



Report of the independent statutory auditor
on the audit of the annual financial statements of
J.W. CONSTRUCTION HOLDING S.A.
for the financial year ended on
31 December 2020

Mazars Audyt Sp. z o.o.
18 Piękna St.
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REPORT OF THE INDEPENDENT STATUTORY AUDITOR ON THE AUDIT OF THE ANNUAL FINANCIAL STATEMENTS

For the General Meeting and Supervisory Board of J.W. Construction Holding S.A.

Report on the audit of the annual financial statements

Opinion

We have audited the annual financial statements of J.W. Construction Holding S.A. ("Company"), which includes the statement on financial situation as at 31 December 2020 and the statement of comprehensive income, the statement of changes in equity, the statement of cash flows for the financial year from 1 January to 31 December 2020 and additional information including a description of adopted accounting policies and other explanatory information ("financial statements").

In our opinion, the attached financial statements:

- presents a true and fair view of the Company's financial position as at 31 December 2020 and its financial result and cash flows for the year ended in accordance with the applicable International Financial Reporting Standards as adopted by the European Union and the adopted accounting principles (policy);
- is consistent as to form and content with the applicable laws and the Company's Articles of Association;
- has been prepared on the basis of properly maintained accounting books in accordance with the provisions of Chapter 2 of the Accounting Act of 29 September 1994 ("Accounting Act" - Journal of Laws of 2021, item 217 as amended).

The opinion is consistent with the additional report for the Audit Committee that was issued on 31 March 2021.

Grounds for the opinion

We conducted our audit in accordance with the National Auditing Standards in the wording of the International Auditing Standards adopted by Resolution No. 3430/52a/2019 of the National Council of Statutory Auditors of 21 March 2019 on national auditing standards and other documents (as amended) ("KSB"), and in accordance with the Act on Statutory Auditors, Audit Firms and Public Supervision of 11 May 2017 ("Act on Statutory Auditors" - Journal of Laws of 2020, item 1415) and Regulation (EU) No. 537/2014 of 16 April 2014 on detailed requirements concerning statutory audit of public interest entities ("EU Regulation" - Journal of Laws, EU L158 of 27 May 2014, page 77 as amended). Our responsibility in accordance with these standards is further described in the section of our report "Auditors' responsibility for the audit of the financial statements".

We are independent from the Company in accordance with the International Code of Ethics for Professional Accountants (including International Standards of Independence) of the International Ethics Standards Board for Accountants (the "IESBA Code") adopted by resolution of the National Council of Statutory Auditors No. 3431/52a/2019 of 25 March 2019 on the principles of professional ethics for statutory auditors and other ethical requirements that apply to the audit of financial statements in Poland. We have fulfilled our other ethical obligations in accordance with these requirements and the IESBA Code. During the course of the audit, the key statutory auditor and the audit firm remained independent of the Company in accordance with the independence requirements set out in the Act on Statutory Auditors and in the EU Regulation.

We believe that the audit evidence we have obtained is sufficient and appropriate to support our opinion.

Key audit matters

Key audit matters are those matters which, in our professional judgment, were most significant during the audit of the financial statements for the current reporting period. These include the most significant assessed risks of material distortion, including the assessed risks of material distortion caused by fraud. We addressed these matters in the context of our audit of the financial statements as a whole and in the preparation of our opinion and summarised our response to these risks and, where we felt appropriate, made key observations in relation to these risks.

We do not express a separate opinion on these matters.

Key audit matter

How our audit addressed this issue

Impairment of tangible fixed assets

In the financial statements as at 31 December 2020, the reported value of property, plant and equipment amounts to PLN 256 623 thousand, and their main element are fixed assets related to hotel activity (84%). The key issue was the assessment of the adopted value in use of these assets, determined as estimates of the Management Board as to the expected financial results of individual hotels.

Disclosures concerning property, plant and equipment are presented in Note 2 of the information and explanatory notes to the financial statements.

Impairment of shares and interests in subsidiaries

In the financial statements as at 31 December 2020, the disclosed value of shares held amounts to PLN 172,237 thousand. The impairment analysis was a key issue of the audit due to the value of the balance of shares and stocks, which is material to the financial statements. The Management Board's estimation process is based on significant assumptions, estimates and plans for the future use of special purpose vehicles in which the Company holds shares.

Disclosures concerning the shares held are presented in Note 4 of the information and explanatory notes to the financial statements.

Our auditing procedures included in particular:

- understanding and evaluating the process of identifying evidence of impairment of assets and the correctness of the applied impairment test method,
- analysis of the main assumptions adopted by the Management Board concerning future cash flows in the context of current and expected market conditions,
- discussing with the Management Board business strategies for hotel operations,
- evaluation of the hotels' financial results.

The assessments and analyses performed as part of the audit have provided us with sufficient and appropriate audit evidence of the described risks associated with the impairment of property, plant and equipment.

Our auditing procedures included in particular:

- assessment of the reasonableness of assumptions made by the Management Board as to future financial results within the framework of impairment tests of shares in the subsidiaries (special purpose vehicles),
- evaluation of financial results generated by subsidiaries,
- assessment of the value of assets held by subsidiaries,
- assessment of the merits of the assumptions and plans adopted by the Management Board for the use of subsidiaries (special purpose vehicles), in terms of planned investments,
- discussing with the Management Board business strategies for real estate development,

Valuation of investment property

In the financial statements, as at 31 December 2020, the disclosed value of investment property amounts to PLN 266,961.

Valuation analysis was a key issue of the audit due to the value of the balance of investment properties, which is material to the financial statements.

The valuation of investment properties is largely based on estimates of the Company's Management Board, prepared on the basis of valuations by independent property appraisers.

Disclosures concerning investment real estate are presented in Note 3 to the financial statements.

Valuation of inventories (construction contracts)

In the financial statements, as at 31 December 2020, the reported value of inventories related to construction production - development activity ("construction contracts") amounts to PLN 634,038 thousand. The analysis of valuation was a key audit issue due to the value of the balance of construction contracts, which is material to the financial statements, and the accuracy of inventory valuation is an inherent industry risk for the Company.

Valuation of construction contracts as at the balance sheet date with regard to their prudent valuation, as well as with regard to potential impairment write-offs, requires taking into account their specific nature and adoption of many assumptions.

Disclosures concerning construction contracts are presented in Note 6 to the financial statements.

The Management Board's assessments and assurances have provided us with sufficient and adequate audit evidence of the described risks associated with the impairment of the shares.

Our auditing procedures included in particular:

- a critical assessment of the correctness, consistency, completeness and adequacy of the selected valuation methods,
- verification of appraisal reports with regard to the correctness of the assumptions made and the valuation methods,
- analysis of planned real estate transactions,
- discussing with the Management Board and understanding of business strategies regarding these real estate.

The assessments and assurances of the Management Board described above have provided us with sufficient and appropriate evidence regarding the described risk connected with valuation of investment property.

Our auditing procedures included in particular:

- analysis of the correctness and adequacy of valuation methods applied, including the creation of revaluation write-offs,
- understanding and evaluation of internal control procedures, including those related to ongoing construction projects,
- verification of the inventory of ongoing construction investments,
- confirmation of the existence of development projects,
- understanding of the Company's business strategies.

The assessments and analyses described above have provided us with sufficient and adequate evidence to examine the described risk related to the valuation of construction contracts.

Responsibility of the Management Board and Supervisory Board for the financial statements

Management Board of the Company is responsible for the preparation, on the basis of properly maintained accounting records, of financial statements which give a true and fair view of the Company's financial position and results in accordance with International Financial Reporting Standards as adopted by the European Union, adopted accounting principles (policy) and applicable laws and the Company's Articles of Association, as well as for the internal control which Management Board considers necessary to ensure that financial statements free of material misstatements due to fraud or error are prepared.

In preparing the financial statements, the Company's Management Board is responsible for assessing the Company's ability to proceed as a going concern, disclosing, if applicable, matters relating to going concern and adopting the going concern principle as the basis of accounting, except where the Management Board either intends to liquidate the Company or discontinue operations or has no viable alternative to liquidation or discontinuation of operations.

The Company's Management Board and members of the Supervisory Board are obliged to ensure that the financial statements meet the requirements provided for in the Accounting Act. Members of the Supervisory Board are responsible for supervising the financial reporting process of the Company.

Auditor's responsibility for the audit of the financial statements

Our objectives are to obtain reasonable assurance that the financial statements as a whole do not contain material misstatement due to fraud or error and to issue an audit report containing our opinion. Reasonable assurance is a high level of assurance, but does not guarantee that an audit performed in accordance with National Audit Standards will always detect a material misstatement that exists. Distortions may be caused by fraud or error and are considered material if it can be reasonably expected that, individually or collectively, they could influence the economic decisions taken on the basis of these financial statements.

The scope of the audit does not include assurances as to the Company's future profitability or the effectiveness or efficiency of the management of its affairs by the Company's Management Board at present or in the future.

When auditing in accordance to National Audit Standards, we use professional judgement and maintain professional scepticism, as well as:

- we identify and assess the risks of material misstatement of the financial statements due to fraud or error, plan and perform audit procedures appropriate to those risks and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting material misstatement due to fraud is greater than that due to error, as fraud may involve collusion, falsification, intentional omissions, misrepresentation or circumvention of internal control;

- - obtain an understanding of the internal control relevant to the audit in order to design audit procedures that are appropriate in the given circumstances, but not to express an opinion on the effectiveness of the Company's internal control;
- - assess the adequacy of the accounting principles (policy) applied and the reasonableness of accounting estimates and related disclosures made by the Company's Management Board;
- - draw a conclusion on the applicability by the Management Board of the Company of the going concern principle as the basis of accounting and, based on the evidence obtained, whether there is a material uncertainty related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that there is material uncertainty, we are required to draw attention in our audit report to related disclosures in the financial statements or, if such disclosures are inadequate, we modify our opinion. Our conclusions are based on audit evidence obtained up to the date of our audit report, but future events or conditions may cause the Company to discontinue its business;
- - assess the overall presentation, structure and content of the financial statements, including disclosures, and whether the financial statements present the underlying transactions and events in a manner that ensures a fair presentation.

We provide the Supervisory Board with information on, among other things, the planned scope and timing of the audit and significant findings of the audit, including any significant internal control weaknesses that we identify in the process.

We declare to the Supervisory Board that we have complied with the relevant ethical requirements for independence and that we will inform it of all affiliations and other matters that could reasonably be considered as a threat to our independence and, where applicable, inform them of the safeguards applied.

From among the matters submitted to the Supervisory Board, we determined those matters which were the most significant during the audit of the financial statements for the current reporting period and therefore we considered them as key audit matters. We describe these matters in our audit report unless a law or regulation prohibits public disclosure or, in exceptional circumstances, we determine that the matter should not be presented in our report because it would reasonably be expected that the negative consequences would outweigh the benefits of such information in the public interest.

Other information, including the report on operations

Other information includes the report on the Company's operations for the financial year ended 31 December 2020 ("Report on Operations") together with the corporate governance statement, which is a separate part of this Report on Operations (together "Other information")

Responsibility of the Management Board and Supervisory Board

The Company's Management Board is responsible for preparing Other information in accordance with the provisions of law.

The Company's Management Board and members of the Supervisory Board are obliged to ensure that the Report on Operations together with the separated part meet the requirements provided for in the Accounting Act.

Auditor's responsibility

Our audit opinion on the financial statements does not cover Other information. In connection with the audit of the financial statements, it is our responsibility to review the Other information and, in so doing, to consider whether the Other information is not materially inconsistent with the financial statements or our audit knowledge or in any other way appears to be materially distorted. If, on the basis of the work performed, we find material misstatements in Other information, we are required to state this in our audit report. It is also our responsibility under the requirements of the Auditing Act to issue an opinion on whether the report on operations has been prepared in accordance with the regulations and whether it is consistent with the information contained in the consolidated financial statements. In addition, we are required to give an opinion on whether the Company has included the required information in the corporate governance statement

Opinion on the Report on Operations

Based on the work performed during the audit, in our opinion, the report on operations:

- has been prepared in accordance with Article 49 of the Accounting Act, paragraph 70 of 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 ("Regulation on current information" - Journal of Laws of 2018, item 757 as amended),
- is consistent with the information presented in the financial statements.

Moreover, in the light of the knowledge about the Company and its environment obtained during our audit, we state that we have not identified any material misstatements in the Company's Report on Operations.

Opinion on the statement on the application of corporate governance

In our opinion, in the corporate governance statement, the Company has included the information specified in paragraph 70(6)(5) of the Regulation on current information. In addition, in our opinion, the information referred to in paragraph 70(6)(5)(c-f), (h) and (i) of this Regulation contained in the corporate governance statement is consistent with the applicable regulations and the information contained in the financial statements.

Report on other legal and regulatory requirements

Statement on non-audit services provided

To the best of our knowledge and belief, we declare that the non-audit services we have provided to the Company and its subsidiaries comply with the laws and regulations in force in Poland and that we have not provided non-audit services which are prohibited under Article 5(1) of the EU Regulation and Article 136 of the Act on Statutory Auditors. The non-audit services that we provided to the Company and its subsidiaries during the audited period are listed in Note 22 of the Report on the Company's activities and Note 37 of the Financial Statements.

Audit firm selection

We were appointed for the first time to audit the Company's financial statements by resolution of the Company's Supervisory Board of 5 June 2018. We have been auditing the Company's financial statements continuously since the financial year ended 31 December 2018, i.e. for three consecutive years.

The statutory auditor responsible for the audit, which resulted in this report, is Jarosław Bochenek Acting on behalf of Mazars Audyt Sp. z o.o. with its registered office in Warsaw, 18 Piękna St., entered in the list of audit firms under number 186, on behalf of which the key statutory auditor audited the financial statements.

Jarosław BOCHENEK

Key Statutory Auditor

No 90086 Partner

Mazars

Warsaw, 31 March 2021