



ASSESSMENT BY THE SUPERVISORY BOARD OF DOM DEVELOPMENT S.A. ON THE POSITION OF THE COMPANY IN 2017

**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 2017 and the Management Board's report of activities of the Company for the accounting year 2017, 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 conditions in the primary apartment market have been gradually improving every year since 2013. This optimistic trend has been predominant in the market also in 2016, and continued in 2017, when sales volume in the market and sales reported by Dom Development S.A. reached new historic highs. This may be mostly due to the historically low interest rates, stable economic situation and very good situation in the Polish labour market. The low cost of credit, growth of wages and reduced unemployment have had a positive impact on the availability and affordability of mortgages, while low interest rates on bank deposits have driven demand for investment properties. This translated into high proportion of cash purchases.

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

The results of the Company for 2017, 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, in particular the decision to commence further residential projects.

In 2017, the Company:

- commenced construction of 3 185 apartments on 17 projects (in 2016: 2 887 apartments on 19 projects),
- sold 3 272 apartments (in 2016: 2 729 apartments),
- completed construction of 2 662 apartments on 17 projects (in 2016: 2 302 apartments on 12 projects),
- handed over 2 634 apartments to customers (in 2016: 2 482 apartments).

In 2017, the activities of the Company generated a significant profit as shown by the income statement. In 2017, the Company recorded a total net comprehensive income of PLN 185.9 million, which is significantly higher (45%) than that achieved in 2016. This result in 2017, in particular when compared to 2016, may be considered to be positive, mostly because the rate of growth of profits (46% year-to-year) significantly exceeded the rate of growth of deliveries (20% year-to-year). The improvement in gross margin achieved has also clearly led to the growth in the operating profit margin (EBITDA/net sales revenue) which increased from 14.1% in 2016 to 18.3% in 2017.

In 2017, the Company's financial management in respect of ongoing construction of residential buildings, replenishment of the land bank and acquisition of Euro Styl S.A. Capital Group 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 2018 the residential real estate market will be impacted mostly by macroeconomic factors, such as interest rate policy, situation in the labour market, condition of the building industry or the sentiment in global markets, which affect the labour market and the propensity to invest in real estates.

The Supervisory Board is of the opinion that the actions undertaken in 2017 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;
- optimising overhead efficiency; and
- responding to new regulatory hurdles.

Currently the operational activities of the Dom Development S.A. Capital 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. The contribution of subsidiaries to the Group's results can be expected to increase 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.

In 2017, the Management Board demonstrated again that its policy regarding the Company's land purchase expenditure was adjusted to meet the existing and projected market conditions.

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 2017 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 capital group in which it operates is reflected in the balance of its net assets and cash holdings. As at 31 December 2017, 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 227 million (at the end of 2016: PLN 435 million). The interest bearing liabilities of the Company in 2016 decreased by PLN 20 million to the amount of PLN 360 million as at 31 December 2017. It should be stressed that the only short-term interest bearing borrowing in the Company's financing were bonds worth PLN 50 million that were redeemed on 26 March 2018 and replaced by bonds worth PLN 50 million maturing on 15 December 2022 and a PLN 50 million loan, which the Company repaid in the first quarter of 2018. The total net interest bearing borrowings of the Company (gross debt less cash) at the end of 2017 were relatively and amounted to PLN 133 million. This demonstrates a very comfortable liquidity position of the Company. The Management Board of the Company consistently maintains a low net borrowings to equity ratio, which as at 31 December 2017 was 13%, while it was negative as at 31 December 2016 (net borrowings were lower than the value of cash and short-term financial assets). 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 the Company's operating activities as and when justified by growth in market demand as well as 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 2017, which demonstrate that the Company effectively seized the opportunities in the market that emerged in 2017.

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 control, such as procedures, instructions, segregation of duties, allocation of responsibilities, etc. The Audit Committee operates within the Supervisory Board, whose objective is to monitor and review 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 standards of institutional control were good in 2017. Insofar as risk management processes at the Company in 2017 are concerned, the Internal Audit Department has been proactively engaged in processes involving the highest risks as well as financial and business operations. These were specifically, the acquisition of Euro Styl Capital Group (operating on the Tricity market) and the purchase of a subsidiary associated with the acquisition of perpetual usufruct with substantial value. It should be stressed that the Management Board of the Company engaged highly reputable third-party experts for these transactions in order to address financial, legal and tax risks (due diligence).

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 2017.

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 achieved through the implementation of the findings of internal audits in the subsequent periods.

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 from the perspective of, both 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 audit 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 as such are of good quality.

In 2017, a separate compliance unit was formed within the Company. The responsibilities of the Compliance Officer includes:

- preparation and implementation of the compliance policy and internal control regulations in the organisation, including in particular the ethics policy, the policy concerning offering and accepting gifts by Company's officers and employees, the anti-bribery policy, the whistleblower protection policy, the clean desk policy, the anti-mobbing and anti-sexual harassment policy,
- oversight of the Anti-Money Laundering & Financial Crime Prevention process,
- ongoing monitoring and oversight of the process of implementation of new laws and regulations and notification of such changes in a transparent manner to the Company's officers and employees,
- verification of legal compliance with respect to new contracts entered into in performance of ongoing relevant activities in the Legal Department of Dom Development S.A.,
- verification and supervision of third party powers of attorney, authorisations and other documents that give the right to act on behalf of the Company,
- supervision of the information flow process, in particular with respect to personal data and confidential information, and identification and management of conflicts of interest,
- conducting internal audits with respect to compliance in order to identify potential non-compliance risk areas,
- planning and conducting periodic compliance training and knowledge verification for the Company's officers and employees.

The Company, being a public company, takes proper care for the clarity and transparency of its activities and for promoting appropriate patterns of ethical behaviour. Having regard for the expectations of the shareholders, the market requirements and the provisions of Polish, EU and international law, the Management Board adopted a time schedule for the implementation of the Compliance Policy for 2018, which includes the implementation of the Code of Ethics, the Anti-Bribery Policy, the Gift Policy, the Non-Compliance Reporting (Whistleblowing) Policy and System, and the Anti-Mobbing and Anti-Discrimination Policy.

The main goal of the Dom Development Compliance Culture is to ensure to the highest possible degree the wellbeing of the Company and the elimination of potential threats that might arise at the Company due to non-compliance with the law or market standards, and any policies, procedures and other documents to be developed as a part of the Dom Development Compliance Culture will be addressed to all the employees and contractors of the Company.

The Supervisory Board of the Company thinks highly of the actions aimed at the implementation of comprehensive compliance solutions and notes that their implementation involves compliance by the



Company with the rules set forth in the "Best Practice for the Warsaw Stock Exchange Listed Companies 2016" adopted by the WSE Management Board.

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.