Management Board's Report of Activities of

DOM DEVELOPMENT S.A. CAPITAL GROUP

in the first half of 2020

CONTENTS

APPROVAL BY THE MANAGEMENT BOARD OF THE MANAGEMENT BOARD'S REPORT OF ACTIVITIES OF DOM DEVELOPMENT S.A. CAPITAL GROUP IN THE FIRST HALF OF 2020 ... 3

INTRODUCTION ... 4

1. STRUCTURE OF DOM DEVELOPMENT S.A. CAPITAL GROUP ... 4
   1.1. Group's Structure ... 4
   1.2. Activities of the Company and the Group ... 4

2. BASIS FOR THE PREPARATION OF THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS ... 5

3. SELECTED FINANCIAL DATA AND AN INDICATION OF THE FACTORS AND EVENTS OF MATERIAL IMPACT ON THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX-MONTH PERIOD ENDED 30 June 2020 ... 6
   3.1. Selected data from the consolidated income statement ... 6
   3.2. Selected data from the consolidated balance sheet, assets ... 6
   3.3. Selected data from the consolidated balance sheet, liabilities ... 7
   3.4. Selected data from the consolidated cash flow statement ... 7

4. FINANCIAL MANAGEMENT - RATIO ANALYSIS OF DEBT AND LIQUIDITY OF THE GROUP ... 8

5. MATERIAL EVENTS AND DESCRIPTION OF GROUP'S ACTIVITIES IN THE FIRST HALF OF 2020 ... 9

6. CURRENT AND FUTURE DEVELOPMENT PROJECTS OF THE GROUP ... 10

7. DESCRIPTION OF MAJOR RISK FACTORS AND THREATS TO THE BUSINESS ACTIVITY OF THE COMPANY AND THE GROUP IN THE SECOND HALF OF 2020 ... 10
   7.1. COVID-19 epidemic ... 10
   7.2. Macroeconomic factors ... 10
   7.3. Availability of mortgages ... 11
   7.4. Operations in the Warsaw, Tricity and Wrocław markets ... 11
   7.5. Opportunity to purchase land for new projects ... 12
   7.6. Situation in the construction industry ... 12
   7.7. Administrative decisions ... 12
   7.8. Foreign exchange risk ... 13
   7.9. Risk Management ... 13

8. FACTORS THAT WILL IMPACT THE RESULTS ACHIEVED BY THE GROUP IN AT LEAST THE NEXT SIX MONTHS ... 14

9. THE MANAGEMENT BOARD AND THE SUPERVISORY BOARD ... 14
   9.1. Composition of the Management Board of the Group's parent company as at 30 June 2020 ... 14
   9.2. Composition of the Supervisory Board of the Group's parent company as at 30 June 2020 ... 14

10. LIST OF SHAREHOLDERS ... 15

11. SHAREHOLDING IN THE DOM DEVELOPMENT S.A. AND SHARE OPTIONS ... 15

12. FORECASTS ... 15

13. PROCEEDINGS BEFORE COURT, ARBITRATION OR PUBLIC ADMINISTRATION AUTHORITY ... 16

14. TRANSACTIONS WITH RELATED ENTITIES ... 16

15. SURETYSHIPS AND GUARANTEES GRANTED ... 16

APPROVAL BY THE MANAGEMENT BOARD OF THE MANAGEMENT BOARD'S REPORT OF ACTIVITIES OF DOM DEVELOPMENT S.A. CAPITAL GROUP IN THE FIRST HALF OF 2020

This Management Board's report of activities of Dom Development S.A. Capital Group in the first half of 2020 was prepared and approved by the Management Board of the Company on 21 August 2020.

The Management Board of the Company represents that this report of activities of Dom Development S.A. Capital Group presents a true view of the development, achievements and situation of the Group, including the description of key threats and risks.

Jarosław Szanajca,
President of the Management Board

Janusz Zalewski,
Vice President of the Management Board

Małgorzata Kolarska,
Vice President of the Management Board

Mikołaj Konopka,
Member of the Management Board

Terry R. Roydon,
Member of the Management Board

INTRODUCTION

The joint stock company 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. was established in 1995 by a group of international investors and Polish management staff joined it in November 1996. Participation of the international investors guaranteed implementation of Western European experience and standards as regards housing developments in the market where the Group operates.

The Company is a majority-owned subsidiary of Groupe Belleforêt S.à r.l. with its registered office in Luxembourg. As at 21 August 2020, the Company was controlled by Groupe Belleforêt S.à r.l. which held 56.13% of the Company's shares.

1. STRUCTURE OF DOM DEVELOPMENT S.A. CAPITAL GROUP

1.1. Group's Structure

The Group's structure and the Company's interest in the share capital of the entities comprising the Group as at 30 June 2020 is presented in the table below:

Entity	Country of registration	% of the share capital held by the parent company	% of the votes held by the parent company	Consolidation method
Subsidiaries				
Dom Development Grunty sp. z o.o.	Poland	46%	100%	full consolidation
Dom Development Kredyty sp. z o.o.	Poland	100%	100%	full consolidation
M2 Biuro sp. z o.o.	Poland	100%	100%	full consolidation
Dom Development Wrocław sp. z o.o.	Poland	100%	100%	full consolidation
Dom Land sp. z o.o.	Poland	-	-	full consolidation
Euro Styl S.A.*)	Poland	100%	100%	full consolidation
Euro Styl Development sp. z o.o.*)	Poland	100%	100%	full consolidation
Mirabelle Investments sp. z o.o.	Poland	100%	100%	full consolidation
Dom Construction sp. z o.o.	Poland	100%	100%	full consolidation

*) 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. 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.

1.2. Activities of the Company and the Group

The main area of activity of the companies operating within the Group is the construction and sale of residential real estate. The Group operates in three regions of Poland. These are: Warsaw and Tricity with their surroundings, and Wrocław.

The development projects of the Group in Warsaw are carried out directly by Dom Development S.A. Majority of the Warsaw projects is constructed by Dom Construction Sp. Z o.o., a subsidiary set up in 2018, which is part of the Group, and which, as the general contractor, subcontracts specific works. The other projects of the Company are developed under a general contracting system with the execution contracted to professional third-party building companies.

The development projects of the Group in Wrocław are carried out directly by Dom Development Wrocław sp. z o.o. The construction-related part of development projects in the Wrocław market is run under a general contracting system with the execution contracted mainly to Dom Construction Sp. z o.o.

The development projects in the Tricity market are carried out by Euro Styl S.A. or through special purpose vehicles owned by the Euro Styl S.A. Capital Group ("Euro Styl Group"). The implementation of these projects and the sales is supervised by Euro Styl S.A. The general contracting for projects of the Euro Styl Group are run by Euro Styl Construction sp. z o.o., an SPV operating within the Euro Styl Group which is involved in the management of construction activities by hiring specialised subcontractors for individual types of building works.

Dom Development Grunty sp. z o.o. is fully consolidated as its financial and operational policy is managed by members of the management board nominated by Dom Development S.A. The area of activities of this subsidiary is the purchase of real estate to be further developed by the Group. Dom Development S.A. does not have a stake in the Dom Land sp. z o.o., but it controls this company through the persons holding office in the management board of the company. Dom Land sp. z o.o. holds 54% shares in Dom Development Grunty sp. z o.o.

All companies operating within the Group conduct business activities in the territory of Poland under the Code of Commercial Companies, with the unlimited duration. In the six-month period ended 30 June 2020 the Group did not discontinue any of its activities.

Material changes to the Group structure, including as a result of a merger, acquisition or sale of the companies operating within the capital group, long-term investments, demerger, restructuring or discontinuation of activities, in the six-month period ended 30 June 2020.

Within the six-month period ended 30 June 2020, the Group did not make any other material changes in the structure of investing in subsidiaries, associates and joint ventures.

2. BASIS FOR THE PREPARATION OF THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The interim condensed consolidated financial statements have been prepared on the assumption that the companies operating within the Group will continue as a going concern in the foreseeable future.

Polish law requires the Group to prepare its interim condensed consolidated financial statements in accordance with IFRS, applicable to interim financial reporting as adopted by the European Union (EU) (IAS 34). At this particular time, due to the endorsement of IFRS by the EU and the activities of the Group, there are no differences in the IFRS policies applied by the Group and IFRS that have been endorsed by the EU.

The interim condensed consolidated financial statements have been prepared in accordance with IFRS applicable in the interim financial reporting (IAS 34) and all applicable IFRS that have been adopted by the EU.

The interim condensed consolidated financial statements are prepared based on the same accounting policies as for the consolidated financial statements of the Group for the year ended 31 December 2019, except for the following amendments to existing standards and new interpretations that are effective for annual periods beginning on 1 January 2020 which are described in note 7.3 of the interim condensed consolidated financial statements.

3. SELECTED FINANCIAL DATA AND AN INDICATION OF THE FACTORS AND EVENTS OF MATERIAL IMPACT ON THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2020

3.1. Selected data from the consolidated income statement

	(in thousand PLN)		Change
	H1 2020	**H1 2019**	
Sales revenue	772 161	766 841	1%
Gross profit on sales	239 393	224 344	7%
Selling costs	29 411	32 857	(10)%
General administrative expenses	52 465	45 347	16%
Operating profit	153 906	143 453	7%
EBITDA / sales revenue ratio	20.9%	19.7%	+1 p.p.
Net profit	**117 668**	**115 316**	**2%**
Earnings per share (PLN)	4.68	4.61	2%

In the first half of 2020, the Group recognized sales revenue of PLN 772 161 thousand, which is similar to the figures for H1 2019. Due to a significant increase in the average transaction value, the Group maintained the level of sales revenue despite recognition 25% less deliveries (1 241 units versus 1 655 a year before).

Higher prices of units also had a positive impact on gross profit on sales. The higher increase of gross profit compared to the sales revenue corresponds to an increase in gross sales margin from 29.3% to 31.0%. This is a very good result, achieved mainly through an increase in sales prices.

The consolidated net profit of the Group in the first half of 2020 was close to the level a year before. The financial results generated by the Group are assessed by the Company's Management Board as very good.

3.2. Selected data from the consolidated balance sheet, assets

	(in thousand PLN)		Change
	30.06.2020	**31.12.2019**	
Total assets	3 356 462	2 960 936	13%
Fixed assets	69 394	68 847	1%
Current assets, including:	3 287 068	2 892 089	14%
Inventory	2 547 942	2 509 632	2%
Trade and other receivables	57 373	62 166	(8)%
Other current assets	6 958	4 968	40%
Cash and cash equivalents and short-term financial assets	669 861	314 905	113%

Save for the material increase in the balance of cash and cash equivalents, from PLN 253 318 thousand to PLN 599 894 thousand, the structure of the Group's assets has not materially changed as compared to the figures as at the end of 2019. This increase was mainly due to PLN 247 946 thousand credit lines and deferred closing of some land purchase transactions. Short-term financial assets have not materially changed in the first half of the year 2020, and were at PLN 69 967 thousand versus PLN 61 587 thousand at the end of December 2019.

3.3. Selected data from the consolidated balance sheet, liabilities

	(in thousand PLN)		Change
	30.06.2020	31.12.2019	
Total equity and liabilities	3 356 462	2 960 936	13%
Share capital	25 218	25 068	1%
Shareholders' equity	1 207 919	1 084 231	11%
Total liabilities	2 148 543	1 876 705	14%
Long-term liabilities	725 802	469 015	55%
Short-term liabilities	1 422 741	1 407 690	1%

The structure of the Group's liabilities did not materially change over the first half of 2020, except for long-term liabilities, which increased from PLN 469 015 thousand to PLN 725 802 (i.e. by 55%). This increase was the result of PLN 247 946 thousand growth in the balance of Group's long-term loans, which was associated with securing liquidity and operational flexibility of the Group in the circumstances of uncertainty and potential restrictions on access to finance due to the COVID-19 epidemic.

3.4. Selected data from the consolidated cash flow statement

	(in thousand PLN)		Change
	H1 2020	H1 2019	
Cash and cash equivalents – opening balance	253 318	282 492	(10)%
Net cash flow from operating activities	198 033	118 150	68%
Net cash flow from investing activities	(5 265)	(8 812)	N/A
Net cash flows from financing activities	153 808	(184 015)	N/A
Cash and cash equivalents – closing balance	599 894	207 815	189%

The Group opened the first half of 2020 with consolidated cash reserves of PLN 253 318 thousand and closed that period with cash reserves of PLN 599 894 thousand, recording an increase of 189%.

This increase is mainly a result of the change in the balance of financial cash flows. In the first half of 2020, the Group had proceeds from loans in the amount of PLN 247 946 thousand and did not pay dividend from the Company's 2019 profit. In 2020, the decision to pay dividends was postponed due to the COVID-19 epidemic, and will be made by the Ordinary General Shareholders Meeting convened to 31 August 2020. However, the 2018 dividend in the amount of PLN 226 907 thousand was disclosed in financial cash flows in the first half of 2020.

Moreover, the Group recorded a high positive balance of operating cash flows, which was due to a very good sales at the Group compared to the market figures, building works on projects going as planned and deferred closing of some land purchase transactions.

4. FINANCIAL MANAGEMENT - RATIO ANALYSIS OF DEBT AND LIQUIDITY OF THE GROUP

	(in thousand PLN)	
	30.06.2020	**31.12.2019**
Leverage ratios		
Equity ratio *shareholders' equity / total assets*	36.0%	36.6%
Liabilities to equity ratio *total liabilities / shareholders' equity*	177.9%	173.1%
Liabilities to assets ratio *total liabilities / total assets*	64.0%	63.4%
Interest bearing debt to equity ratio *interest bearing liabilities / shareholders' equity*	49.1%	41.0%
Net interest bearing debt to equity ratio *interest bearing liabilities less cash and cash equivalents (including funds in escrow accounts), and bank deposits with a maturity of over 3 month / shareholders' equity*	(4.2)%	14.3%
Liquidity ratios		
Current ratio *current assets / short-term liabilities less deferred income*	8.25	5.04
Quick ratio *current assets less inventory / short-term liabilities less deferred income*	1.86	0.67
Cash ratio *cash and cash equivalents / short-term liabilities less deferred income*	1.51	0.44

The Company and the Group were in very good financial standing in the six-month period ended 30 June 2019. The liquidity ratios of the Group are sufficient to guarantee safe and efficient operations.

Liquidity ratios have remained at a very safe level at the end of June 2020, in particular when looking at them from the perspective of operations carried out by the Group. These ratios increased as compared to the levels as at 31 December 2019 mainly due to the increase of cash balance by PLN 346 576 thousand (i.e. by 136%), which predominantly was a consequence of the launch of credit lines in the amount of PLN 247 946 thousand; these are recognised as long-term liabilities.

Also the debt ratios, and specifically the equity ratio and the financial leverage ratios (debt to assets and debt to equity) as calculated at 30 June 2020, demonstrate with a high likelihood that the Group will be able to pay its liabilities. As at the first half of 2020, the total of interest bearing loans and bonds is less than cash plus funds in escrow accounts. This is, the so-called, free cash which results in a negative net interest bearing debt ratio and demonstrates that the Group's consolidated balance sheet is strong and sound.

5. MATERIAL EVENTS AND DESCRIPTION OF GROUP'S ACTIVITIES IN THE FIRST HALF OF 2020

In the six-month period ended 30 June 2020 the Group continued its development activities, being the construction and sale of residential real estates.

The most important event for the Group in the first half of 2020, likewise for the entire Polish economy, was the announcement of the COVID-19 epidemic in March 2020. Despite numerous restrictions on social and economic life, the Group continued its operating activities. All real estate development projects of the Group companies continued as scheduled, as well as the deliveries of completed apartments to customers.

The situation in the first half of 2020 was very volatile – after a very good January, February and the first half of March, sales were strongly held back in April and May, while June was a period of strong recovery of demand, in particular in Warsaw. The Group responded quickly to these changes. As soon as at the end of April, Dom Development S.A. introduced four new projects with more than 470 units, which proved a sales success and allowed the Company and the Group to significantly increase its market share in Warsaw, strengthening its position as the leader in the Warsaw property development market. The Group, through Euro Styl S.A., has strengthened its position and expanded its market share also in the Tricity market by rapidly responding to demand recovery.

There are over fifty development projects that are simultaneously conducted by the Group. The Management Board of the Company regularly reviews and gives its opinion on:

- current projects during their implementation in relation to both, the progress of construction works, and current and anticipated sales revenue,
- the best possible manner in which the plots of land from the land-bank may be used by the Company and the Group,
- the potential plots of land which may be purchased for further development projects to be carried out in the following years, also in major Polish cities other than Warsaw, Tricity and Wrocław,
- optimization of financing of the Group's operating activities.

In the first half of 2020 the following material changes in the portfolio of the Group's investments under construction took place:

Projects where the construction commenced in the first half of 2020:

Project	Company	Standard	Number of apartments	Number of commercial units	Started in
Wilno V, phase 1	Dom Development S.A.	Popular	323	3	Q1 2020
Zielony Południk, building 5	Euro Styl S.A.	Popular	22	-	Q1 2020
Zielony Południk, building 6	Euro Styl S.A.	Popular	22	-	Q1 2020
Zielony Południk, building 7	Euro Styl S.A.	Popular	22	-	Q1 2020
Zielony Południk, building 8	Zielony Południk, building 8	Popular	23	-	Q1 2020
Locus building 4	Euro Styl S.A.	Popular	91	-	Q1 2020
Osiedle Głębocka, phase 1	Dom Development S.A.	Popular	60	-	Q2 2020
Dzielnica Mieszkaniowa Metro Zachód, stage 2 phase 1	Dom Development S.A.	Popular	129	-	Q2 2020
Żoliborz Artystyczny, stage 13 phase 1	Dom Development S.A.	Popular	153	5	Q2 2020
Żoliborz Artystyczny, stage 13 phase 2	Dom Development S.A.	Popular	50	5	Q2 2020
Osiedle Perspektywa, stage 1 phase 1	Euro Styl S.A.	Popular	29	4	Q2 2020
Osiedle Perspektywa, stage 1 phase 2	Euro Styl S.A.	Popular	21	-	Q2 2020
Osiedle Perspektywa, stage 1 phase 3	Euro Styl S.A.	Popular	70	-	Q2 2020
Zielony Południk, building 13	Euro Styl S.A.	Popular	45	5	Q2 2020
Total			**1 060**	**22**	

Projects where the construction was completed in the first half of 2020:

Project	Company *)	Standard	Number of apartments	Number of commercial units	Completed in
Stacja Grochów, phase 1	Dom Development S.A.	Popular	138	10	Q1 2020
Wilno III, phase 4	Dom Development S.A.	Popular	116	-	Q1 2020
Wilno III, phase 5	Dom Development S.A.	Popular	46	-	Q1 2020
Apartamenty Polanki	Euro Styl S.A.	Apartments	9	-	Q1 2020
Zielony Południk, building 4	Euro Styl S.A.	Popular	21	-	Q1 2020
Rezydencje Marina Mokotów	Dom Development S.A.	Apartments	91	6	Q2 2020
Apartamenty Marina Mokotów	Dom Development S.A.	Popular	215	7	Q2 2020
Idea building 9	Euro Styl S.A.	Apartments	58	-	Q2 2020
Locus building 1	Euro Styl S.A.	Popular	54	5	Q2 2020
Spektrum, building D	Euro Styl S.A.	Apartments	152	5	Q2 2020
Mezzo, building B1	Euro Styl S.A.	Popular	82	-	Q2 2020
Mezzo, building B2	Euro Styl S.A.	Popular	76	-	Q2 2020
Piękna 21	Dom Development Wrocław Sp. z o.o.	Popular	196	4	Q2 2020
Total			**1 254**	**37**	

* The projects allocated to Euro Styl S.A. also include investments developed by entities from the Euro Styl S.A. Capital Group.

6. CURRENT AND FUTURE DEVELOPMENT PROJECTS OF THE GROUP

As at 30 June 2020, the projects under development accounted for 4 507 units (apartments and retail units) in total, of which 2 635 in Warsaw, 1 308 in Tricity and 564 in Wrocław. The new development projects for 7 633 units in total are defined and planned by the Group.

7. DESCRIPTION OF MAJOR RISK FACTORS AND THREATS TO THE BUSINESS ACTIVITY OF THE COMPANY AND THE GROUP IN THE SECOND HALF OF 2020

Significant risk factors and threats to the business activity conducted by the Company and the Group in the second half of 2020 as identified by the Management Board of the Company are presented below.

7.1. COVID-19 epidemic

A key risk factor and risk source for the operations of Dom Development S.A. Capital Group in the second half of 2020 is the COVID-19 epidemic that have been continuing since March 2020. The scale of the outbreak in Poland and globally will have a significant impact on the severity of Polish economic recession in 2020 and the pace recovery. Restrictions on social and economic life can affect lifestyles of many people and the structure of residential demand.

As at the date of this report, the Management Board of the Company is unable to clearly identify potential consequences of the ongoing COVID-19 epidemic. The Company's Management Board has been trying to reduce risks associated with the epidemic through securing the Group's financial liquidity, implementing precautionary measures consistent with the recommendations of the WHO and the Polish Sanitary Inspection Authority (GIS), and continuously monitoring the epidemic situation and its impact on the Group's operations.

7.2. Macroeconomic factors

The Company's and the Group's business activities are constantly significantly affected by global developments, and in particular by their impact on the Polish economy. The business activities of the Group are affected specifically by the following macroeconomic factors, which have an impact on the state of the Polish economy: GDP, level of investments, household income, interest rates, inflation, unemployment, the condition of the real estate development and construction industries, and the real estate market.

The Company's macroeconomic environment was significantly affected by the COVID-19 epidemic announced in March 2020 in Poland. The lockdown and increased uncertainty have translated into an economic downturn. The COVID-19-induced economic crisis has had a diverse impact on individual industries. Demand in the housing market recovered very soon after the initial slowdown in April as a consequence of multitude of epidemic-related restrictions.

Strong cuts in NBP interest rates to record-breaking 0.1% were vital support for the real estate market. The negative real interest rate on bank deposits, coupled with record-high prices of gold, impelled many people to invest their free cash in real estate.

The macroeconomic factors will be relevant to the Group's operations in the upcoming quarters. The scale of the COVID-19 epidemic impact on Poland's economy remains difficult to estimate. From the perspective of the Group's business, the situation in the labour market and the level of household income will play a key role.

7.3. Availability of mortgages

The availability of mortgages in the first half of 2020 has significantly decreased, with banks tightening loan-granting criteria in response to highly volatile situation, through increasing the required deposit or adversely assessing mortgage applications from sole-traders. Moreover, interest rate cuts have driven the banks to increase margins, thus weakening the positive impact of low interest rates on creditworthiness. However, the Management Board of the Company recognises the first signs of lending policy being eased by the banks, which might support the Group's sales in the near future.

The Group offers mortgage agency services to its customers through Dom Development Kredyty S.A. In the context of stricter mortgage-granting criteria, assistance in obtaining finance as offered by the Group is a significant competitive advantage.

7.4. Operations in the Warsaw, Tricity and Wrocław markets

The Group operates in three geographical markets: Warsaw, Tricity and Wrocław. The Warsaw market is core market for the Group which to a large extent makes the results of the Group dependant on the situation prevailing in this market. The operations in Warsaw are carried out through the Company, i.e. Dom Development S.A. In the opinion of the Management Board, the Warsaw market can be expected to remain the largest and best residential real estate market in Poland in the long term, and the Group has been an undisputed leader there, with the high development opportunities.

The current crisis caused by the COVID-19 epidemic is the moment of triage for many companies, including property developers. During the national recession, the possible slowdown in the residential market in Polish agglomerations, and specifically in Warsaw, will be relatively weaker compared to elsewhere in the country. In the opinion of the Management Board of the Company, operational focus in large business centres positively affects the structure and volume of Group's sales.

Warsaw, Tricity and Wrocław are large business centres, with the dominant position of Warsaw as the national administration and business centre. In the opinion of the Management Board, the Poland's capital has a very strong population growth potential, which, together with the poor quality of the existing housing stock and a large number of undeveloped plots within the city limits, make it a highly prospective market in the long term. The main factors limiting the scale of operations in Warsaw are difficulties with obtaining administrative permits and availability and legal status of real properties in the Warsaw market, and this constitutes a major operational challenge for property developers. High purchase prices and complicated legal status of land prevent prompt start of development projects by developers to replenish the offer, thus restrict the supply of housing units. In the opinion of the Management Board, those difficulties will continue in the second half of 2020. Dom Development S.A., however, has been an unquestionable leader of the Warsaw market for more than twenty years. The in-depth knowledge of local circumstances is one of the main competitive advantages of the Company, owing to which the Company does very well in comparison to its competitors in the current market.

The Group has been operating also in Wrocław since 2011, and from 8 June 2017 also in Tricity, which the Company perceives as a market with high potential. The Management Board expects increasing diversification of operating activities between those three markets and, consequently, an increase in the participation of Dom Development Wrocław sp. z o.o. and Euro Styl S.A. in the consolidated financial results of the Group.

A further expansion of the Group operations in major cities in Poland is considered.

7.5. Opportunity to purchase land for new projects

The future success of the Group is founded on the ability to continually and effectively acquire attractive land for new development projects at the right times and competitive prices. This will allow the generation of satisfactory project contributions. As there is limited supply of land in attractive locations and with clear legal status the ability to acquire new land is major competitive advantage in the real estate development market.

The COVID-19 epidemic has had a negative impact on the availability of land for new projects, thus notably increasing the time required to obtain administrative decisions. The land market in Warsaw is highly competitive, with complex legal situation of many plots and difficulties in obtaining administrative decisions, which have intensified during the COVID-19 epidemic and significantly limit the availability of land for residential development projects.

Large capital resources and a very experienced land purchase team are the foundations of the Group's competitive advantage in the market. The Management Board of the Company, following a selective approach to land purchases, focuses on securing attractive land for new projects to guarantee the satisfactory project contributions. Consequently, the Group has broad and diversified land bank to ensure its successful operations for at least three years ahead. The Group, with its substantial resources of free cash and a strong balance sheet, has an opportunity to use them for further expansion of its diversified land bank.

7.6. Situation in the construction industry

Real estate development is inextricably linked to the construction sector. The economic slowdown due to the COVID-19 epidemic has resulted in fewer new investments in the economy, thus increasing the availability of construction services and facilitating price negotiations.

Two general contracting companies - Dom Construction Sp. z o.o. and Euro Styl Construction Sp. z o.o. - operate within the Group to develop projects run by Group companies. Such business model allows to take advantage of potential price reductions for construction materials and services also for projects in progress. In the case of projects contracted to third-party general contractors, construction cost savings on are only possible when a new contract is negotiated. In the opinion of the Management Board, the current situation in the construction sector and its prospects for the second half of 2020 have a moderately positive effect on the Group's business.

7.7. Administrative decisions

The nature of real estate development projects requires a number of licenses, permits and arrangements to be obtained by the companies within 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 their obtainment, challenges to decisions which have already been issued (also due to appeals with no consequences for appellants) or even failure to obtain them. All these affect the ability to conduct and complete the executed and planned projects. The Group has many years of experience in the implementation of real estate development projects which allows it to minimize the risks associated with the operations depending on administrative decisions.

The necessary administrative permits have been very difficult to obtain in the last six months due to restrictions on the operation of many offices caused by the COVID-19 epidemic. Numerous institutions suspended their operations which caused to the accumulation of cases to be processed, and in turn the waiting time for decisions extended. In the context of the current situation, special attention should be given to smooth launch of new projects by the Group companies and timely obtainment of occupancy permits for completed buildings.

The Management Board of the Company does not expect significant changes in this area in the second half of 2020.

7.8. Foreign exchange risk

Pursuant to Recommendation S issued by the KNF, from 1 July 2014 banks, and from 22 July 2017 also other financial institutions which may provide mortgages, are required to provide them to retail customers only in the currency of their income. The mortgage-related exchange risk has been eliminated in this way.

A great deal of foreign currency loans are mortgages. This brings about the risk of borrower insolvency, and therefore more apartments seized by the banks are put on the market, where a decline in demand of potential buyers who are not able to obtain such loans, is observed.

The historic foreign currency loans that were taken at lower exchange rates than they are at present due to PLN depreciation against EUR or CHF, often exceed the real value of the properties bought that constitute security for the mortgages. As the prices in the residential market went up, the disproportion between the value of the properties and the mortgage liability has gradually diminished in the recent years. The Management Board is of the opinion that the foreign exchange risk has not been a significant factor affecting the housing market in the current economic situation.

7.9. Risk Management

Risk management in Dom Development S.A. Capital Group takes place through a formalized process of periodic identification, review, control and assessment of risk factors. The objective of this process is to set relevant procedures and processes for identified risks. The implementation of those procedures and processes is aimed at eliminating or reducing the risk, to which the Company and the Group are exposed. The fundamental activity adopted by the Company so as to reduce the exposure to market risks is proper assessment of potential and control of current development projects based on investment models and decision-making procedures developed in the Group. The adherence to such procedures is closely monitored by the Management Board of the Company.

8. FACTORS THAT WILL IMPACT THE RESULTS ACHIEVED BY THE GROUP IN AT LEAST THE NEXT SIX MONTHS

The most important factors that may impact the financial situation of the Group in at least the next six months are:

- the course of the COVID-19 epidemic in Poland and worldwide, specifically in the context of social and economic life restrictions,
- the standing of the Polish and the world economy,
- the labour market situation,
- consumer moods in relation to the current and future situation of households and the economy as a whole,
- The economic trend in the residential markets, where the Group operates,
- The impact of the worldwide financial situation on the Polish economy and banking system,
- The availability of mortgages, and in particular their convenient terms for potential customers,
- Achieving the planned sales volume in terms of quantity and value,
- The timely delivery of construction works in line with the schedules by the construction companies completing individual projects of the Group,
- Availability of external finance (loans, bonds) for real estate developers,
- No sudden changes in the legal and tax regulations that may influence market demand for products offered by the Company in an uncontrolled manner,
- Maintaining the stable political situation and creating a positive economic climate by the government and local authorities.

9. THE MANAGEMENT BOARD AND THE SUPERVISORY BOARD

9.1. Composition of the Management Board of the Group's parent company as at 30 June 2020

Jarosław Szanajca, President of the Management Board

Janusz Zalewski, Vice President of the Management Board

Małgorzata Kolarska, Vice President of the Management Board

Mikołaj Konopka, Member of the Management Board

Terry R. Roydon, Member of the Management Board

9.2. Composition of the Supervisory Board of the Group's parent company as at 30 June 2020

Grzegorz Kiełpsz, Chairman of the Supervisory Board

Markham Dumas, Vice Chairman of the Supervisory Board

Marek Moczulski, Vice Chairman of the Supervisory Board

Michael Cronk, Member of the Supervisory Board

Mark Spiteri, Member of the Supervisory Board

Dorota Podedworna-Tarnowska, Member of the Supervisory Board

Krzysztof Grzyliński, Member of the Supervisory Board

10. LIST OF SHAREHOLDERS

List of shareholders who hold, directly or indirectly through subsidiaries, at least 5% of the overall number of votes at the General Shareholders' Meeting of Dom Development S.A. ("GSM") as at the day of preparing of this Management Board's Report of Activities of the Company in the first half of 2020 are presented in the table below.

	Status as at the date of preparing of this report				Change in the period from publication of the quarterly financial statements for the three-month period ended 31.03.2020
	Shares	**% of capital**	**Number of votes at the GSM**	**% of votes at the GSM**	**Shares**
Groupe Belleforêt S.à r.l.	14 155 941	56.13	14 155 941	56.13	-
Jarosław Szanajca	1 454 050	5.77	1 454 050	5.77	-
Aviva Otwarty Fundusz Emerytalny Aviva Santander*	1 313 383	5.21	1 313 383	5.21	no data
Grzegorz Kiełpsz	1 280 750	5.08	1 280 750	5.08	-

*) Shareholding of Aviva OFE Aviva Santander (formerly Aviva OFE Aviva BZ WBK) has been presented as per the latest notice as of 11.07.2011 received by the Company from Aviva PTE Aviva BZ WBK S.A.).

11. SHAREHOLDING IN THE DOM DEVELOPMENT S.A. AND SHARE OPTIONS

The shares of Dom Development S.A. or rights thereto (options) owned by the persons performing management and supervisory functions at Dom Development S.A. as at the date of preparing of this Management's Report of Activities of the Group in the first half of 2020 are presented in the table below.

	Status as at the date of preparing of this report			Change in the period from publication of the quarterly financial statements for the three-month period ended 31.03.2020	
	Shares	**Share options**	**Total**	**Shares**	**Share options**
The Management Board					
Jarosław Szanajca	1 454 050	-	1 454 050	-	-
Janusz Zalewski	300 000	-	300 000	(50 000)	-
Małgorzata Kolarska	220 235	200 000	420 235	-	-
Mikołaj Konopka	51 292	200 000	251 292	-	-
Terry Roydon	58 500	-	58 500	-	-
The Supervisory Board					
Grzegorz Kiełpsz	1 280 750	-	1 280 750	-	-
Mark Spiteri	900	-	900	-	-

12. FORECASTS

The Management Board of Dom Development S.A. does not publish any financial forecasts concerning either, the Company or the Group.

13. PROCEEDINGS BEFORE COURT, ARBITRATION OR PUBLIC ADMINISTRATION AUTHORITY

As of 30 June 2020 there was no individual proceeding before any court, authority competent for arbitration or public administration body, concerning the liabilities or receivables of the Company or its subsidiaries, the value of which would be at least 10% of the Company's shareholders' equity.

As of 30 June 2020 there were not two or more proceedings before any court, authority competent for arbitration or public administration body, concerning the liabilities or receivables, the value of which would be at least 10% of the Company's shareholders' equity.

As at 30 June 2020 the Company was not a party to any material court cases.

The proceedings involving the companies operating within the Group have no significant impact on the Company's and the Group's activity.

14. TRANSACTIONS WITH RELATED ENTITIES

All transactions made by the Company or its subsidiaries with related entities are based on the arm's length principle.

Information of conditional liabilities of the Company are presented in note 7.19 to the interim condensed consolidated financial statements for the six-month period ended 30 June 2020.

15. SURETYSHIPS AND GUARANTEES GRANTED

In the six-month period ended 30 June 2020 the companies operating within the Group 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 Group or would amount to at least 10% of the Company's shareholders' equity.

Information of conditional liabilities of the companies within the Group are presented in note 7.21 to the interim condensed consolidated financial statements for the period ended 30 June 2020.