

**DOM DEVELOPMENT S.A.**

**ASSESSMENT BY THE SUPERVISORY BOARD OF  
DOM DEVELOPMENT S.A.  
ON THE POSITION OF THE COMPANY IN 2020  
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

Warsaw, 8 April 2021



## 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 2020 and the Management Board's report of aggregate activities of the Company and the Dom Development S.A. Capital Group (the "Group") for the accounting year 2020, 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 as well as the impact of the COVID-19 pandemic which materialised in the territory of Poland in March 2020.

Despite the occurrence of this new situation that has been adverse for the entire economy in general, 2020 brought great success for both the Company and the entire Capital Group, which delivered a record-high consolidated net profit amounting to PLN 302.2 million.

2020 was a year of unswervingly strong demand but accompanied by supply-side challenges. This was irrespective of the COVID-19 pandemic that has had multifaceted consequences in all the areas of economic and social life. In the opinion of the Supervisory Board, the negative impact of the COVID-19 pandemic on the Company's and Group's activities and on the entire property development market was relatively benign and was largely compensated for by the decision of many people who either expected increased inflation or foresaw prolonged low interest rates, to invest their financial reserves into real estate.

In the opinion of the Supervisory Board these difficult times were navigated with aplomb by the Company's management board, capitalising on the favourable trends in the real estate development market and focusing further on maximising profitability of the ongoing development projects rather than on raising sales volumes. The historically low interest rates have consistently supported the demand for flats. At the same time, the Supervisory Board have observed obstacles stacking up 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 the difficulties in obtaining administrative permits have limited our market offer. The Supervisory Board is pleased to see that the Company tackled these challenges, and that the COVID-19 pandemic has so far had no negative impact on the Company's construction projects, all of which were being carried out on time and within budget.

The Supervisory Board also noted that for property developers, the COVID-19 pandemic was a time of trial from which organizations such as Dom Development S.A. Capital Group emerged stronger thanks to their good governance, high flexibility and high liquidity. Owing to those advantages, the Company and the Group have strengthened their market positions.

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 2020, just as in the 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 on the 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 2020, the Company:

- commenced construction of 2 071 apartments on 13 projects (in 2019: 1 460 apartments on 8 projects),
- sold 2 340 apartments (in 2019: 2 347 apartments),
- completed construction of 2 174 apartments on 13 projects (in 2019: 2 006 apartments on 9 projects),
- handed over 1 807 apartments to customers (in 2019: 2 798 apartments).

The Supervisory Board expresses its appreciation for the actions of the Management Board in the context of the financial results achieved in 2020. Operating profit was PLN 254.4 million (7% less than that generated by the Company in 2019). This result, specifically when compared against the record-high 2019, should be assessed positively, especially considering that the fall in operating profit was proportionately far less than the drop in deliveries (deliveries decrease by 35% year-to-year).

In 2020, the Company recorded a net profit of PLN 264.2 million, which is 13% less than the profit generated in 2019. This is the result of not only the drop in the Company's operating profit as described above but also due to a fall in the dividend received from subsidiaries in 2020 in the amount of PLN 67.6 million which was 23% lower than the dividend received in 2019.

However, the most important factors that determined the success of the Company and its Management Board is considered by the Supervisory Board to be the manner in which the entire Group is managed, its growth and its consolidated financial results, as both operating profit (at PLN 386 million in 2020) and net profit (at PLN 302 million in 2020) were historically high for the Group.

In 2020, the Company's financial management was concerned with funding the ongoing construction of residential buildings, replenishment of its land bank and further expansion of its own general contracting and as such was focused on seeking sources of long-term external financing for these activities and on maintaining a more-than-adequate level of liquidity. The Management Board regularly analyses both the current financing structure and determines the future optimum financing structure in order to achieve satisfactory financial ratios and financial results over the medium term, while ensuring the Company's liquidity and maintaining the financial security to ensure its resilience to macroeconomic turmoil.

It should be expected that in 2021 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 affects the propensity of consumers to invest in real estate. The COVID-19 pandemic, with consequences which are hard to predict now, is a global factor that in the coming year may further impact all of the above-mentioned macroeconomic aspects.

The Supervisory Board is of the opinion that the actions undertaken in 2020 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 the Company is prepared to react quickly to new challenges but most of all to maintain a leading position in the evolving 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 security;
- 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, management of impact of COVID-19 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 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 it should be noted that in 2020 Euro Styl S.A. Capital Group with ca. 12% market share (calculated based on actual Group's sales numbers and market sales estimations of the JLL real estate advisory) became the largest developer in the Tricity area. The contribution of subsidiaries to the Group's results can be expected to increase further in the upcoming 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 2020 was very satisfactory with the Company maintaining its position as the largest developer in the Warsaw market (calculated based on actual Group's sales numbers and market sales estimations of the JLL real estate advisory) . 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 2020, 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 544 million (at the end of 2019: PLN 230 million). Interest bearing debt of the Company amounted to PLN 370 million at the end of 2020 which was PLN 10 million higher than at the end of 2019. It should be emphasised that the short-term interest bearing debt of the Company as at 31 December 2020 was PLN 110 million which accounted for a relatively small fraction of the total interest bearing debt (30% of the interest bearing balance). The closing balance of total net interest bearing debt (total debt less cash and cash equivalents) was PLN 174 million and represented excess of cash over the interest bearing debt (i.e. negative net debt). As at the end of 2019, cash level was exceeded by the interest bearing debt by PLN 130 million which should be considered a low level. This demonstrates a very good liquidity position of the Company that continues to have significant cash holdings. The net interest bearing debt to equity ratio was consistently maintained at a comfortable level by the Company's Management Board (it was -15% as at 31 December 2020, against 12% as at 31 December 2019). The Supervisory Board is of the opinion that financial leverage has always been satisfactory for the Company, and having regard to the current COVID-19-related situation, it should ensure the continuance of operating activities in the foreseeable future. This low level of current financial leverage allows for further expansion in the scale of the Company's operating activities when justified by growth in market demand as well as allowing 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 strong sales generated by the Company in 2020, which demonstrate that the Company effectively seized the opportunities that emerged in the market in 2020.

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 and 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 2020, and remains at a similar level to 2019. In particular, with respect to the risk management process at the Company, the Internal Audit Department monitored the operation and efficiency of the most important internal control processes, and this contributes to minimising risk and the improvement of 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 2020.

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 on 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 and the methods of minimizing them.

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.

Compliance activities mostly focused on the implementation of tasks set for the year as regards the ongoing monitoring of legislative and regulatory changes, and the adoption of specific procedural solutions.

In addition, the compliance system has addressed the need to ensure legal and organizational measures at the Company for uninterrupted operations despite the ongoing pandemic in Poland, in particular ensuring the ability to provide remote customer service and to arrange (in respect of legal and procedural aspect) for periodic SARS-CoV-2 screening tests for Company's employees and contractors.

The specific compliance objectives included:

- drafting a 'Compliance Manual' to list all the instructions and procedures applicable at the Company,
- the adoption of a standard for the implementation of instructions and procedures at the Company, to specify in detail the rules for the implementation of such documents,
- the adoption of procedures at the Company as regards:
  - a. ensure security in the course of employment as regards formal regulation of issues such as onboarding trainings, accepting certain statements from employees resulting from new procedures and making it possible to investigate the employment and education background of the Company's employees.
  - b. ensuring appropriate response mechanisms to non-standard and hypothetical situations at the Company, i.e. cooperation with government services in respect of searches, seizures, detentions, inspections, etc., and also responding to emergencies, including an assault on an employee, and the provision of psychological and legal support in such circumstances,
  - c. offence identification, i.e. the identification, as part of the Company's business functions of activities that may eventuate in committing an offence, and putting forward a strategy for mitigating such a risk; these are the objectives for the current year.

The Company is specifically focused on the development of the compliance system and ongoing monitoring of the market situation, in particular in relation to good practices and European and national legislative actions. This allows the Company to maintain top quality supervision and ensure comprehensive compliance when implementing new legal and procedural solutions at the Company.

The Supervisory Board further announces that a Compliance Manager for the Capital Group was appointed by the Company last year in order to optimize and standardize legal procedures at all companies forming our Capital Group and to stress the importance of the development of the compliance system. The purpose of this appointment is also to consistently maintain the highest compliance standards at all Capital Group companies and to exchange good practices on a day-to-day basis.

The Supervisory Board of the Company has a high opinion of the compliance system management in 2020. All the objectives set for last year have been delivered, and the risk of non-compliance, in particular with the applicable laws, has been substantially minimised. In the opinion of the Supervisory Board, the actions taken within the framework of the corporate compliance culture demonstrate the validity of the existing objectives for this area and deserve the utmost recognition.