



Assessment by the Supervisory Board of
Dom Development S.A.
on the position of the Company in 2018

ASSESSMENT BY THE SUPERVISORY BOARD OF DOM DEVELOPMENT S.A. ON THE POSITION OF THE COMPANY IN 2018,

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 2018 and the Management Board's report of activities of the Company for the accounting year 2018, 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 2018 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 227 million. 2018 was a year of strong demand and supply-side challenges, which according to the opinion of the Supervisory Board of Dom Development S.A. the entire Group negotiated with aplomb, capitalising on the favourable market trends and focusing on maximising 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 that obstacles are building for the whole development sector on the supply side. The rising costs of construction and the limited availability of construction services coupled with difficulties in obtaining administrative permits have led to a limited market offering. The Supervisory Board is pleased that the Company managed to address satisfactorily these obstacles.

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 2018, just as in previous years, have been impacted by the number of residential projects completed, and in turn by an adequate volume of deliveries. 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 further residential projects.

In 2018, the Company:

- commenced construction of 2 555 apartments on 14 projects (in 2017: 3 185 apartments on 17 projects),
- sold 2 588 apartments (in 2017: 3 272 apartments),
- completed construction of 3 368 apartments on 20 projects (in 2017: 2 662 apartments on 17 projects),
- handed over 2 661 apartments to customers (in 2017: 2 634 apartments).

In 2018, 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 243.1 million, which is higher (by 5%) than that generated in 2017. The 2018 result, specifically when compared against a strong 2017, should be assessed positively, especially considering that the increase in profit was accompanied by a slight drop in deliveries (decrease by 1% year-to-year).

In 2018, the Company recorded a net profit of PLN 214.1 million, which is higher (by 15%) than the profit generated in 2017. This in turn is the result of not only the growth in the Company's operating profit but also resulting from the first dividend in the amount of PLN 18.9 million received from Euro Styl S.A., a subsidiary acquired in 2017.

In 2018, the Company's financial management in respect of ongoing construction of residential buildings, replenishment of the land bank and the launch 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 makes plans for the future optimum financing structure in order to achieve 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.

It should be expected that in 2019 the residential real estate market will 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 Supervisory Board is of the opinion that the actions undertaken in 2018 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 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;
- 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; and
- responding to legislative changes.

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 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 2018 was good 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 2018, 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 2017: PLN 227 million). Interest bearing borrowings of the Company at the end of 2018 remained stable at PLN 360 million, when compared to the end of 2017, when they were at PLN 360 million. It should be emphasised that the short-term interest bearing borrowing of the Company as at 31 December 2018 was as little as PLN 50 million (14% of the interest bearing balance). The total net interest bearing borrowings of the Company (gross debt less cash) at the end of 2018 were relatively low, amounted to PLN 130 million (it was PLN 133 million at the end of 2017). This demonstrates a very comfortable liquidity position of the Company as it demonstrates that the Company holds significant cash holdings. The net borrowings to equity ratio was consistently maintained at a low level by the Company's Management Board (it was 12% as at 31 December 2018, against 13% as at 31 December 2017). 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 will allow further expansion in the scale of not only the Company's operating activities as and when justified by growth in market demand but also will allow 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 positive sales results generated by the Company in 2018, which demonstrate that the Company effectively seized the opportunities in the market that emerged in 2018.

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 2018 and remains at a similar level to 2017. In particular, in 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. This helps 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 2018.

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 structured and standardised as instructions, procedures and controls recorded in the Company's Quality Manual. 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.

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 2018 was an eventful year with regard to compliance activities. The biggest challenge was to adapt the organization to the requirements of the EU General Data Protection Regulation and the amended Polish Personal Data Protection Act.

Following an analysis of risks related to the processing and protection of personal data at the Company, the Management Board, in order to ensure compliance of the process of implementation of personal data processing and protection solutions, and to mitigate the risk of non-compliance with the above mentioned new provisions of law concerning the processing and protection of personal data, acting on the recommendation of the Director of the Legal Department of the Company and the Compliance Officer, has appointed a Data Protection Officer.

In addition to ensuring ongoing regulatory compliance and daily activities related to the processing, entrusting and protection of personal data, the Data Protection Officer, following consultation with the representatives of all the organizational units of the Company and in coordination with the Director of Information Management and the Compliance Officer has prepared and recommended for implementation, a number of procedures and legal and IT solutions concerning the processing and protection of personal data.

The Management Board has implemented all the solutions recommended by the Data Protection Officer together with the main framework document concerning the processing and protection of personal data, which is known as "The Information Security Policy of Dom Development S.A.". The solutions adopted by the Management Board in this regard have also been implemented in all Dom Development S.A. Group companies.

The Data Protection Officer has conducted training sessions in the Company covering the new personal data protection and processing laws and the solutions adopted by the Management Board in this respect.

In the opinion of the Compliance Officer, the procedures and solutions for the processing and protection of personal data, which on the recommendation of the Data Protection Officer have been adopted by the Management Board of the Company, are very positive and as long as they are correctly applied, the risk of non-compliance with the new provisions of law on the processing and protection of personal data is negligible.

In addition to the activities associated with ensuring compliance with the new provisions of law concerning the protection of personal data, following their preparation and recommendation for implementation by the Compliance Officer, the following documents have been implemented: "the Dom Development S.A. Code of Ethics", "the Dom Development S.A. Internal Procedure for the Anti-Money Laundering and Counteracting of Terrorism Financing" and "the Dom Development S.A. Whistleblowing and Whistleblower Protection Procedure". The last two procedures have been implemented in all Dom Development S.A. Group Companies, and relevant training sessions have been conducted.

The above documents have been implemented as a part of the Company's Compliance Culture (Compliance Management System) and in response to the rapidly changing EU and national legislation.



Moreover, the Compliance Officer has been making organizational arrangement solutions at the Company on an ongoing basis for the implementation of new solutions aimed at preventing illegal activities, in particular corruption and other financial crimes, and monitoring European and national legislative processes for new legislation concerning broadly understood compliance.

The Supervisory Board of the Company welcomes the compliance activities of the Management Board in 2018. The risk of non-compliance, in particular with the applicable provisions of law, has been substantially minimized. In addition to this, the Supervisory Board considers the establishment of Data Protection Officer in the Company as the right decision.

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 a determination of actions, controls and procedures which must be undertaken in order to reduce the risk (inter alia through procedures and the internal audit system specified in the Quality Manual of the Company). 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.