

Audit Committee's Annul Report to the CPD SA Supervisory Board on its activity in 2018

Legal basis

The Audit Committee of the Supervisory Board of CPD SA is a standing committee operating on the basis of the following regulations:

- Article 86 of the Act of 5 May 2017 on Statutory Auditors and Their Self-Regulatory Body, Entities Authorized to Audit Financial Statements and Public Oversight,
- Recommendations pertaining to the Functioning of Audit Committees issued by the Polish Financial Supervision Authority in November 2010,
- Best Practices applied by public companies listed on the Warsaw Stock Exchange,
- Articles of Association of CPD SA,
- Supervisory Board Bylaws of CPD SA,
- Audit Committee Bylaws of CPD SA.

Composition of the Audit Committee in 2018

From 1 January 2018 to 14 September 2018:

Wiesław Oleś – Audit Committee Chairman*

Mirośław Gronicki – Audit Committee Member

Andrew Pegge – Audit Committee Member

*Wiesław Oleś tendered his resignation from sitting on the Audit Committee on 18 June 2018 with effect as of the date of the next General Meeting including an item to select Supervisory Board members. On 9 August 2018 the Management Board called an Extraordinary Shareholder Meeting to be held on 6 September 2018 including an item to make changes to the Supervisory Board. This Shareholder Meeting was adjourned until 14 September 2018, at which time it appointed an additional Supervisory Board member, Alfonso Kalinauskas, who was subsequently elected by the Supervisory Board to join the Audit Committee.

From 19 September 2018 to 31 December 2018:

Alfonso Kalinauskas – Audit Committee Chairman

Mirośław Gronicki – Audit Committee Member

Andrew Pegge – Audit Committee Member

Audit Committee meetings / actions / decisions

During the meetings listed below, the Audit Committee members discussed current affairs and open issues. They also reviewed the Company's financial statements prior to publication, and they agreed on the contents of the minutes of their meetings.

In 2018 the Audit Committee held four meetings, namely on 16 March, 19 April, 19 September and 4 December.

Summary of topics discussed by the Audit Committee at its meetings

Audit Committee meeting held on 16 March

During its meeting the Audit Committee met with the representatives of two firms competing to perform the audit of the Company's financial statements. After meeting with the representatives and discussing the pros and cons of each choice, the Audit Committee initially recommended the selection of Grant Thornton as a larger entity giving a guarantee of the proper performance of the audit.

The Audit Committee also discussed the major risk factors for the Company with the Management Board and stated that in the presence of significant financial reserves, the Company properly controls the basic economic risks.

Audit Committee meeting held on 19 April

During its meeting the Audit Committee met with the representatives of PwC as the auditor of the 2017 financial statements. After thoroughly examining PwC's report and audit opinion, and after reviewing the Management Board's activity reports for the Company and the Group, and after holding a discussion with the auditor and the Management Board about all the major risk factors, the Audit Committee recommended their approval by the full Supervisory Board in the form of a recommendation directed to the Company's Shareholder Meeting.

The Audit Committee stated that all these documents had been prepared in accordance with the Company's accounting books, documents, factual situation and in accordance with the legal regulations.

Based on its interviews with the candidates to act as the Company's auditor to audit the Company's 2018 and 2019 financial statements, having regard for the fact that all Audit Committee members were in attendance at this meeting, the Audit Committee adopted a formal resolution to recommend the selection of the statutory auditor for 2018 and 2019 to the Supervisory Board.

Audit Committee meeting held on 19 September

At its meeting on 19 September the Audit Committee elected its new chairman and approved the minutes from its previous meeting. In addition, the Audit Committee met with the Company's auditor, Grant Thornton, and reviewed information on the results of the audit of the interim financial statements ended 30 June 2018. It also discussed the level of materiality and the related risks. The Audit Committee also received information from the auditor about the suitability of the processes in place for the interim audit and for reaching a judgment on the Company's position and its financial statements. The auditor also updated the Audit Committee about a number of issues, including expected changes in accounting policies and the timing for annual valuations of the Company's property holdings. The audit committee discussed the timing for year-end audit work and exchanged contact data to

ensure that the auditors and the Audit Committee members can be in direct contact with one another as needed.

Audit Committee meeting held on 4 December

Prior to its meeting on 4 December, the Audit Committee received from the Management Board all three of the contracts executed with the Company's joint venture partner for review, in light of the publication by the Company of the amendments to the arrangements in place to date. This review fully responded to the Audit Committee's questions concerning the underlying financials and the Company's strategic business objectives.

In turn, at its meeting on 4 December the Audit Committee, having regard for its new member, elected to review the Company's strategy to structure its work and track and measure the Company's performance and the risks it takes to achieve its business objectives. The Audit Committee also reviewed the Company's disclosures and recommended expanding the extent of disclosure and using plain language to communicate better with the shareholders and the overall market. The Audit Committee reviewed the first draft of a risk map prepared by the Management Board, and the Audit Committee agreed that this forms a good framework for tracking risk. Additional risk factors, such as the change of law on perpetual usufruct, counterparty risk, the relationship with Unibep and the receipt of cash following the execution of transactions should be incorporated. KPMG has been engaged to review the perpetual usufruct matter.

The Audit Committee also noted that the Company's articles of associations and bylaws should be amended to include an internal control system with specific thresholds, limits and decision-making powers. At present, the only trigger in place is 5% of net asset value.

The Audit Committee considered tax-related issues, including the source of the Company's certainty that there is no tax liability. It also considered the breach of covenants in loan agreements, but as the Company had reported the breach and the bank had not taken any further action, it seems that this issue is under control. Ultimately, at the time of the asset sale, this problem will disappear as the proceeds from the asset sale will be used to pay down the loan.

The Audit Committee considered the policy for charitable contributions following the donation made during 2018. This was part of the original plan devised in 2015 and was fully in line with the Company's original intentions.

The Audit Committee also recognized that the Company would seek to perform further share buybacks as they would be the most efficient for the Company and its shareholders.

As the Company has a low headcount, there is no internal audit plan or internal auditor. However, the regulations call for there to be an internal auditor. Accordingly, the motion was made for the Company to designate an internal auditor to act as a link between the Company and the Audit Committee. The recommendation was given for this person to be Michał Świrgoń, as he is the Company's financial controller.

The Audit Committee sought to consider the business plan for 2019 and 2020, and it was decided that this would be presented at the first meeting in 2019. No major accounting changes are expected.

The Audit Committee agreed that it would hold 1-2 more meetings during the year than the Supervisory Board, with a total of 5 to 6 meetings, and that it would review the quarterly financial statements before publication, in addition to the annual and interim financial statements. The Audit Committee reviewed a tentative work plan for 2019 and 2020 and agreed to adopt it at a later date.

The Audit Committee also noted that the Management Board's remuneration package and bonus scheme, as laid out in the minutes of previous Supervisory Board meetings, had not been approved by the Supervisory Board, thereby not making it possible for the Audit Committee to review performance in this area. The Audit Committee agreed to take up this subject with the Management Board after reporting on this subject to the full Supervisory Board.

Decisions made by the Audit Committee

1. Recommend Grant Thornton to be the Company's Auditor.
2. In light of its financial reserves the Company adequately controls its basic risks.
3. Recommend a review of the strategy by the Management and Supervisory Board.
4. Recommend plain language for the Company's disclosures.
5. Recommend Michał Świrgoń to be appointed as the Company's internal auditor.
6. Adopt a work plan for 2019-2020.
7. Seek information about the Management Board's remuneration package and bonus scheme.

The Audit Committee in consultation with the overall Supervisory Board and Management Board agreed on the appointment of an internal auditor to ensure direct and smooth communication between the internal audit function and the Audit Committee. Mr. Michał Świrgoń was appointed to fulfil this function.

During each of its meetings the Audit Committee gave consideration to the key areas of risk faced by CPD SA and the overall Group as detailed in CPD SA's standalone and consolidated financial statements for 2017, while giving consideration to the size and complexity of the Group and the number of employees.

The Audit Committee reviewed the updated risk profile prepared by the Management Board at its meeting on 4 December 2018.

The Audit Committee was in regular contact with the auditor and the company and received information about the planned scheduling of the valuations to be done of the Company's assets and the pre-year-end audit work to expedite the full-year audit.

The Audit Committee was in regular contact with the Company for the purpose of monitoring the financial reporting process in the Company and in the Group, monitoring the

effectiveness of the internal control, risk management and internal audit systems, in respect of financial reporting, monitoring financial review by the auditor, supporting the financial planning process and checking its execution and monitoring the Company's relations with related parties.

After each of its meetings the Audit Committee reported to the overall Supervisory Board on the scope of its activities. The Audit Committee also sought to obtain additional inputs from the overall Supervisory Board to ensure that the Audit Committee performed its duties to the full extent of its capacity.

The Audit Committee received regular information about the Company's results and financial position prior to the publication of the Company's annual and semi-annual standalone and consolidated financial statements. The Audit Committee also received highly extensive disclosures concerning, among others, the major JV contracts for the further development of CPD's position in Ursus.

At the appropriate times during the year the Audit Committee shared its opinions and recommendations with the Supervisory Board and the Management Board, and in conjunction with the annual audit for 2018, it has presented, in addition to this report, opinions and recommendations for the Supervisory Board to consider.

The Audit Committee is of the opinion that it fully discharged its duties stemming from the prevailing legal regulations.

Alfonso Kalinauskas
Audit Committee Chairman

Mirosław Gronicki
Audit Committee Member

Andrew Pegge
Audit Committee Member