

DOM DEVELOPMENT S.A.

# MANAGEMENT BOARD'S REPORT OF ACTIVITIES IN THE FIRST HALF OF 2023





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## **1 GENERAL INFORMATION ABOUT DOM DEVELOPMENT S.A.**





**Dom Development S.A. has operated since 1996 and is the leader of the residential market in Poland. The Group offers apartments in multi-family buildings located in the main agglomerations of the country: in Warsaw, Tricity, Wrocław and Cracow.**

**Since 2006 the Company has been listed on the Warsaw Stock Exchange (ticker: DOM) and is a part of the mWIG40 index. Since its stock exchange début, the Company has combined high profitability, low debt with dividend payments.**

Dom Development S.A. (the “Company”, the “parent company”) is the parent company of Dom Development S.A. Capital Group (the “Group”). The Company has been entered into the National Court Register under number 0000031483 maintained by the District Court for the capital city of Warsaw, 12th Commercial Division of the National Court Register. The registered office of the Company is in Warsaw (00-078 Warsaw, pl. Piłsudskiego 3).

Dom Development S.A. is a developer in the segment of upper-standard flats in Warsaw.

Dom Development S.A. Capital Group is the largest residential developer in Poland and it operates in three markets: Warsaw, Tricity, Wrocław, and in Cracow.

The Group’s activities are concentrated in the main agglomerations of Poland, where it offers flats in all market segments – from popular, through to upper-standard to luxury apartments. The premium segment dominating the Group's portfolio allows both the

Company and the Group to achieve above-average margins while maintaining a large scale of business.

For 25 years the Company's founders have managed and supervised it: Jarosław Szanajca holding 5.66% shares in Dom Development S.A. since its inception has been the President of the Management Board, while Grzegorz Kiełpsz, the former CEO and a major shareholder, has also been the Chairman of the Company's Supervisory Board since 2008.

As at the date of the approval of this report, the Company was controlled by Groupe Belleforêt S.à r.l. with its registered office in Luxembourg which held 55.02% of the shares in the Company. The representatives of the main shareholder have been members of the Company's Management Board and the Supervisory Board since the beginning, supporting the Company by sharing their extensive international experience in the real estate development market.

#### STRUCTURE OF DOM DEVELOPMENT S.A. CAPITAL GROUP AS AT 30 June 2023

COMPANY	% OF THE SHARE CAPITAL HELD BY THE PARENT COMPANY	% OF THE VOTES HELD BY THE PARENT COMPANY
<b>Subsidiaries</b>		
Dom Construction Sp. z o.o.	100%	100%
Dom Development Kredyty Sp. z o.o.	100%	100%
Dom Development Wrocław Sp. z o.o.	100%	100%
Euro Styl S.A.*)	100%	100%
Euro Styl Development Sp. z o.o. w likwidacji*)	100%	100%
Dom Development Kraków 12 Sp. z o.o.	100%	100%
Dom Development Kraków Sp. z o.o.	100%	100%
Issogne Sp. z o.o.	100%	100%
Mirabelle Investments Sp. z o.o.	100%	100%
Dom Development Grunty Sp. z o.o.	46%	100%
Dom Land Sp. z o.o.	-	-

\*) Euro Styl S.A. is the parent company of the Euro Styl S.A. Capital Group, with non-controlling interests held by Euro Styl Development Sp. z o.o. w likwidacji (under liquidation). As a result of the acquisition of both these companies, Dom Development S.A. has full control over the Euro Styl S.A. Capital Group.

The description of the organisation of Dom Development S.A. Capital Group with an indication of the consolidated entities, and the changes in the organisation of the Group are presented in note 7.1 of the Consolidated Financial Statements of Dom Development S.A. Capital Group for the six-month period ended 30 June 2023.

## 1.1 GROWTH STRATEGY OF THE COMPANY AND THE CAPITAL GROUP

The strategic goal of the Dom Development S.A. Management Board is to maximise the value of the Company and its Group in the long term by maintaining the leading position in the residential market and operating in the main agglomerations of the country. The implementation of this strategy is based on the following pillars:

### SUSTAINABLE GROWTH

As the leader in the housing market in Poland, the Dom Development S.A. Capital Group has a significant influence on spatial governance and quality of life in the agglomerations, where it operates. The Company's Management Board supports sustainable urbanisation by implementing internal standards of investment planning. Starting from apartments, through common areas of residential projects, to architectural solutions, including green areas – each of these aspects of development projects is carefully planned to create a friendly place to live in and forming high-standard urban fabric.

Sustainable development activities of Dom Development Group companies are set out in the DOM 2030 ESG STRATEGY adopted in 2022. The entire DOM 2030 Strategy is available on the Company's website at: <https://inwestor.domd.pl/pl/esg>.

### GEOGRAPHICAL DIVERSIFICATION

The Dom Development S.A. Capital Group is a high-quality organisation with significant development potential. The Company's Management Board recognises the numerous opportunities associated with the further growth of the Group in the main agglomerations of the country. In the coming years, the Company will continue its activities to reinforce the Group's position in the Cracow, Wrocław and Tricity markets.

Dom Development S.A. is an undisputed market leader in Warsaw with a market share exceeding 10% for many years. The Company's Management Board expects that the scale of its operations will gradually increase in the coming years owing to the strong brand, an attractive land bank and experience that allows the efficient development of further investment projects in this demanding market.

In recent years, Euro Styl S.A. and Dom Development Wrocław Sp. z o.o. have notably developed their potential

to be among the leaders in local markets. The Group's activities in these regions are expected to grow in the coming years.

The Cracow market is one of the largest residential markets in Poland both in terms of transaction volume and price level. At the same time it is a highly fragmented market compared to other major agglomerations in Poland. For this reason, the Management Board of the Company decided to establish Dom Development Kraków Sp. z o.o. in 2022. This company was formed as a result of 2021 and 2022 acquisitions of BUMA and SENTO, two recognised local housing developers.

In the opinion of the Management Board of the Company, Cracow is a very forward-looking location with great potential for consolidation in the primary housing market. The Group's activities are aimed at gradual building and reinforcement of its position in the local market.

### STRONG BALANCE SHEET

The Company's Management Board puts particular emphasis on the strong balance sheet of the Company and the Group, and safe liquidity position. Significant own financial resources paired with low debt allow the Management Board to respond with confidence to changing conditions in the real estate development and construction sectors, which are highly cyclical in nature. At the same time thanks to significant cash resources and secured credit lines, the Group companies have an advantage in land market transactions, often requiring multi-million payments in a short period of time.

In view of high cost of debt finance, the strong balance sheet and high liquidity are, in the opinion of the Management Board, a fundamental competitive advantage that enables the Company and its Group to strengthen their market position.

### ROE MAXIMISATION

The Company's Management Board focuses on the long-term maximisation of the return on equity for shareholders by focusing on the profitability of the implemented projects, maintaining the adequate scale of the Group's activities to the size of its organisation with regular payments of dividend from the Company's profit.

## 1.2 DOM DEVELOPMENT S.A. SHAREHOLDER STRUCTURE

As at the date of this report, the Company was controlled by Groupe Belleforêt S.à r.l. which held 55.02% of the Company's shares. The Dom Development S.A. shareholder structure has been relatively stable. Representatives of Groupe Belleforêt S.à r.l., who were co-founders of Dom Development S.A., serve on both the Management Board and the Supervisory Board of the Company. They are a valuable source of expertise and support for the management of the Company and its subsidiaries.

The long-term involvement of shareholders is a support for the activities of Dom Development S.A. thus enabling its sustainable development, optimised operations and building the goodwill of the Company and the Group. In the opinion of the Company's Management Board, a transparent and stable ownership structure has a positive effect on the Company's operations as the exceptionally long production cycle in the development sector, spread over the years, requires a long-term perspective.

Shares of Dom Development S.A. are held in the portfolios of numerous Open-End Pension Funds, with PTE Allianz Polska S.A. being one of them.

On 5 January 2023, the Company was notified that on 30 December 2022, PTE Allianz Polska S.A., who manages Allianz Polska Otwarty Fundusz Emerytalny (open-end pension fund) and Allianz Polska Dobrowolny Fundusz Emerytalny (voluntary pension fund) had merged with Aviva Powszechnie Towarzystwo Emerytalne (pension fund management company) Aviva Santander Spółka Akcyjna, who manages Drugi Allianz Polska Otwarty Fundusz Emerytalny (open-end pension fund). The total interest of PTE Allianz Polska S.A. in the share capital of the Company increased to 9.73% as a result of this merger.

Detailed information on shareholders who hold, directly or indirectly through subsidiaries, at least 5% of the overall number of votes at the General Shareholders' Meeting ("GSM") as at the date of this report, and on the change in their shareholding in the period from the publication of the Q1 2023 interim financial statements, are presented in the table below.

	STATUS AS AT THE DATE OF THIS REPORT				CHANGE FROM THE PUBLICATION OF THE Q1 2023 REPORT
	Shares	% shares	Number of votes at the GSM	% votes at the GSM	Shares
Groupe Belleforêt S.à r.l.	14 155 941	55.02	14 155 941	55.02	-
PTE Allianz Polska S.A.*)	2 501 493	9.73	2 501 493	9.73	-
Jarosław Szanajca	1 454 050	5.66	1 454 050	5.69	-

\*) The PTE Allianz Polska S.A. shareholding in the Company has been presented in accordance with the notification of 15.05.2023 that specifies the shares held by Allianz OFE.

## 1.3 MANAGEMENT BOARD OF DOM DEVELOPMENT S.A.

In the period from 1 January 2023 until 30 June 2023 the Management Board of Dom Development S.A. was composed of five members as follows:

- Jarosław Szanajca,  
President of the Management Board,
- Małgorzata Kolarska,  
Vice President of the Management Board,  
Chief Executive Officer
- Leszek Stankiewicz,  
Vice President of the Management Board,  
Chief Financial Officer
- Terry Roydon,  
Member of the Management Board
- Mikołaj Konopka,  
Member of the Management Board.

## 1.4 SUPERVISORY BOARD OF DOM DEVELOPMENT S.A.

In the period from 1 January 2023 until 14 June 2023 the Supervisory Board of Dom Development S.A. was composed of seven members as follows:

- Grzegorz Kiełpsz,  
Chairman of the Supervisory Board,
- Janusz Zalewski,  
Vice Chairman of the Supervisory Board,
- Marek Moczulski,  
Vice Chairman of the Supervisory Board  
(Independent Member),
- Dorota Podedworna-Tarnowska, Member of  
the Supervisory Board (Independent Member),
- Krzysztof Grzyliński, Member of the Supervisory  
Board (Independent Member).
- Markham Dumas,  
Member of the Supervisory Board,
- Mark Spiteri,  
Member of the Supervisory Board,

The following changes in the composition of the Supervisory Board of the Company took place in the six-month period ended 30 June 2023.

On 12 May 2023, Mr Marek Moczulski, Member and Vice Chairman of the Company's Supervisory Board and Mr Krzysztof Grzyliński, Member of the Company's Supervisory Board, resigned from their positions on the Supervisory Board, with effect from 15 June 2023.

As of 14 June 2023, Mr Markham Dumas, Member of the Company's Supervisory Board, resigned from his position of Member of the Company's Supervisory Board.

As of 15 June 2023, a shareholder holding at least 50.1% of the Company's shares appointed Mr Philippe Bonavero for a joint three-year term of office as a Member of the Company's Supervisory Board.

On 15 June 2023, the Ordinary General Meeting of Dom Development S.A. appointed Ms Edyta Wojtkiewicz and Ms Anna Maria Panasiuk to the Supervisory Board of the Company for a joint three-year term of office.

Moreover, on 15 June 2023, the Supervisory Board of the Company appointed Dorota Podedworna-Tarnowska, an existing Member of the Supervisory Board, as Vice Chairperson of the Supervisory Board.

Consequently, from 15 June 2023 the Supervisory Board of Dom Development S.A. has been composed of seven members as follows:

- Grzegorz Kiełpsz,  
Chairman of the Supervisory Board,
- Janusz Zalewski,  
Vice Chairman of the Supervisory Board,
- Dorota Podedworna-Tarnowska,  
Vice Chairwoman of the Supervisory Board  
(Independent Member),
- Anna Maria Panasiuk, Member of the Supervisory  
Board (Independent Member),
- Edyta Wojtkiewicz, Member of the Supervisory  
Board (Independent Member),
- Mark Spiteri,  
Member of the Supervisory Board,
- Philippe Bonavero,  
Member of the Supervisory Board,

## 1.5 SHAREHOLDING OF THE MEMBERS OF THE MANAGEMENT BOARD AND THE SUPERVISORY BOARD

### TOTAL NUMBER AND NOMINAL VALUE OF ALL SHARES IN THE COMPANY AS WELL AS THE SHARES AND STOCKS IN THE COMPANIES OPERATING WITHIN THE GROUP HELD BY THE MEMBERS OF THE MANAGEMENT AND SUPERVISORY BODIES OF THE COMPANY

The ownership structure of shares and share options in the Company held by the Members of the Management Board and the Supervisory Board as at the date of this Report was as follows:

	STATUS AS AT THE DATE OF THIS REPORT				CHANGE FROM THE PUBLICATION OF THE Q1 2023 REPORT	
	Shares	Nominal value of the shares (in PLN '000)	Share options	Shares and options, total	Shares	Share options
<b>The Management Board</b>						
Jarosław Szanajca	1 454 050	1 454	-	1 454 050	-	-
Małgorzata Kolarska	208 764	289	-	208 764	(14 780)	-
Leszek Stankiewicz	100 000	100	150 000	250 000	-	-
Mikołaj Konopka	172 561	172	50 000	222 561	-	-
Terry Roydon	58 500	59	-	58 500	-	-
<b>The Supervisory Board</b>						
Grzegorz Kiełpsz	1 280 750	1 281	-	1 280 750	-	-
Janusz Zalewski	300 000	300	-	300 000	-	-
Mark Spiteri	900	1	-	900	-	-

The Members of the Management Board and the Supervisory Board of the Company did not hold any shares in other companies operating within the Group, except for in Dom Land Sp. z o.o., in which Jarosław Szanajca, Grzegorz Kiełpsz and Mark Spiteri held 20% shares each on the date of preparing of these financial statements.



## 2 SUMMARY OF ACTIVITIES IN THE FIRST HALF OF 2023



## 2.1 MAJOR EVENTS IN H1 2023

### EXPANSION OF OPERATIONS IN THE CRACOW MARKET

In the first half of 2023, Dom Development Kraków Sp. z o.o. continued to consolidate development operations in the Cracow market. In March 2023, the Meeting of Shareholders of Dom Development Kraków Sp. z o.o. and the General Meeting of Shareholders of Sento S.A. adopted resolutions regarding the merger of Dom Development Kraków Sp. z o.o. as the acquiring company with Sento S.A. as the acquired company.

The purpose of merging these companies into one development organisation was to introduce in Cracow the business model equivalent to that in other locations where the Group operates.

The Cracow market is one of the largest residential markets in Poland both in terms of transaction volume and price level. It is a highly fragmented market compared to other major agglomerations in Poland. In the opinion of the Management Board of the Company, Cracow is a very forward-looking location with great potential for consolidation in the primary housing market.

As a result of the acquisitions, which took place in 2021 and 2022, as at 30 June 2023, the land bank controlled by the Company has the capacity of 1 416 new units and 632 units already under construction. In H1 2023 Dom Development Kraków sold 237 units. The company strengthened its position in the Cracow market as reflected in increased sales and deliveries by 114% and 62% respectively, year over year.

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### COMFORTABLE LIQUIDITY SITUATION

On 19 January 2023, a master agreement was signed between Dom Development S.A. and mBank S.A. setting forth the rules for Dom Development S.A. utilising bank guarantees under the guarantee line provided, up to a maximum amount of PLN 30 000m and until 29 January 2027. The said agreement further strengthened the credibility of Dom Development S.A. as a trading partner, giving the opportunity to efficiently, effectively and reliably secure transactions with contractors.

On 7 February 2023, the Management Board of Dom Development S.A. adopted a resolution according to which it agreed to establish by the Company a bond issue programme of Dom Development S.A. with a total value not exceeding PLN 400m.

The Issue Agreement was entered into by the Company and mBank S.A. on the same date (i.e. 7 February 2023, wherein the bonds may be issued by the Company as various series

for an unspecified period of time from the Issue Agreement date onwards.

Moreover, on 8 February 2023, PKO Bank Polski S.A. and Dom Development S.A. and Euro Styl S.A. entered into Annex no. 4 to the overdraft facility agreement, dated 27 July 2015. As a result of the signed annex, the availability period of credit limit was extended until 26 February 2027 and the credit limit amount was increased, which currently stands at PLN 200m.

The above sources of finance ensure comfortable liquidity situation for Dom Development S.A., allowing for the development of current operations of the Company and companies operating within Dom Development Group.

## DOM 2030 ESG STRATEGY

In accordance with the assumptions of the DOM 2030 ESG Strategy, the Management Board of Dom Development S.A. has committed to implementing a system for sustainability reporting. In March 2023, the Capital Group voluntarily published its first 2022 non-financial report (with 2021 being the base year). Moreover, pursuant to Article 49b of the Accounting Act, a statement on non-financial data was included in the Management Board's report of activities. The purpose of these activities is to make the Capital Group ready for the implementation of the Corporate Sustainability Reporting Directive (CSRD).

In H1 2023, in compliance with the objectives set out in the DOM 2030 ESG Strategy, the Capital Group implemented the Green Project Card – an internal standard of the Dom Development Group which combines environmentally and socially friendly solutions while remaining appealing to customers.

The “We are Fair” programme has been implemented across all Group companies. This programme is about values, and it depicts the project standards that have been worked out by the Group and sets new directions of development, based on responsibility for the products, relations and the local community.

Pursuant to Resolutions no. 22 and 23 of the Annual General Shareholders' Meeting of 15 June 2023, the representation of women on the Supervisory Board of Dom Development S.A. was increased to over 40%.

The next step in the implementation of the DOM 2030 ESG Strategy will be the actions planned for 2024, namely the “Urban Greenery” Program, under which public green areas are to be created in each of Group's four markets. The CSR Strategy will also be implemented, so will the new apartment -fit-out standard with solutions that enhance comfort and safety for seniors and people with reduced mobility.

The entire DOM 2030 Strategy is available on the Company's website at: <https://inwestor.domd.pl/pl/esg>.

## RECORD-HIGH DIVIDEND

On 15 June 2023, the General Meeting of Shareholders of Dom Development S.A. resolved to pay a record-high dividend of PLN 11 per share as recommended by the Management Board of the Company. The date of record was set to be 26 June 2023 and the dividend distribution date was set to be 04 July 2023.

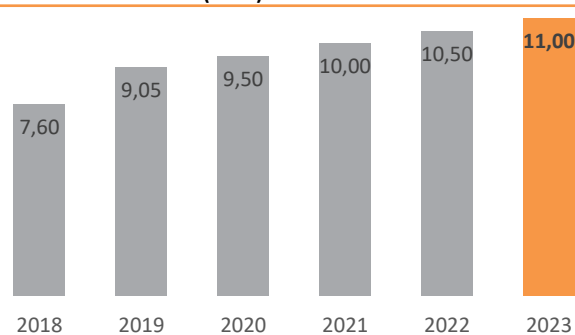
The Company paid a total of PLN 282 682k to its shareholders, i.e. 69% of the Group's consolidated net profit for 2022 and 76% of the Company's net profit for 2022. The dividend rate in relation to the share price of the Company on the in-dividend date was 7.6%.

The remainder of the Company's net profit in the amount of PLN 91 001k was allocated to the Company's supplementary capital.

The dividend paid is in line with the dividend policy of Dom Development S.A. published on 3 April 2013, which assumes increases in the amounts of dividends paid in subsequent years. The Management Board maintains its intention to pay the highest possible dividends to the Company's shareholders while maintaining a strong balance sheet and high liquidity.

In the opinion of the Management Board, the high return on equity (ROE) of the Company and its Group will allow them to remain among the top companies listed on the

WSE in terms of dividend rate, while also allocating part of DIVIDEND PER SHARE (PAID)



profits to strengthen its balance sheet and further develop its activities.

## 2.2 OPERATIONAL RESULTS IN H1 2023

In the first half of 2023, the Company sold 833 units, maintaining the level of sales as in the previous year. After the sharp downturn caused by last year's outbreak of the war in Ukraine, a series of interest rate hikes and a slowdown in demand, we are now seeing some signs of stabilisation. Interest rates have not risen in several months, which has reduced the uncertainty among potential buyers and encouraged them to buying apartments.

Thanks to the efficient launch of new projects, which were completed on schedule, and an appealing and diversified product range tailored to the needs of the market, Dom Development maintained a satisfactory level of sales.

Demand in the housing market, mainly in the popular segment, has increased as a result of PFSA easing its requirements as regards the credit scoring, specifically for medium-term fixed interest rate loans. Consequently, in H2 2023, transactions financed by mortgage loans accounted for 46% in Dom Development Group compared to 40% in Q1 2023 and approx. 30% in Q2 2022. Cash transactions accounted for 54% of sales, which confirms the continually high level of investment transactions. In times of inflation and a strong rental market, residential properties keep attracting investors. Dom Development, with its operations mainly in the segment of upper-standard apartments, which are preferred by investors, continues to benefit from this situation.

In response to the constantly growing demand, the Company consistently launches construction of new projects in line with market expectations, thus replenishing the offer of available apartments in all the cities where it operates.

In the opinion of the Management Board of the Company, Dom Development S.A. performed very well against the market. This was mainly due to its strong brand associated with quality and safety, and also due to a well-established position in the upper-standard segment, which is the least affected by such decreased credit rating of the buyers.

Thanks to its favourable competitive position, the Company increased its market share to approx. 17% (based on JLL

market estimates) in the first half of 2023, thus reconfirming its position as the undisputed leader in the Warsaw residential market.

OPERATIONAL RESULTS OF DOM DEVELOPMENT S.A.	2023	2022	CHANGE
<b>H1</b>			
Sales	833	833	0%
Deliveries	1 088	1 294	(16)%
<b>As at 30 June</b>			
Units under construction and finished	739	1 160	(36)%
Units under construction	3 079	3 532	(13)%
Units in the land bank	9 937	9 171	8%
Number of apartments and retail units			

The Company's land bank remained relatively stable and its potential is 9 937 units as at 30 June 2023. The Company's land bank comprises investment land in the design phase and in the process of being granted administrative permits as well as controlled land, the acquisition of which the Company has secured, while the transfer of title to the land and the payment of the entire purchase price have been deferred until such time as the required consents, permits and administrative decisions are obtained. Owing to that purchasing strategy, the Company has been able to start its new property development projects shortly following the completion of the purchase of the land.

The Company's investment land comprises multi-stage city-forming projects such as Dzielnica Mieszkaniowa Metro Zachód in the Bemowo district as well as a low-key projects such as Apartamenty Koło Parków in the Wola district.

All the land in the Dom Development S.A.'s land bank is located in Warsaw, which according to the Company's Management Board, is a very demanding market with protracted procedures, shortage of land covered by land use plans and of ready-to start projects with a satisfactory return rate.

## 2.3 RISK FACTORS AND THREATS TO THE BUSINESS ACTIVITY OF THE COMPANY IN THE SECOND HALF OF 2023

### DESCRIPTION OF THE MAJOR THREATS AND RISKS RELATED TO THE REMAINING MONTHS IN THE FINANCIAL YEAR.

#### INTEREST RATES

It is traditionally assumed that the residential market is inversely correlated to interest rates: low interest rates attract capital to the real estate market and increase the availability of credit, while high interest rates cool it down.

From September 2022 until the end of June 2023, the reference rate remained unchanged at 6.75%, while WIBOR 3M fell to 6.90% in June.

Stable, yet high interest rates, have kept reducing the activity of mortgage-backed customers, especially those at the credit worthiness limit, who are buying flats in popular segment.

Biuro Informacji Kredytowej (Credit Information Bureau) reported that two distinct periods can be distinguished in the housing loan market in the first six months in 2023 - weak first quarter and the second quarter, which brought a recovery. As a result, there were 39.4% less mortgage loans granted, with a value of 40.3% lower compared to H1 2022. Among the current economic phenomena there are ones that are a good sign as regards obtaining credit scoring and increasing creditworthiness. These are stabilisation of interest rates and waiting for them falling, possibly in autumn of this year, and an increase in wages. In the area of mortgages, a further increase in lending is

expected. Moreover, another stimulant, which revived housing lending was the "Safe 2% Mortgage" government scheme, which helped in the recovery of demand in the housing market, and thus increased interest in residential offers of property developers.

At the same time, an increased demand for upper-standard apartments have been observed. The customers' interest in this segment results from their desire to protect the accumulated capital from inflation and from lower sensitivity to the increase in the cost of mortgage.

It could be expected that Dom Development S.A. and its Group companies will be relatively resistant to the expected cooling of this sector of the economy thanks to their established position in the segment of upper-standard apartments and their consistent pursuance of business objectives.

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#### INFLATION

CPI growth peaked in February 2023, when it reached 18.4% YoY. Since then, price growth has been slower. In June 2023, inflation was 11.5% YoY against 13% YoY in May.

The downturn in the Polish economy, combined with the gradual decline in prices of raw materials, will have a limiting effect on global inflation, which in turn will lead to lower price growth in Poland. Economists estimate that the inflation rate should reach a single-digit level by the end of this year. The NBP expects the price index to be 7.6% in Q4 2023. The projected slowdown of inflation at the end of the year should also result in interest rate cuts.

It is worth noting that real estate is considered one of the most effective forms of protecting capital against inflation. At the Dom Development Group, the proportion of cash transactions in sales in H1 2023 accounted for 56%, while in the corresponding period last year it was 66%. High inflation and a strong rental market continue to encourage savings to be placed in real estate.

Inflation also affected the supply side of the Group's activities. Prices of materials have stabilised, however quite high fuel and energy prices and pay pressure from employees still has a significant impact on our subcontractors.

Thanks to in-house general contractor, the Group optimises the construction process from a project planning stage by utilising the economies of scale and ensuring regular jobs for trusted subcontractors, while developing long-term relationships based on trust. This is one of our key competitive advantages.

Thanks to such business model it may be expected that the Company and its Group will be largely able to mitigate the risk of increased project development costs thus ensuring satisfactory profitability of operations.

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## AVAILABILITY OF CAPITAL

The property development business requires large and long-term capital involvement, hence the particular focus of the Management Board of the Company on the liquidity level of the Company and the Group.

In the opinion of the Management Board of the Company, Dom Development S.A. Capital Group has little exposure to the risk of insufficient availability of capital.

The lack of net debt, the large cash balance and the reliability of the Company in the eyes of financial institutions are the sources of the Group's competitive advantage and ensure the comfort of uninterrupted property development projects. As at 30 June 2023, Dom Development S.A. had PLN 453.1m cash (of which PLN 51.4m in open-end escrow accounts) and PLN 395.1m in available credit lines.

With interest debt of PLN 310.0m, of which PLN 50.0m is short-term debt, the Company held net cash of PLN 143.1m.

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## LABOUR MARKET SITUATION

The situation on the housing market is closely linked to the situation on the labour market. Poland is doing very well in this regard by remaining among European countries with the lowest unemployment. Despite reduced economic activity, labour market remained stable in the first half of 2023.

According to the Statistics Poland (GUS), the unemployment rate in Poland was 5% at the end of June against 5.1% a month earlier. In the cities, where the Group operates, the unemployment rate remained below so-called natural unemployment. Low unemployment is accompanied by reduced labour demand, which is observed in almost all sectors. At the end of Q1, there were nearly 115 thousand vacancies across the economy, which is 27.6% less than the year before.

In June 2023, the average monthly pay in the enterprise sector increased to reach PLN 7 335. The average monthly pay increased by 2.1% compared to May 2023. Wages are expected to continue to rise driven by an increase in the minimum wage and low unemployment rate.

An expectation of job stability is an important factor in a decision to buy an apartment, in particular for people who take a mortgage loan. Despite 2022 turbulence, the labour market remained in good condition in the first half of 2023.

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## ECONOMIC GROWTH

The housing market is considered to be a cyclical sector of the economy and it is traditionally believed that the situation in the property development sector is highly correlated with the dynamics of GDP.

The European Commission forecasts a 0.7% increase in real GDP in Poland at the end of 2023. Economic growth is expected to slow down after the 2022 recovery, as economic activity is affected by tighter financing conditions, low external demand and weakened confidence. The weakened domestic demand and falling prices of raw materials will put downward pressure on prices, but rising labour costs have kept the inflation.

In particular, a significant impact on the increased level over the entire forecast horizon.

The possible future negative impact of an economic downturn in Poland on the activities of the Group depends primarily on the extent to which the crisis will affect the agglomerations in which the Group operates. However, in the opinion of the Management Board of the Company, Dom Development S.A. and its Group are, owing to their significant financial resources and efficient organisation, relatively resistant to a possible economic fluctuations compared to the sector average.

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## LEGISLATION

Enacted and potential future changes in legislation constitute a risk that could directly or indirectly affect the activities and performance of the Group companies.

On 24 July 2023, the President of Poland signed the Act Amending the Spatial Planning and Development Act and Certain Other Acts. The adopted solutions – in particular the severe restriction of possibility to issue outline planning permission decisions as well as the introduction of validity period for such decision connected with the expiry of the spatial plans and the need for boroughs to adopt master plans – will contribute to limited supply of investment land, especially those intended for residential development.

Another legislation-related risk resulting will involve amendments proposed by the Ministry of Development and Technology in relation to the Regulation on the technical conditions to be met by buildings and their location. The Regulation is expected to take effect from 1 January 2024. The Ministry postulates the addition of regulations that require, inter alia, increased minimum distance between multi-family residential buildings and

the plot boundary, a minimum distance between balconies to be introduced, and a specific playground area depending on the number of apartments in the building. The Management Board believes that the proposed changes will adversely affect development and landscaping options, reduce the number of apartments and balconies in a development project, thus resulting in a significant increase of the average price for all units. Consequently, these would cause decreased availability of apartments. In addition, the Company's Management Board holds the view that these changes would decrease profitability of development projects, because land purchase decisions as regards the land already owned by developers in their land banks were made on the basis of previous capacity analyses and then existing legal regulations. The fundamental measure adopted by the Group so as to mitigate exposure to regulatory risk is the assessment and monitoring of future and existing development projects based on investment models and decision-making procedures worked out in the Group.

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## ADMINISTRATIVE DECISIONS

The nature of real estate development projects requires a number of permits and approvals to be obtained by the Group at every stage of the development process. Despite significant caution applied in the project execution schedules, there is always a risk of delay in attaining them, of challenges to decisions which have already been issued or even failure to attain them. All of these factors affect the ability to conduct and complete the executed and planned projects on time. Potential changes in schedules are also affected by legislative changes.

The Company ensures that the scale of operations is maintained and that the offer is seamlessly replenished from the high quality and apt size the land bank with capacity corresponding to approximately 3-year sales.

The fundamental measure adopted by the Company so as to reduce the exposure to market risks is monitoring of legislative changes and taking them into account in planning, as well as proper assessment of potential and control of current development projects based on investment models and decision-making procedures worked out in the Company. The adherence to such procedures is closely monitored by the Management Board of the Company.

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## BUSINESS MARKETS

Dom Development S.A. has been the undisputed leader of the primary residential market in Warsaw for many years. The capital of Poland is the main centre of economic and social life and one of the largest academic centres in the country while the attractive and absorbent labour market attracts new residents. As a result, the Warsaw housing market is the largest and has the highest prices of all cities in Poland.

However, the Warsaw market is also characterised by the largest challenges to property development projects, as the supply of flats in Warsaw is under much pressure due to a shortage of investment land with good title as well as delays in planning works and administrative decisions.

The Management Board of the Company has mitigated the risk associated with the concentration of its activities on the Warsaw market through geographical diversification within Dom Development S.A. Capital Group.

The Company also operates in Tricity, Wroclaw and Cracow, i.e. in four most attractive residential markets in Poland.

The Management Board of the Company holds the view that the diversification of the Group's activities and the increase of the participation of subsidiaries in the structure of its sales and financial results is an effective strategy for the building of the Company's and the Group's value and will continue in the coming years.

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## ACQUISITION OF LAND FOR PROJECTS

The future success of the Group is founded on having the ability to continually and consistently acquire attractive land for new development projects at the right times and at competitive prices. This will enable satisfactory project margins to be generated. As there is a limited supply of land with clear legal and planning status in attractive locations, the ability to acquire new land is a major competitive advantage in the real estate development market.

The Company's land bank, which includes projects under preparation and land secured in Warsaw, reached nearly 10 thousand units as of 30 June 2023. Thanks to its land reserves, the Group is able to seamlessly replenish its offer, align it to the market needs, and keep leading position in the Polish housing market.

The Management Board places great emphasis on acquiring attractive land for new projects in each market where the Group is present, so that the Group has broad and varied land bank that secures stable operations for at least the next three years. In total as at the end of June 2023 the Company and its subsidiaries in the Group held more than 17 thousand units in the land bank. Success in securing a land bank for the purpose of new projects is predominantly due to the experience of the Group's personnel and significant cash resources that allow for the quick closing of even the largest transactions.



### 3 OVERVIEW OF FINANCIAL RESULTS OF DOM DEVELOPMENT S.A.



### **3.1 BASIS FOR THE PREPARATION OF THE INTERIM CONDENSED FINANCIAL STATEMENTS**

The interim condensed financial statements have been prepared on a historical cost basis.

Certain information and disclosures, which in accordance with the International Financial Reporting Standards (“IFRS”) adopted by the European Union (EU) are normally included in annual consolidated financial statements, have been condensed or omitted in the interim condensed financial statements pursuant to International Accounting Standard No. 34, “Interim Financial Reporting” (IAS 34).

The interim condensed financial statements have been prepared on the assumption that the Company will continue as a going concern in the foreseeable future.

The Russian invasion of Ukraine launched on 24 February 2022 continues to be a factor significantly destabilising the economic environment throughout the region. The Company operates exclusively in Poland. The Company's Management Board believes that the war in Ukraine may affect the demand for dwellings, construction costs, and the availability of subcontractors. As at the date of the preparation of the interim condensed consolidated financial statements all of the Company's development projects were progressing as planned or more quickly than planned. The Company's Management Board continuously monitors the situation and analyses its potential impact from the perspective of individual projects, the Company as a whole, and its long-term objectives. In the opinion of the Management Board of the Company no circumstances that would indicate that

there is a threat to the continued activity of the Company are known as at the date of the approval of these interim condensed consolidated financial statements.

The Polish zloty (“PLN”) is the functional currency for the Company. The interim condensed financial statements are stated in Polish zloty. Financial data included in the interim condensed financial statements are expressed in thousands of PLN unless stated otherwise.

Individual statements that form the interim condensed financial statements, namely the interim condensed balance sheet, interim condensed income statement, interim condensed statement of comprehensive income, interim condensed cash flow statement and interim condensed statement of changes in shareholders' equity, are unaudited, however they have been the subject of review by an independent certified auditor. The said unaudited interim condensed financial statements do not include all the information and disclosures that are required from annual financial statements and therefore should be read in conjunction with the audited financial statements of the Company and the notes thereto for the year ended 31 December 2022.

The Company has also prepared interim condensed consolidated financial statements for Dom Development S.A. Capital Group for the six-month period ended 30 June 2023. These statements were approved by the Management Board of the Company on 28 August 2023.

### 3.2 OVERVIEW OF THE INCOME STATEMENT OF DOM DEVELOPMENT S.A.

FINANCIAL RESULTS OF DOM DEVELOPMENT S.A.	H1 2023	H1 2022	Change YoY
<b>INCOME STATEMENT</b>			
Sales revenue	748 822	860 918	(13)%
Gross profit on sales	232 132	260 577	(11)%
Operating profit - EBIT	155 933	182 622	(15)%
Net profit	287 431	150 339	91%
<b>Earnings per share, basic</b>	<b>11.22</b>	<b>5.9</b>	<b>90%</b>

In the first half of 2023, the Dom Development S.A. recognised sales revenue of PLN 748 822k, which means a 13% decrease year to year. In H1 2023 results, the Company recognised revenues from sales of goods due to the delivery of 1 088 units in this period and from sales of services (mainly construction services) in the amount of PLN 48 192k. In the corresponding period last year, the Company handed over 1 294 units and recognised revenues from sales of services in the amount of PLN 10 897k.

Projects in the popular segment such as Osiedle Ceramiczna, Bokszerska 71 and Dzielnica Mieszkaniowa Metro Zachód had major share in the structure of deliveries.

Despite a 16% reduction in the number of deliveries compared to the corresponding period in the previous year, gross profit from sales dropped just by 11%. This is the result of generating 31% of the net margin, i.e. 0.7% higher compared to the same period in 2022, which in the opinion of the Management Board is a very sound result.

The lower sales revenue described above, with the sum of sales costs, general and administrative expenses, and other operating costs and revenues at a similar level, brought about a decrease in gross profit on sales, which in turn translated into 15% decrease of operating profit (EBIT) compared to the corresponding period in the previous year.

In H1 2023, the Company recorded significant financial revenues, mainly from dividends from subsidiaries, in the

amount of PLN 159 337k. In 2022, the Company received all dividends from subsidiaries in Q3. As a result of the circumstances described above, the Company generated net profit for H1 2023 in the amount of PLN 287 431k, which is a level nearly twice as high (+91%) as that in the same period of the previous year.

The Company's activities are not seasonal in nature. Financial performance fluctuations between quarters are closely linked to:

- the project construction cycle and the accumulation of apartment deliveries in the first weeks after a specific project has been granted an occupancy permit. As in accordance with IFRS 15, unit delivery is considered the basis for the recognition of sales revenue in the income statement, and
- the moment of recognition in the income statement of dividends from subsidiaries,

which in turn makes the financial results not fully reflect the current situation of the Company. Therefore, in addition to the number of units delivered in a given period, Dom Development S.A. also discloses the current sales volume calculated on the basis of preliminary agreements and paid reservation agreements on a net basis, i.e. including resignations. The operating results of the Company including current sales and unit deliveries are discussed in note 2.2 of this Report.

### 3.3 BALANCE SHEET OF THE COMPANY

In H1 2023, the Company's position in terms of assets continued to be strong, and made the Company stand out in the sector.

#### ASSETS

The assets structure of the Company was, as in previous years, dominated by current assets – inventories worth PLN 1 864 638k constituted 55% of the Company's balance sheet total which as at 30 June 2023 amounted to PLN 3 368 550k. The balance sheet total for Dom Development S.A. increased by 8% compared to that at the end of 2022, mainly due to cash and cash equivalents increased by PLN 217 546k.

The Company invariably maintains high liquidity as reflected in a cash balance, which was PLN 401 624k as at the end of H1 2023. In addition, the Company held PLN 51 433k in residential escrow accounts.

An important asset of the Company is investments in subsidiaries, associates and jointly controlled entities which accounts for PLN 482 295k in total and loans granted with a total value of PLN 358 219k, representing 14% and 11% of Company's assets respectively. The highest carrying value of projects was recorded for the following subsidiaries of Dom Development S.A.: Euro Styl S.A. (PLN 265 473k), Dom Development Kraków sp. z o.o. (PLN 156 835k) and Dom Development Wrocław Sp. z o.o. (PLN 51 002k).

#### LIABILITIES

The Company's Management Board invariably places a strong emphasis on financial security of the Company which is reflected in its conservative financing structure.

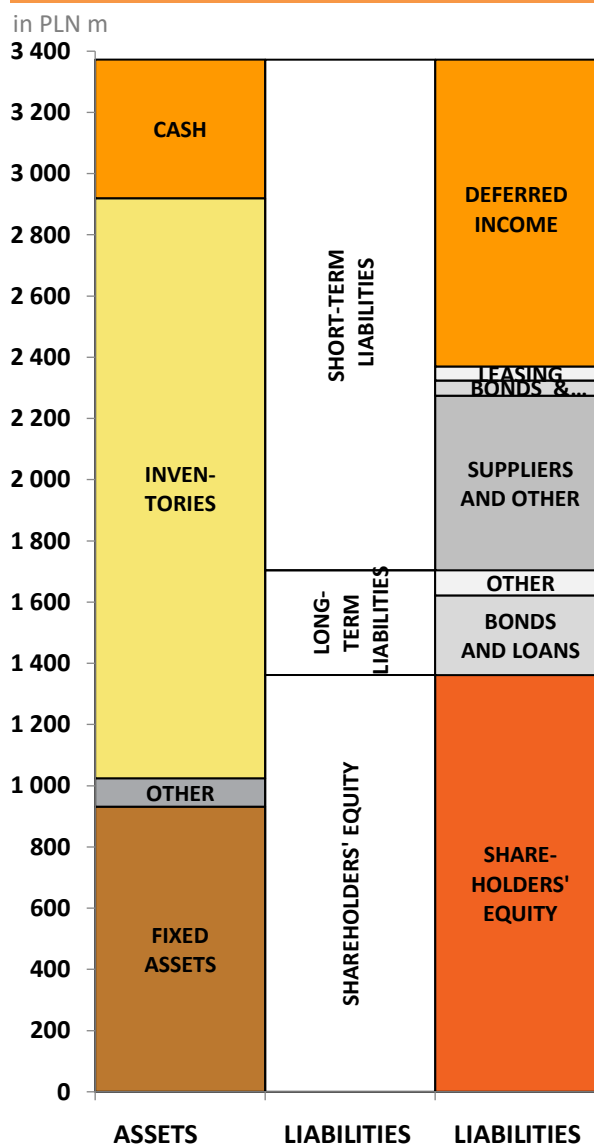
As at 30 June 2023, the Company had equity of PLN 1 358 050k, which represented 40% of Company's liabilities.

Another major item of the Company's liabilities were deferred income liabilities, which amounted to PLN 1 002 487k, which represented 30% of its liabilities. Payments from customers on account of the purchase of apartments and parking spaces are recorded as this item until the time that they are delivered to the buyer and are recognised in the income statement as "sales revenue". The value of this balance sheet item is closely related to the relationship between the rate of sales which causes it to increase and the delivery rate which causes it to decrease.

Interest bearing debt was PLN 310 000k, of which only 16% was short-term debt.

During H1 2023, the "Dividends payable" item with PLN 282 682k recognised were added in the Company's balance sheet. This sum resulted from the resolution of the Annual General Shareholder's Meeting of the Company held on 15 June 2023 approving the dividend to be distributed from the Company's 2022 profit. The dividend of PLN 11 per share was paid on 4 July 2023.

#### BALANCE SHEET STRUCTURE FOR THE COMPANY AS AT 30 JUNE 2023



## 3.4 CASH FLOWS

SELECTED DATA FROM THE CASH FLOW STATEMENT	H1 2023	H1 2022	Change
Cash and cash equivalents – opening balance	184 078	364 394	(49) %
<b>Net cash flow from operating activities</b>	<b>167 055</b>	<b>43 364</b>	<b>285 %</b>
Net cash flow from investing activities	95 491	(98 850)	(197) %
Net cash flows from financing activities	(45 000)	6 000	n.d.
Cash and cash equivalents – closing balance	401 624	314 908	28 %

In the first half of 2023 Dom Development S.A. recorded net cash inflow from operating activities in the amount of PLN 167 055k compared to outflow of PLN 43 364k in the previous year. The main item on the cash flow statement that increased the balance of funds generated from operating activities was cash flows from customers and the resultant increase in accruals and deferred income, by PLN 48 656k (compared to PLN 266 735k decrease in H1 2022). There was also a positive change in inventories by PLN 65 067k.

At the same time, in the reporting period the Company recorded a significant cash outflow on account of corporate income tax in the amount of PLN 85 263k (versus PLN 39 672k in H1 2022), which mostly resulted from the obligation to pay the corporate income tax (CIT) for 2022.

The significant difference in net cash flows from investing activities (inflow of PLN 95 491k in H1 2023 against the outflow of PLN 98 850k in the previous year) results mainly from the inflows from dividend payments in the amount of PLN 141 680k in H1 2023 and the postponement of dividend payments from the subsidiaries to H2 2022

(postponed to Q3 2022). Moreover, in the first six months of 2022, the Company's expenses for the acquisition of financial assets were notably higher (PLN 129 107k against PLN 45k in the current period), which was mainly due to the acquisitions of companies in Cracow.

Other changes in this item of the cash flow statement include PLN 48 656k increase in loans granted to subsidiaries in H1 2023 compared to PLN 33 955k decrease in the balance of loans granted to subsidiaries in the corresponding period in the previous year.

In H1 2023 Dom Development S.A. recognised net cash outflow from financial activities in the amount of PLN 45 000k against PLN 6 000k outflow in the previous year. This difference is mostly due to the repayment of bank loan in the amount of PLN 50 000k in H1 2023.

During the first half of 2023, the cash balance of Dom Development S.A. increased by PLN 217 546k net and amounted to PLN 401 624k as at 30 June 2023.

## 3.5 RATIO ANALYSIS

### 3.5.1 PROFITABILITY RATIOS

PROFITABILITY RATIOS	FORMULA	H1 2023	H1 2022
<b>Gross margin on sales</b>	gross profit on sales / net sales revenue	31.0%	30.3%
<b>Operating profit margin</b>	EBIT / net sales revenue	20.8%	21.2%
<b>Net margin</b>	Net profit / net sales revenue	38.4%	17.5%
<b>ROE</b>	net profit for the last 12 months / shareholders' equity at the beginning of the period	37.8%	15.1%
<b>ROA</b>	net profit for the last 12 months / total assets at the beginning of the period	16.4%	6.6%

In the opinion of the Management Board, the Company maintained very satisfactory profitability in H1 2023 on its activities. The gross sales margin of 31% is an exceptional result for Dom Development S.A. compared to the sector average. Further increase of the sales margin by 0.7% as compared to the previous year indicates the high level of competence of the Company in reading market trends, implementing sales policies, controlling costs and optimising operating processes.

In the first six months of 2023, the Company recorded a little decrease in the operating profit margin to 20.8%, which is still relatively high level. This was due to slightly less deliveries than these in the corresponding period in the previous year (as discussed in section 3.2)

The deferred dividend payments by the related companies (H1 2023 against H2 2022) translated into a significantly higher result from financial activities in H1 2023, and consequently affected the net profit, net margin, ROE and ROA.

It should be noted that in the first half of 2021, return on equity and return on assets (ROE and ROA) were distorted, when compared to the similar period in the previous year, as both the 2021 dividend payments from related companies made in H2 2022 were taken into account for the calculation of the net profit for the last 12 months and the 2022 dividends paid in H1 2023. When

analysing the interim return on equity and return on assets based on net profit for the past 12 months, the possibility of such distortions should therefore be taken into account and the changes and values of these indicators should be considered mainly for full financial years, i.e. for the period from 1 January to 31 December of the year in question.

### 3.5.2 LIQUIDITY RATIOS

LIQUIDITY RATIOS	FORMULA	30.06.2023	31.12.2022
<b>Current ratio</b>	current assets / short-term liabilities*	3.67	4.37
<b>Quick ratio</b>	current assets less inventory / short-term liabilities*	0.87	0.57
<b>Cash ratio</b>	cash and cash equivalents / short-term liabilities*	0.60	0.36

\* Short-term liabilities less deferred income

Having considered the specifics of the real estate development industry with its long production cycle and tighter funding requirements, the Company has had a comfortable liquidity position. This is due to a number of long-term decisions and actions taken by the Company's Management Board.

The Company has maintained consistently high liquidity. The liquidity ratios remained at a good level throughout the first half of 2023.

The current liquidity ratio decreased from 4.37 to 3.67 in H1 2023 due to an increase in short-term liabilities, in particular as a result of dividends payable in the amount of PLN 282 683k being recognised in this item as at 30 June 2023.

Regardless of the increase in short-term liabilities by the aforementioned dividends payable, there was a noticeable increase in other liquidity ratios - quick and cash. It was a result of a significant increase in cash, by PLN 217 546k up to PLN 401 624k, and PLN 50 000k decrease in interest bearing debt. The Company's quick ratio increased in H1 2023 from 0.57 to 0.87, while its cash ratio at the end of June 2023 was 0.60 against 0.36 as at the end of December 2022.

The Company's Management Board considers the liquidity of Dom Development S.A. Capital Group to be consistently very good. The Company's strong balance sheet guarantees the smooth implementation of its investment projects and ensures the ability to respond quickly to emerging opportunities of reinforcing its market position.

### 3.5.3 LEVERAGE RATIOS

LEVERAGE RATIOS	FORMULA	30.06.2023	31.12.2022
<b>Equity ratio</b>	shareholders' equity / total assets	40.3%	43.4%
<b>Liabilities to equity ratio</b>	total liabilities / shareholders' equity	148.0%	130.3%
<b>Debt ratio</b>	total liabilities / total assets	59.7%	56.6%
<b>Interest bearing debt to equity ratio</b>	interest bearing debt / shareholders' equity	22.8%	22.9%
<b>Gearing ratio</b>	interest bearing liabilities less cash and cash equivalents* / shareholders' equity	(10.5)%	6.7%

\* Cash and cash equivalents, including funds in escrow accounts

Appropriate operating policy (i.e. proper commencement and pace of projects as well as controlled purchases of land) and financing policy (the financing structure) ensured that leverage ratios were maintained at safe levels to support the business activity of the Company and maintain the

Company's creditworthiness. Leverage ratios with values similar at the end of June 2023 to those at the end of 2022, or in many cases even more favourable, reflect the conservative approach of the Company's Management Board to the manner of financing operations.

### **3.6 FORECASTS**

Neither Dom Development S.A. nor other companies operating within its Capital Group published forecasts of financial results.

### **3.7 LOANS, SURETYSHIPS AND GUARANTEES GRANTED**

Information of the loans provided by the Company are presented in note 7.7 to the interim condensed financial statements for the six-month period ended 30 June 2023.

In the six-month period ended 30 June 2023 the Company did not provide any guarantees for loans or borrowings, nor any other guarantees – jointly to one entity or its

subsidiary, the value of which would be material for the Company or would amount to at least 10% of the Company's shareholders' equity.

Information of conditional liabilities of the Company are presented in note 7.24 to the interim condensed financial statements for the six-month period ended 30 June 2023.

### **3.8 TRANSACTIONS WITH RELATED ENTITIES**

All transactions made by the Companies operating within the Group (or their subsidiaries) with related entities are based on the arm's length principle.

Transactions with the related entities are presented in note 7.22 to the interim condensed financial statements of the Dom Development S.A. for the six-month period ended 30 June 2023.

### **3.9 MATERIAL LEGAL PROCEEDINGS**

As at 30 June 2023 the Company was not a party to any material court cases.

**4 APPROVAL OF THE MANAGEMENT BOARD'S REPORT OF  
ACTIVITIES OF DOM DEVELOPMENT S.A.  
IN THE FIRST HALF OF 2023**





This Management Board's report of activities of Dom Development S.A. in the first half of 2023 was prepared and approved by the Management Board Company on 28 August 2023.

The Management Board of the Company represents that this Report of activities of Dom Development S.A. in the first half of 2023 presents a true view of the development, achievements and situation of the Company, including the description of key threats and risks.

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**Jarosław Szanajca**

President of the Management Board,  
Dom Development S.A.

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**Leszek Stankiewicz**

Vice President of the Management Board,  
Dom Development S.A.

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**Małgorzata Kolarska**

Vice President of the Management Board,  
Dom Development S.A.

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**Mikołaj Konopka**

Member of the Management Board,  
Dom Development S.A.

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**Terry R. Roydon**

Member of the Management Board,  
Dom Development S.A.