

**REPORT**

**OF THE SUPERVISORY BOARD OF**

**J.W. CONSTRUCTION HOLDING S.A.**

**ON ACTIVITY IN 2018**

**INCLUDING ASSESSMENT OF THE COMPANY'S SITUATION, INTERNAL CONTROL SYSTEMS, RISK MANAGEMENT SYSTEMS, MANNER IN WHICH THE COMPANY FULFILS ITS DISCLOSURE OBLIGATIONS CONCERNING THE APPLICATION OF THE PRINCIPLES OF CORPORATE GOVERNANCE AND THE REASONABLNESS OF THE COMPANY'S SPONSORING, CHARITY AND OTHER SIMILAR POLICIES.**

## **I. Market conditions:**

The Supervisory Board analyses the activities of the Management Board in the context of market conditions.

Market data show that in 2018 there was a decrease in sales of residential units in relation to the previous year. The Company's executives are aware of the cyclical nature of the residential market and therefore, after many years of good economic situation, the Company is prepared for a possible slowdown. In the context of the current situation on the primary market, the Supervisory Board positively assesses the Company's activities aimed at introducing new development investments to the offer as soon as possible, including the use of the Company's potential in terms of land and experience, both in the area of residential, aparthotel and warehouse areas.

In recent years, the Company has significantly improved its balance sheet structure, reduced its net debt, conducts geographical and market diversification (apart from the main residential market, operates on the hotel and aparthotel markets and plans to enter the market of warehouse space), through over 25 years of operations, the Company has acquired experience in operating both in good and bad economic conditions.

The situation on the real estate market and recognition of purchasers' preferences indicate that it is advisable to continue the current strategy of operations, which is mainly based on satisfying the needs of medium-wealthy customers, but also on skillfully adjusting the offer to the requirements of wealthy people, to whom the offer of apartments for rent will be addressed (the formula of flats for rent). Recently, there have been more and more clients investing in real estate, who, seeing that the return on bank deposits is not satisfactory for them, are investing in real estate. On the other hand, the needs of middle-class Poles are growing.

The economic situation on the main markets being the Group's area of activity, in particular on the residential and commercial real estate market and on the hotel market, depends, among others, on the macroeconomic conditions. In the future, it seems extremely important to react adequately to market changes, especially in the area of government programmes related to the real estate market.

## **II. Prospects for the Company's development**

The Supervisory Board positively assesses the strategies and plans presented by the Management Board, mainly with regard to the continuation of the development of the existing land bank and launching as many new projects as possible to ensure faster cash flow.

The Supervisory Board also considers it justified to take actions aimed at maintaining geographical diversification while the dominant position of the Warsaw market remains. The Company is expanding into other areas of Poland - preparations to launch new projects in Gdańsk, Poznań, Kraków, Łódź and Szczecin are underway.

Additionally, despite its focus on development activities, the Supervisory Board supports the continuation of the strategy of diversification of its revenues through participation in the hotel, hotel and aparthotel segments, as well as in warehouse space, which started in the previous years. Activities implemented on a national scale utilize the potential of the JWCH Group. An example of diversification of the Company's activity is also the planned start-up of production of wooden elements using a fully

automated, computer-controlled line. Own production of prefabricated elements will allow to reduce costs and shorten the period of execution of real estate development projects.

In the coming periods, the continuation of works related to the preparation of project documentation and obtaining permits for the construction of residential and aparthotel development projects, as well as the implementation of the assumed sales plans, will be of crucial importance.

### **III. Composition and organisation of the Supervisory Board of J.W. Construction Holding S.A.**

Supervisory Board of J.W. Construction Holding S.A. ("Company") operates on the basis of legal regulations specified in the Act of 15 September 2000 Commercial Companies Code (Journal of Laws 2000, No. 94, item 1037, as amended), the Company Statute, the Supervisory Board Bylaws adopted by Resolution No. 7 of the Extraordinary General Meeting of 16 February 2007 and in the document adopted by the Warsaw Stock Exchange "Code of Best Practice for WSE Listed Companies 2016". ("Good Practice")

The Supervisory Board of the Company shall be comprised of 5 /five/ to 9 /nine/ members, including the Chairman of the Supervisory Board. The number of members of the Supervisory Board shall be determined by a resolution of the General Meeting. It is permitted to change the number of members of the Supervisory Board during the term of office.

The Supervisory Board is appointed by the Shareholders of the Company at the General Meeting, and a Shareholder holding more than 50% of the Company's shares has the personal right to appoint and dismiss half of the members of the Supervisory Board, including the Chairman of the Supervisory Board. In case of an odd number of members of the Supervisory Board, the shareholder referred to in the preceding sentence shall have a personal right to appoint and dismiss, respectively: three members of the Supervisory Board (in case of a five-person Supervisory Board), four members of the Supervisory Board (in case of a seven-person Supervisory Board) and five members of the Supervisory Board (in case of a nine-person Supervisory Board). These rights are exercised by way of a written statement delivered to the Company on appointment or dismissal of a given member of the Supervisory Board, or assignment or dismissal of a given member of the Supervisory Board from the function of the Chairman of the Supervisory Board. The remaining members of the Supervisory Board shall be appointed and dismissed by the General Meeting.

The afore described personal right is vested in Mr. Józef Kazimierz Wojciechowski.

As at 31 December 2018 The Supervisory Board of the Company comprised of:

Chairman of the Supervisory Board Józef Wojciechowski - a person indicated by the entitled shareholder;

Supervisory Board Member Marek Maruszynski - appointed by the General Meeting.

Supervisory Board Member Małgorzata Szwarc - Sroka - appointed by the General Meeting.

Supervisory Board Member Irmina Łopuszyńska - a person indicated by the entitled shareholder;

Supervisory Board Member Jacek Radziwiłski - a person indicated by the entitled shareholder;

Supervisory Board Member Ryszard Matkowski- appointed by the General Meeting.

Supervisory Board Member Barbara Czyż - a person indicated by the entitled shareholder;

In the reporting period, the following changes to the composition of the Supervisory Board took place:

- on 16 January 2018 the Extraordinary General Meeting of Shareholders amended Resolution No. 17 of the Ordinary General Meeting of Shareholders of 26 June 2017 setting the number of members of the Supervisory Board at seven;
- on 16 January 2018, Ms Barbara Czyż submitted her resignation from the membership in the Supervisory Board of the Company;
- on 16 January 2018 Mr Ryszard Matkowski was appointed to the Supervisory Board of the Company by the Extraordinary General Meeting of Shareholders;
- on 16 January 2018, Ms Barbara Czyż was appointed to the Supervisory Board of the Company on the basis of a personal right vested in the entitled shareholder.

As at the day of preparing this Report, the composition of the Supervisory Board was as follows:

Chairman of the Supervisory Board Józef Wojciechowski - a person indicated by the entitled shareholder;

Supervisory Board Member Marek Maruszyński - appointed by the General Meeting.

Supervisory Board Member Małgorzata Szwarc - Sroka - appointed by the General Meeting.

Supervisory Board Member Irmina Łopuszyńska - a person indicated by the entitled shareholder;

Supervisory Board Member Jacek Radziwiłski - a person indicated by the entitled shareholder;

Supervisory Board Member Ryszard Matkowski - appointed by the General Meeting.

Supervisory Board Member Barbara Czyż - a person indicated by the entitled shareholder;

During the reporting period, the following Audit Committee acted within the Supervisory Board:

Jacek Radziwiłski - Chairman of the Audit Committee until 30 January 2018 Ryszard

Matkowski - Chairman of the Audit Committee since 1 February 2018 Marek Maruszyński -

Member of the Audit Committee Irmina Łopuszyńska - Member of the Audit Committee.

The Audit Committee in the indicated composition meets the requirements specified in Article 129 (1), (3), (5) and (6) of the Act on Statutory Auditors, Audit Firms and Public Supervision (Journal of Laws of 2017, item 1089).

The Audit Committee was appointed on 28 September 2017.

Changes in the composition of the Audit Committee

As of 30 January 2018, Mr. Jack Radziwiłski submitted his resignation from the Audit Committee.

As of 1 February 2018, Mr Ryszard Matkowski was appointed to the Audit Committee as its Chairman.

As at the day of preparing this Report, the composition of the Audit Committee was as follows:

Ryszard Matkowski - Chairman of the Audit Committee  
Marek Maruszyński - Member of the Audit Committee  
Irmina Łopuszyńska - Member of the Audit Committee.

Resolutions of the Supervisory Board are adopted by an absolute majority of votes, with the proviso that the vote of the Chairman of the Supervisory Board is decisive in the case of a tie. However, resolutions on:

1/ expressing consent to rendering services by the Company to a member of the Management Board for any reason whatsoever,

2/ expressing consent to the conclusion by the Company of a significant agreement, the value of which exceeds PLN 10,000,000.00 (ten million), and in the case of contracts for the performance of construction works - PLN 15,000,000.00 (fifteen million), with an entity belonging to the capital group to which the Company belongs, a member of the Supervisory Board or Management Board or their relatives,

3/ selecting a certified auditor to audit the financial statements  
of the Company

require for their validity a vote in favour of adopting such a resolution by at least one independent member of the Supervisory Board, if such member is a member of the Supervisory Board and if any of the independent members is present at a given meeting of the Supervisory Board, while in matters referred to in points 1/ and 2/ above the resolution may also authorize the Chairman of the Supervisory Board to express consent on the terms and conditions set forth therein.

Resolutions of the Supervisory Board may also be adopted in writing or by teleconference, except for resolutions referred to in Art. 388.4 of the Polish Commercial Companies Code. Draft resolutions adopted in writing or by teleconference shall be submitted to the members of the Supervisory Board by its Chairman or, if absent, by the Vice-Chairman of the Supervisory Board. Members of the Supervisory Board may participate in adopting resolutions of the Supervisory Board by casting their votes in writing through another member of the Supervisory Board. Detailed principles of functioning of the Supervisory Board are defined in the Regulations of the Supervisory Board adopted by the General Meeting.

Within the framework of the Supervisory Board, committees may be established, including the audit committee and the remuneration committee.

#### **IV. Supervisory Board activities**

In 2018, the Supervisory Board worked in full composition, adopting resolutions necessary for the proper functioning of the Company and exercised permanent supervision over the Company's activity in all areas, in accordance with the applicable laws, the Company's Articles of Association and the Supervisory Board Bylaws.

The Supervisory Board adopted resolutions on matters required by the mandatory provisions of law and the Company's Articles of Association:

- Assessing draft resolutions submitted to the General Meeting;
- granting consent to the conclusion of an agreement with a related entity;
- appointing members of the Audit Committee;
- granting consent to the conclusion of an agreement between the Company and a member of the Management Board of the Company.

Throughout 2018, the members of the Supervisory Board remained in close, direct and permanent contact with the Management Board of the Company and the management staff, carrying out day-to-day consultations on various aspects of the Company's activity and development.

The Supervisory Board consisted of persons with appropriate knowledge and professional experience, including accounting, finance, management and persons with significant knowledge of the environment in which the Company operates as well as of the Company itself.

The Supervisory Board is convinced that the duties entrusted to it were performed properly and correctly in 2018, and therefore the Company's activity was comprehensively and competently supervised both during official meetings and through other direct contacts of the Members of the Supervisory Board with representatives of the Management Board and the managerial level of the Company.

**V. Conclusions of the Supervisory Board on the assessment of: the Company's separate financial statements for the financial year 2018 and the Management Board's report on the Company's activities in the financial year 2018 and the Company's Capital Group's consolidated financial statements for the financial year 2018 and the Management Board's report on the Company's Capital Group's activities in the financial year 2018.**

The Supervisory Board of the Company, acting pursuant to Article 382 §3 of the Commercial Companies Code, assessed the following reports in terms of their consistency with the books and documents, as well as with the actual state of affairs:

- I) The Company's unconsolidated financial statements for 2018, consisting of:
  - a) Statement of financial position as at 31 December 2018, with total assets and liabilities of PLN 1,668,190,786.46 (say: one billion six hundred and sixty-eight million one hundred and ninety thousand seven hundred and eighty-six 46/100 zlotys);
  - b) Profit and loss account for the period from 1 January 2018 to 31 December 2018 showing a net profit of PLN 22,529,464.75 (say: twenty-two million five hundred and twenty-nine thousand four hundred and sixty-four 75/100 zlotys);
  - c) Statement of comprehensive income for the period from 1 January 2018 to 31 December 2018 showing a total income of PLN 22,529,464.75 (say: twenty-two million five hundred and twenty-nine thousand four hundred and sixty-four 75/100 zlotys);
  - d) Cash flow statement, which shows a decrease in net cash during the financial year from 1 January 2018. until 31 December 2018 by the amount of PLN 72,925,094.76 (say: seventy-two million nine hundred and twenty-five thousand ninety-four 76/100 zlotys)
  - e) Statement of changes in equity for the period from 1 January 2018 to 31 December 2018 showing an increase in equity of PLN 22,529,464.75

(say: twenty-two million five hundred and twenty-nine thousand four hundred and sixty-four 75/100 zlotys);

- f) Additional information and explanations for 2018.
- II) Report of the Management Board on the Company's activity in 2018
- III) The consolidated financial statements of the Company's Capital Group for 2018, consisting of:
  - a. Consolidated statement of financial position prepared as at 31 December 2018, showing assets and liabilities of PLN 1,795,582,153.14 (in words: one billion, seven hundred and ninety-five million, five hundred and eighty-two thousand, one hundred and fifty-three and 14/100 zlotys);
  - b. Consolidated profit and loss account for the period from 1 January 2018 to 31 December 2018 showing a net profit of PLN 16,532,576.90 (say: sixteen million five hundred thirty-two thousand five hundred seventy-six 90/100 zlotys);
  - c. Consolidated statement of comprehensive income for the period from 1 January 2018 to 31 December 2018 showing a comprehensive income of PLN 15,762,775.66 (say: fifteen million seven hundred and sixty-two thousand seven hundred and seventy-five 66/100 zlotys);
  - d. Consolidated cash flow statement which shows a decrease in net cash during the financial year from 1 January 2018 to 31 December 2018 by the amount of PLN 51,786,589.02 (in words: fifty one million seven hundred eighty six thousand five hundred eighty nine 02/100 zlotys);
  - e. Consolidated statement of changes in equity for the period from 1 January 2018 to 31 December 2018 showing an increase in equity of PLN 15,476,423.41 (say: fifteen million four hundred seventy six thousand four hundred twenty three 41/100 zlotys);
  - f. Additional information and explanations for 2018.

IV) Report of the Management Board of the Dominant Entity on the activities of the Capital Group of the Company in 2018.

Both the unconsolidated and consolidated financial statements have been audited by the auditor Mazars Audyt Spółka z o.o. with its registered office in Warsaw, register no. 186, on behalf of which acted:

- Jarosław Bochenek - Key certified auditor conducting the audit, register no. 90086
- Olivier Degand- Partner.

The Supervisory Board, having familiarized itself with the auditor's opinion and report concerning the unconsolidated financial statement for the financial year 2018, states that the presented financial statement of the Company for the financial year 2018 and the Management Board's report on the Company's activity in the financial year 2018:

- reliably and transparently presents all information significant for the assessment of the property and financial situation of the Company as at 31 December 2018, as well as its financial result for the period from 1 January 2018 to 31 December 2018;
- has been prepared in all material aspects in accordance with the accounting principles (policy) resulting from International Accounting Standards, International Financial Reporting Standards and related interpretations published in the form of regulations of the European Commission, and in the scope not regulated by these Standards - in accordance with the requirements of the Accounting Act and executive regulations issued on its basis and on the basis of properly maintained accounting books,
- is consistent with the applicable laws and regulations governing the Company's financial statements;
- The Management Board's report on the Company's activities in 2018 is complete in the meaning of the Accounting Act and the Regulation of the Minister of Finance of 29 March 2018 on current and periodic information provided by issuers of securities and conditions for recognising as equivalent information required by the laws of a non-member state (Journal of Laws 2018.757). The information contained in the Management Board's report on the Company's activities, derived from the audited financial statements, is consistent with them.

The Supervisory Board, having familiarised itself with the auditor's opinion and report on the consolidated financial statements of the Company's Capital Group for 2018, states that the presented financial statements of the Company's Capital Group for the 2018 and the report of the Management Board of the Dominant Entity on the activities of the Company's Capital Group in 2018:

- reliably and transparently presents all information significant for the assessment of the property and financial situation of the Company's Capital Group as at 31 December 2018, as well as its financial result for the period from 1 January 2018 to 31 December 2018;
- has been prepared in all material aspects in accordance with the accounting principles (policy) resulting from International Accounting Standards, International Financial Reporting Standards and related interpretations published in the form of regulations of the European Commission, and in the scope not regulated by these Standards - in accordance with the requirements of the Accounting Act and executive regulations issued on its basis and on the basis of properly maintained accounting books,
- is consistent with the legal regulations governing the content of the financial statements applicable to the Company's Capital Group;
- The Report of the Management Board of the Dominant Entity on the activities of the Capital Group of the Company in 2018 is complete in the meaning of the Accounting Act and the Regulation of the Minister of Finance of 29 March 2018 on current and periodic information provided by issuers of securities and conditions for recognising as equivalent information required by the laws of a non-member state (Journal of Laws 2018.757). Information contained in the Management Board's report on the activities of the Company's Capital Group, derived from and consistent with the audited financial statements of the Company's Capital Group.

## **VI. Supervisory Board's position on the distribution of profit for 2018**



The Supervisory Board, having familiarized itself with the Management Board's motion, decided to give a positive opinion to the shareholders on the allocation of the entire profit generated by the Company in 2018 in the amount of PLN 22,529,464.75 (say: twenty-two million five hundred and twenty-nine thousand four hundred and sixty-four 75/100 zlotys) to the Company's supplementary capital.

## **VII. Assessment of internal control and risk management systems**

The Supervisory Board positively assesses the control mechanisms applied in the issues related to risk management and the internal control system in the Company. The company analyses and assesses risk factors in various areas of its operations, including financial resources management, which is aimed at ensuring the liquidity of the Company in all business segments, including mainly development activities. The primary objective of the Company's operations is to provide sources of financing for all projects while maintaining liquidity ratios at a safe level. The company's turnover and financing structure are subject to daily analysis in order to ensure current and future liquidity at the possibly optimal level. In addition, for many years, the Company has been cooperating with various banks to provide financing for both its investment and current activities.

In addition, the Company applies the following control mechanisms when applying the recommendations concerning the reliability and reliability of the prepared financial statements, in particular the requirements contained in the Regulation of the Minister of Finance of 29 March 2018 on current and periodic information provided by issuers of securities and conditions for recognizing as equivalent information required by the laws of a non-member state:

### Specifying competences and responsibilities at different levels of management

In the Company, the highest authority approving financial documentation is the Management Board. The process of preparing materials is conducted through organizational units of accounting and economic departments. Financial materials are subject to review and evaluation by lower-level managers of financial and accounting departments, and then are accepted by accounting and economic departments.

### Dedicated accounting and financial departments within the organizational structure

Along with determining the sequence of activities approving and monitoring financial processes, it became necessary to establish specialized departments within the organizational structures of the company. Thus, the Company has established the following organisational units: investment budgeting department, financial accounting department, controlling department, liquidity management department, internal control department.

### Implementation of the integrated IT SAP R/3 system

The Company has implemented an integrated IT SAP R/3 system. This IT tool covers the areas of logistics, warehouse management, investment preparation and execution, accounting and controlling. Accounting books are kept in SAP R/3, at the same time the computer system ensures correctness of the records of economic events, including

among others by conducting the process from planning, through demand for material or services, ordering from the supplier, to the moment of settlement of the purchase document.

#### Entrusting the independent external auditor with the audit of the periodic reports

The annual financial statements prepared by the Group are audited by an independent, certified auditor. The half-yearly reports are subject to audit. The audit verifies the presented numerical values, as well as confirms the correctness of data collection and processing methodology for compliance with accounting principles.

Since 28 September 2017, the Audit Committee has been operating within the Supervisory Board. The Supervisory Board performed its duties reliably and in accordance with the provisions of law, and in the best possible way represented the interests of the shareholders.

#### **VIII. Assessment of the manner in which the Company fulfils its disclosure obligations concerning the application of corporate governance principles.**

In the opinion of the Supervisory Board, in the annual report of the Management Board on the activities of the Company for 2018, the Company presented reliable and accurate information on the fulfilment of the Company's information obligations concerning the application of the principles set forth in the Code of Best Practice for WSE Listed Companies 2017.

#### **IX. Assessment of the reasonableness of the Company's sponsoring, charity or other similar policy.**

The Supervisory Board assesses that the Company's sponsorship, charity or similar policy is conducted by the Company in a reasonable manner that is beneficial for the Company. The amounts allocated as part of this activity do not have a significant impact on the Company's results and have positive effects on the subjects receiving them. The company supports subjects in need from different circles, without limiting or excluding anyone.

In 2018, through sponsoring activities, the Group supported institutions operating mainly in the field of sports and culture, as well as charity events. In 2018, the Company continued the cooperation with the sports club Onico Warszawa (formerly AZS Warsaw University of Technology), took part in sports events (including Pekao Szczecin Open tennis tournament, ATP Challenge tournament, Triathlon in Szczecin), cultural and entertainment tournaments (e.g. The Kiepura Festival) and charities (e.g. Akcja Szlachetnej Paczki). The Group participated as a sponsor in prestigious cultural and business events: Forbes Diamonds, Business Eska Award and Pomeranian Employers Gala.

The Company has founded the JW Foundation. TENNIS SUPPORT FOUNDATION-FUNDATION OF TENIS SUPPORT AND PHYSICAL ACTIVITY DEVELOPMENT, which operates for the benefit of tennis development in Poland. The Company has also made donations for community organizations. The above activity is the result of initiatives of persons and institutions that have been cooperating with the Company for many years, taking into account the positive impact on the business and its image. In total, nearly PLN 400,000.00 net was spent on the above initiatives.