



Assessment by the Supervisory Board of
Dom Development S.A.
on the position of the Company in 2019

ASSESSMENT BY THE SUPERVISORY BOARD OF DOM DEVELOPMENT S.A. ON THE POSITION OF THE COMPANY IN 2019,

**INCLUDING EVALUATION OF THE INTERNAL CONTROL,
RISK MANAGEMENT, COMPLIANCE**

AND INTERNAL AUDIT SYSTEMS

Pursuant to Rule II.Z.10.1 of
the Code of Best Practice for WSE Listed Companies 2016



1. GENERAL INFORMATION ON THE POSITION OF THE COMPANY

The Supervisory Board having examined the financial statements of Dom Development S.A. (the "Company") for the accounting year 2019 and the Management Board's report of activities of the Company for the accounting year 2019, has approved these reports.

In the assessment of the Company's position and results, the Supervisory Board took into account the overall situation in the Polish economy and the condition of the real estate market.

The year of 2019 brought great success for both the Company and the entire Capital Group that made the record-high consolidated net profit in the amount of PLN 256 million. 2019 was a year of strong demand and supply-side challenges, which according to the opinion of the Supervisory Board Dom Development S.A. the entire Group negotiated with aplomb, capitalising on the favourable market trends and focusing further on maximising the profitability of the ongoing development projects rather than on sales volumes. The historically low interest rates, the robust employment market and steady wage growth have driven strong and stable demand for apartments. At the same time, the Supervisory Board have recognised certain challenges for the whole development sector on the supply side. In particular, the limited availability of land for new development projects and high prices of land alongside difficulties in obtaining administrative permits have limited our market offer but the Supervisory Board is pleased to see that the Company has tackled these challenges.

In the context of general macroeconomic factors, in particular the situation in the residential property market where the Company operates, the Supervisory Board confirms that the financial position of the Company remained strong. The assessment carried out by the Supervisory Board has mainly been based on the figures and quantitative results achieved by the Company from its operating activities.

The results of the Company for 2019, just as in previous years, have been impacted by, both the number of residential projects completed (and in turn by an adequate volume of deliveries) and a higher gross margin earned on delivered units than in previous years. The results achieved from the execution and completion of specific housing developments have been the outcome of land purchase decisions of the Management Board made in previous years and in particular the decision to commence these residential projects.

In 2019, the Company:

- commenced construction of 1 460 apartments on 8 projects (in 2018: 2 555 apartments on 14 projects),
- sold 2 347 apartments (in 2018: 2 588 apartments),
- completed construction of 2 006 apartments on 9 projects (in 2018: 3 368 apartments on 20 projects),
- handed over 2 798 apartments to customers (in 2018: 2 611 apartments).

In 2019, the activities of the Company generated a significant profit as shown by the income statement, with the Company having recorded an operating profit of PLN 272.2 million (which was 12% higher than that generated in 2018). This result, specifically when compared against a strong 2018, should be assessed positively, especially considering that the increase in operating profit was accompanied by a significantly lower increase in deliveries compared to the increase in operating profit (increase by only 7% year-to-year).

In 2019, the Company recorded a net profit of PLN 304.7 million, which is 42% higher than the profit generated in 2018. This in turn is the result not only of the growth in the Company's operating profit but partly resulted from the dividend amounting to PLN 18.9 million received from Euro Styl S.A., a subsidiary acquired in 2017.

In 2019, the Company's financial management in respect of ongoing construction of residential buildings, replenishment of the land bank and further expansion of its own general contracting was focused on seeking sources of long-term external financing for the projects under construction and on maintaining a more-than-adequate level of liquidity. The Management Board regularly analyses both the current financing structure and determines the optimum financing structure in order to achieve both satisfactory financial ratios and financial

results over the medium term, and at the same time, to ensure liquidity and maintain the financial security of the Company to enable it to resist macro-economic shocks.

It should be expected that in 2020 the residential real estate market should continue to be impacted mostly by macroeconomic factors, such as interest rate policy, the situation in the labour market, the condition of the building industry and the sentiment in global markets, which affect the labour market and the propensity to invest in real estate. The coronavirus pandemic, with consequences which are currently hard to predict, is another global factor that in the nearest future may affect all of the above-mentioned macroeconomic aspects and is highly likely to adversely affect the general economy and the real estate sector.

The Supervisory Board is of the opinion that the actions undertaken in 2019 proved once again the competence of the Management Board in preparing the Company for the rapidly changing situation in the real estate market. The major responsibility of the Management Board is not only to ensure that the Company is prepared to react quickly to new challenges, but most of all to maintain a leading position in the rapidly changing residential market. The major steps undertaken in this respect included:

- ensuring that adequate sources of finance are available to the Company, both for current and future development projects, ongoing operations and for safety;
- co-operation with banks, and assisting customers in obtaining mortgages for the purchase of apartments;
- adjusting the Company's sales offer to the market demand;
- aligning land purchases to the Company's existing and future needs;
- utilising the existing land bank in the most appropriate manner;
- generating sales by improving the sales and marketing processes;
- maintaining customer confidence in the 'Dom Development' brand by maintaining quality;
- restructuring the organization and employment levels to the anticipated level of operational activities;
- adjusting the general contracting method applied in the projects to the existing market trends;
- optimising overhead efficiency;
- responding to legislative changes; and
- responding without delay to crisis situations caused by various external factors, both local and global (for example, by managing the impact of the coronavirus pandemic).

Currently the operational activities of the Dom Development S.A. Capital Group (the "Group") are carried out in three geographically separate markets: the Company has projects in Warsaw, while its subsidiaries - Euro Styl S.A. Capital Group and Dom Development Wrocław Sp. z o.o. - operate in the the Tricity and Wrocław markets respectively. However, the majority of the operational activities and financial results generated by Dom Development S.A. Capital Group are still attributable to the Company, however the contribution of subsidiaries to the Group's results can be expected to increase further in the forthcoming years.

The Supervisory Board believes that the key business processes in the Company are well established and professional.

The Land Department specialists employed by the Company identify land that is attractive and available for purchase to enable future development, they assess the potential profitability of such land (in cooperation with specialists from other departments) and finalise their purchase, having obtained approval from the Management Board.

Other operating activities of the Company are assigned (during design and construction stages) to project development specialists from various departments, namely, sales, customer service, fit-out, and property management.

The market position of the Company at the end of 2019 was very satisfactory with the Company maintaining its position as the largest developer in the Warsaw market. This results from the well-established position of



the Company in the housing market and its appropriate operational experience, both in terms of execution of residential development projects, and the marketing, sales and financing of these projects.

The strong financial position of the Company and the Group in which it operates is reflected in the balance of its net assets and cash holdings. As at 31 December 2019, the aggregate amount of "cash and cash equivalents" and "short-term financial assets" disclosed in the balance sheet of Dom Development S.A. was PLN 230 million (at the end of 2018: PLN 230 million). Interest bearing borrowings of the Company at the end of 2019 remained at the same level than at the end of 2018 (PLN 360 million). It should be emphasised that the short-term interest bearing borrowings of the Company as at 31 December 2019 of PLN 100 million was only a small fraction of the total interest bearing borrowings (28% of the interest bearing balance). The total net interest bearing borrowings of the Company (gross debt less cash) at the end of 2019 was relatively low and amounted to PLN 130 million (it was PLN also 130 million at the end of 2018). This demonstrates a very comfortable liquidity position of the Company which continued to hold significant cash balances. The net borrowings to equity ratio was consistently maintained at a very comfortable level by the Company's Management Board (it was 12% as at 31 December 2019, against 13% as at 31 December 2018). The Supervisory Board is of the opinion that such financial leverage is satisfactory for the Company and should ensure the continuing activities of the business in the foreseeable future. This low level of current financial leverage allows for further expansion in the scale of the Company's operating activities not only as and when justified by growth in market demand but also allows the Company to withstand any market shocks.

The Company is the leader in the Warsaw residential development market and as such is well placed to grow in the Polish residential property market as opportunities arise. The Supervisory Board welcomes the solid sales results generated by the Company in 2019 which demonstrate that the Company effectively seized the market opportunities that emerged in 2019.

The Supervisory Board is also pleased to see that the Company observes the principles of strong business ethics and corporate governance principles. The reputation which the Company has built is a valuable asset which should contribute to the further development of the Company for the benefit of all its stakeholders.

2. EVALUATION OF THE INTERNAL CONTROL, RISK MANAGEMENT AND COMPLIANCE SYSTEMS, AND THE INTERNAL AUDIT FUNCTION

The internal control system in Dom Development S.A. is comprised of institutional control, which is operated by means of internal and external audits, managed by the Internal Audit Department under the guidance of the Audit Committee as well as functional controls, such as procedures, instructions, segregation of duties, allocation of responsibilities etc. The Audit Committee, which operates within the Supervisory Board is tasked with monitoring and reviewing issues relating to the Company's internal and external audit. This Committee supervises the Risk Management system and the Internal Audit Department, in addition to its duties concerning external audits.

The Supervisory Board is of the opinion that the level of institutional control has not materially changed in 2019 and remains at a similar level to 2018. In particular, with respect to the risk management processes in the Company, the Internal Audit Department has been monitoring the operation and effectiveness of the most important internal control processes which has helped to limit risk and improve the operating performance of the Company. The scope and quality of the audits performed by the Internal Audit Department was monitored by the Audit Committee on a regular basis. The Supervisory Board believes that the cooperation between the Internal Audit Department and the Quality System and Data Security Manager remained good during 2019.

The functional control is managed through the implementation of appropriately standardised and documented descriptions for all key operating processes in the Company and through the accurate determination of the responsibilities for individual organisational units and employees. These processes are described and standardised as instructions, procedures and controls. The manner and quality of the implementation of these

instructions, procedures and controls is subject to both the internal audits conducted within the Company and the external audits.

The Supervisory Board has a positive opinion of the functional controls currently applied in the Company and is pleased to note the improvements in subsequent periods achieved through the implementation of the findings of internal audits.

The Supervisory Board would like to express its appreciation to the Management Board of the Company for its commitment to the matters relating to risk management and the internal control system. Moreover, the Supervisory Board has a positive opinion on the identification of the most significant and major risks potentially impacting the Company and the Capital Group that the Company is the parent of, and the methods used to address these risks.

The Supervisory Board positively assesses the existing financial reporting system of the Company implemented by the Department of Finance. Financial reporting is subject to both internal controls in the Company as well as periodic external audits by an independent certified auditor selected by the Supervisory Board. The Supervisory Board is pleased to note that as concluded at regular meetings of the Audit Committee with the external auditors, both the process of preparing financial statements and the financial statements themselves are of good quality.

The year 2019 was a year of challenge in terms of ensuring compliance of the Company with new legal and regulatory requirements while 2019 also saw a number of activities related to the development of the compliance culture at the Company (the Compliance Management System). The activities of the Compliance Officer in 2019 were mostly focused on issues related to changes to tax laws, the consolidation of insurance procedures, the ongoing monitoring of legal and regulatory changes, the preparation of content for building an Intranet tool for the development of the compliance culture at the Company and the implementation and monitoring of the existing procedures.

Key tasks undertaken as a part of compliance included:

- the consolidation of insurance procedures, including the creation of the Central Register of Insurance Policies. The main goal of that activity was to collect information of all insurance documents in one place (application), to identify brokers dedicated to various types of insurance and to reassign responsibilities for the process of execution, notification, storage and archiving of insurance documentation.
- the adaptation of the Company to the new requirements of tax laws through:
 - a. the implementation of the Mandatory Disclosure Rules procedure to prevent the avoidance of obligations to provide information on tax schemes (the MDR Procedure) in order to meet the requirement set forth in the Tax Code amendment resulting from the implementation into the Polish law of the provisions of Council Directive (EU) No. 2018/822 of 25 May 2018 (the "MDR Directive"). Key provisions of the MDR Procedure include the identification of actions taken in order to prevent the avoidance of obligations to provide information on tax schemes and to ensure responsibility for compliance with the MDR Procedure, the identification of measures taken to meet the obligations to provide information on tax schemes, the establishment of rules governing the performance of obligations including the provision to the Head of the National Tax Administration of information on tax schemes and the indication of appropriate channels for signalling potential tax schemes, including to the Compliance Officer.
 - b. the adaptation of the Company's operating standards to tax laws as regards requirements relating to the mandatory implementation of the "White list of VAT payers" and split payment.

The Compliance Officer has been preparing the Company's organization on an ongoing basis for the implementation of new legal and regulatory frameworks while monitoring the European and national legislative



processes for new legislation applicable to the Company's operations. The purpose of the above is to ensure the broad understanding of compliance by the Company's employees, Management and Supervisory Boards.

The Supervisory Board of the Company welcomes the compliance activities of the Management Board in 2019 and believes that the risk of non-compliance, in particular with the applicable provisions of law has been substantially minimized.

In accordance with the judgement of the Supervisory Board the risk management system in place in Dom Development S.A. is appropriate for the Company. There has been a formalised risk management procedure in operation within the Company since 2000. Under this procedure the risk is managed through the identification and assessment of the risk areas for all aspects of the activities, in which the Company and the Group are involved, followed by the determination of actions, controls and procedures, which must be implemented in order to reduce risks (inter alia through procedures and the internal audit system). The risk management procedure is subject to periodic revision and is updated by the Management Board jointly with key management staff.

In the opinion of the Supervisory Board the key processes and controls applied by the Company to reduce its exposure to business risks are operated efficiently and benefit from being supervised by the Company's Management Board and the Audit Committee.