the Ministry of Investment and Development launched an information campaign in which they warned about the risks associated with investing in rooms in aparthotels and condo hotels. Although the entity agrees with the theses presented in the campaign and sees the need to conduct it, the content of the messages raised concerns among customers of the company, and as a consequence may lead to a decline in interest in this type of offer. It cannot

be ruled out that in the future further information campaigns or legislative initiatives will be launched, which will result in the lack of interest in the premises in condo hotels and aparthotels by customers or, as a result of the introduced security measures and restrictions, will make conducting this type of investment unprofitable.

- risk of breach of obligations provided for in loan agreements and bond issue conditions - the loan agreements concluded by the entity, as well as the bond issue conditions, provide for obligations to maintain certain financial ratios. The issue of bonds may result in a breach of these ratios, which in turn may lead to the termination of loan agreements by banks or an early redemption of bonds issued earlier by bondholders. In addition, some loan agreements contain provisions stipulating the so-called cross-default, which means that the breach of one loan agreement automatically results in the breach of other loan agreements concluded with the same bank. In the event of default under one financing agreement, the existence of cross-infringement provisions may automatically result in default in other agreements. If such default provisions in other contracts are triggered, this could lead to significant losses for the company and a significant reduction in its access to capital.

Any failure to meet the obligations arising from the loan agreements or the terms of the bond issue may result in the maturity of debts before the originally scheduled repayment date and a significant deterioration of the financial liquidity of the entity. The above may result in the use by the bank or bondholders of the security specified in the loan agreements, including enforcement against real estate encumbered with a mortgage. Thus, there is a risk that real estate or other assets belonging to the company may be seized, with the consequence that the company may lose some of its significant assets. The above-mentioned events may have a negative effect on the company's operations, financial condition and results of operations. In order to prevent the occurrence of the indicated circumstances, the company performs an ongoing assessment of the debt status and controls the compliance with the covenants contained in the loan agreements and the terms of the bond issue.

- risk related to the change in the prices of premises as part of the development activity - the profitability of the development activity depends on the prices of the premises sold, over which the Company has no direct influence. The current price level is mainly influenced by the wealth of the society, the availability of loans, and the level of interest rates. In the period of lowering prices, the Company may significantly reduce the sale of built premises, and in extreme conditions suspend the implementation of selected projects. Such a situation, if it occurs, may have a negative impact on the financial result of the Company.

- liquidity risk - the Company manages liquidity risk through financial planning, matching the maturity of assets to the maturity of liabilities and through the surplus of available sources of financing over the current needs of the Company. The relevant data on the maturity dates of financial assets and financial liabilities are presented in the financial statement.

- risk related to the concentration of activities on the local market - most of the investment projects in the field of property development activities are located in the area of the Pomeranian Voivodeship. Concentration of activities on the local market causes dependence on the economic situation on the local market. As a consequence, the Company has to compete with a large number of business entities serving the development market. Due to such local restrictions, the Company's revenues largely depend on the demand on the housing market. A large number of competitive residential investments may have an impact on the reduction of the Company's revenues. This

translates directly into the financial result and development prospects of the Company in the future. In order to eliminate this risk, it plans to start real estate development investments in other regions of Poland (Wrocław, Warsaw), which will allow greater independence from the situation on the local market and will contribute to the development of the Company. The company also focuses on strengthening its market position and increasing its competitive advantage by providing products of high quality and on time.

- risk of instability of the Polish tax system - the Polish tax system is subject to frequent amendments, inconsistency and the lack of a uniform interpretation of tax law provisions. These inaccuracies entail a significant risk related to the tax environment in which the Company operates. If the tax authorities question the tax settlements made by the Company, due to discrepancies or changes in interpretations or the inconsistent application of tax law by various tax administration authorities, it may result in the imposition of relatively high penalties or other sanctions on the Company. Taking into account the relatively long limitation period for tax liabilities, estimating the tax risk is particularly difficult, however, the fulfillment of the types of risk described above may have a significant negative impact on the operations, financial condition or results of the Company's operations.

- risk related to the lack of stability of the Polish legal system – The Polish legal system is subject to numerous changes that have a huge impact on the Dekpol 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 Group'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 Dekpol Group's. In order to minimize the above-described risk, the Dekpol Group monitors the changes of the law on an ongoing basis and uses professional legal assistance.



The activities of the Company and its subsidiaries will be affected by the entry into force of the Act on the protection of the rights of the buyer of a flat or single-family house and the Development Guarantee Fund, adopted by the Parliament of the Republic of Poland on 20<sup>th</sup> of April 2021 (as at the date of this report, the legislative process is pending - the Act transferred to the Senate of the Republic of Poland). The act provides, inter alia, increasing the burdens related to the running of real estate development projects, including through the creation of the Developer Guarantee Fund, financed primarily from developers' contributions.

- risks related to the bonds issued - in connection with the issued bonds, the Company's assets may be depleted, because due to default on the repayment of obligations, including interest payments, bondholders have grounds to enforce their early redemption, which may significantly reduce the current assets of the Company. It cannot be ruled out that, due to the failure to pay their obligations, bondholders - creditors may exercise their right to file a bankruptcy petition with the court. As at the date of publication of this document, the Company has no problem with the timely servicing of its debt obligations. As at the date of publication of this document, the Company does not identify any real risks related to the issued bonds. However, taking into account all the risks directly related to the operating activities, the Company does not rule out that in the future there may be problems with the timely repayment of obligations.

The achieved results will also be influenced by external, macroeconomic factors such as the general condition of the Polish economy, inflation, GDP growth dynamics, tax policy, the level of interest rates, the level of investments, the volume of demand on the internal market, exchange rates, government programs supporting the development of housing, shaping the price level of construction materials and services, availability of skilled workers, shaping the level of wages. The increase in GDP, the wealth of the society and the development of enterprises have an impact on the increase in demand for construction services, both in the field of housing and industrial construction. All this has a positive impact on the financial results of the Company.

The factors described above may have a significant negative impact on the company's development prospects, results and financial standing.

The company does not have any hedging instruments for the aforementioned risks and does not keep hedge accounting. The company strives to minimize the impact of the above risks by applying ongoing monitoring of individual risk areas through the implemented control procedures and regular risk exposure analysis.

### **Own shares, financial instruments**

In the financial year 2020, the company did not acquire its own shares and did not issue or purchase any financial instruments.

### **Company branches**

The company has no branches.

Pinczyn, 20<sup>th</sup> of August 2021

*Sebastian Barandziak*  
*President of the Management Board*

*Sebastian Leszczyński*  
*Vice-President of the Management Board*

*Rafał Dietrich*  
*Member of the Management Board*