

**Audit Committee's Report
to the CPD SA Supervisory Board on its activity in 2020**

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.

Composition of the Audit Committee in 2020

From 1 January 2020 to 31 December 2020:

Alfonso Kalinauskas – Audit Committee Chairman

Mirosław Gronicki – Audit Committee Member

Andrew Pegge – Audit Committee Member

Audit Committee meetings / actions / decisions

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

In 2020 the Audit Committee held five meetings on the following dates:

- 24 April 2020
- 28 April 2020 (two meetings)
- 23 September 2020
- 23 November 2020

Over the course of the year the Audit Committee also maintained regular contacts with the Company's Management Board, the internal auditor and the auditors. These contacts included unofficial meetings and interactions in writing to prepare for full-fledged Audit Committee and Supervisory Board meetings.

All Audit Committee members attended all of its official meetings. All Supervisory Board members were invited to attend all the meetings, and various Supervisory Board members not belonging to the Audit Committee attended meetings and voiced their suggestions and/or posed pertinent questions. Management Board representatives and in some cases the Company's internal auditor attended the Audit Committee meetings.

The Audit Committee interacted directly with the Company's internal auditor and the statutory auditor and ensured that the internal auditor and statutory auditor had direct and unfettered access to the Audit Committee.

The Audit Committee prepared an annual report on its activity in 2019 and delivered this report to the ordinary shareholder meeting, which took place on 27 May 2020 and was published on Company's web site.

Before presenting the summary of the individual Audit Committee meetings it should be noted that all of the activities performed by the Audit Committee after the emergence of the COVID-19 epidemic were performed in compliance with the pertinent health requirements, which placed an additional burden on the Audit Committee members, as well as all of its counterparts in the Supervisory Board, Management Board, CPD employees, auditors etc.

Summary of topics discussed by the Audit Committee at its meetings

Audit Committee activities in Q1

In connection with the outbreak of the COVID-19 epidemic, the very rigorous lockdown and the ensuing difficulties, which affected the scheduling of the Supervisory Board meeting in Q1, the Audit Committee elected not to hold a meeting in Q1. Nevertheless, having regard for the end of the audit contract with the audit of the 2019 financial statements, in February and March of 2020 the audit committee members interacted with all of the Supervisory Board members and the Management Board to discuss whether it would be preferable to conduct a thorough competitive process to select an auditor for the subsequent period or to enter into negotiations with the current auditor to extend the audit period for another period.

After weighing the pros and cons of these two approaches and having regard for the fact that GT had only audited the company's financials for two years, the decision was made not to run a new competition as the company would not benefit from the auditor moving up the learning curve, but to focus on negotiating a contract extension.

A discussion was held with the auditor to review the audit planning process as well as to examine the checks and controls related to transactions, which were subsequently found to be sufficient and efficient. Review of the assumptions for the upcoming statutory audit spanning topics such as materiality and focal points for audit procedures including management override of controls, revenue recognition (in its joint ventures, too), real estate valuation, loan valuation and tax risk with the auditor's tax partner being involved. Review of the assumptions for property valuation of all of the assets, including topics such as conditional post-balance sheet sales of office buildings.

Audit Committee meeting held on 24 April

The Audit Committee reviewed the audit quote submitted by the current auditor, Grant Thornton (GT) for the audit contract extension and held an internal discussion concerning some of the shortcomings in GT's execution of the 2019 annual audit to raise during direct

*Report of the Audit Committee
of the CPD SA Supervisory Board regarding its work in 2020
Warsaw, 26 April 2021*

negotiations with the auditor. The point was also raised to extend the contract for a three-year period, instead of another two years, and to incorporate a pricing mechanism that would reflect the intended streamlining of the CPD Group in annual audits of the 2021 and 2022 financial statements.

The Audit Committee met with the auditor to review the financial statements of CPD SA and the CPD SA Group for 2019, and reviewed the results of the sensitivity analysis, which on account of its commercially-sensitive nature, was not included in the report for public consumption. The auditor presented issues relating to materiality, risk assessment, the decision-making and internal approval system, impairments, the COVID-19 impact, post-balance sheet events and compliance with or breach of covenants, going concern, FX etc. The conclusion was that the Company follows a thorough and robust process.

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

The Audit Committee adopted a resolution to recommend to the Supervisory Board to accept the standalone financial statements of CPD SA and those of the CPD SA Group for the year ending 2019.

The Audit Committee conveyed to the auditor that the company would like to renew the appointment but measures would need to be taken by the auditor to eliminate some of the shortcomings in terms of performance. The auditor agreed to take the commensurate efforts after apologizing for these shortcomings and attributing them to people-related issues stemming from COVID-19. The assurances were accepted and a plan was put in place for swift communication in the event of possible future delays.

Audit Committee meeting held on 28 April

The Audit Committee met in two separate joint meetings with the Supervisory Board on 28 April to continue the work done at the previous meeting held on 24 April.

One office building, IRIS, had been valued by Savills, while Solar and Aquarius were held for sale, meaning that the purchase offers were used as the basis for their valuation.

The Audit Committee received the audit report confirming that the auditor is independent and had not completed any other services for the group. The Audit Committee found certain shortcomings and errors in the audit report. The Audit Chair wrote to the auditor to advise of these errors to be amended in the main report to be published.

Even though the comments to the financial statements had been at the prior meeting, they had not yet been incorporated, and the Audit Committee recommended that they be included.

The Audit Committee's report on its functioning in 2019 was presented and approved by the full Supervisory Board.

After a break the Audit Committee resumed its meeting as a joint meeting with the Supervisory Board to complete the work started earlier in the day.

In connection with the modifications made to the financial statements after the meeting held on 24 April 2020, the Audit Committee once again reviewed the independent auditor's report on the annual financial statements and the consolidated financial statements. The Audit Committee posed questions and put forward suggested adjustments for inclusion in the financial statements. The Audit Committee then recommended approval of the financial statements to the full Supervisory Board subject to the insertion of the suggested adjustments.

The Audit Committee considered the appointment for the auditor to be extended but required for certain modifications to be made to the contract to reflect some of the shortcomings encountered in the 2019 audit. The Audit Committee instructed the internal auditor to be in contact with the auditor to advise when the revised proposal is received, and that the Chairman of the Supervisory Board and a member of the Audit Committee would then discuss the proposal with the auditor, as at this stage it was not possible to recommend approval of the extension.

Audit Committee meeting held on 23 September

The Audit Committee reviewed the ongoing impact of COVID-19. It was found that COVID had not yet had a material impact on the revenue to date, only on cash flow. Tenants in the office buildings were deferring their payments which would be recovered through the extension of the lease agreement which had been agreed with the Management Board. In other words despite the delayed payment, the Company would receive the full amount. The expectation is that the full-year negative impact would be under 10%, though there could be a long-term impact exerted by Covid on the overall office market as some market analysts predict that roughly 30% of the office workers would not return to their offices. Certainly, COVID had slowed the sales process of the offices though this would not have an impact on the Group's activities in 2020. Despite the Covid-19-related risks, the Company is in good shape as its office portfolio is not extensive and it has notable cash resources to meet all of its loan commitments. In turn, in the residential segment, the market continued to be stable.

The Audit Committee met with the auditor to review the interim financials, with the review focusing on inquiries of the management chiefly concerning the main risks being management override of internal control, incorrect recognition of sales revenue and the risk of incorrect real estate valuation. The materiality threshold was set at 1%, as in prior practice, with the resulting figures being PLN 1.1 million for CPD SA and PLN 4.2 million for the CPD Group. The reason for the loss was explicated as being related to the payment of the tax liability. However, the Company expects that it will obtain a tax refund and this decision would be reversed. The Audit Committee reviewed the financial position of the company and the group. Even though assets had fallen in line with sales, this did not lead to

*Report of the Audit Committee
of the CPD SA Supervisory Board regarding its work in 2020
Warsaw, 26 April 2021*

any issues to be highlighted. All of the relevant property valuations and revenue recognition policies were compliant with IFRS. The conclusion was that the interim financials were compliant with the pertinent regulations. There was one outstanding letter from the tax authorities to a subsidiary in Cyprus, which the tax authorities had sent, but which had not been received. Since it had not been received, it was not possible to adjust the provision in the financial statements and the timing of publication should not be delayed. The key thing was to obtain the suitable document for inclusion in the annual figures. The Audit Committee made suggestions for inclusion in the interim financial statements and adopted a recommendation for the Supervisory Board to approve the interim financial statements.

The Audit Committee noted the rise in quality of the interactions between the auditor and the Company, including the improved response times.

The Audit Committee reviewed the intention to obtain a permit for the Solar office building to convert it into a residential property, with architects having been engaged. It was agreed that this would be included in the Company's reporting once the permit is obtained.

The Audit Committee reviewed the status of tax proceedings.

The Audit Committee reviewed the revised budget including planned dates for the sales of various properties, and adopted a recommendation for the Supervisory Board to approve the budget.

Audit Committee meeting held on 23 November

This meeting was a combined meeting of the Audit Committee and the Supervisory Board.

The meeting considered the changes made to remuneration to the Management Board members acting in that capacity and for some of the members who also provide services to Group companies. The remuneration of the Management Board members is outside the realm of the Audit Committee's mandate, with the exception of its impact on the budget and with the exception of the fees paid for services by Group companies. These figures were within the budget that had been recommended by the Audit Committee and accepted by the full Supervisory Board in September 2020.

The financial results for the first three quarters of the year were reviewed along with the impact on the share price. The Audit Committee also considered the P&L impact stemming from the outcome of the tax refund, which became a final decision in Q4 and would impact the full year figures.

In the week prior to the joint meeting held on November 23, an informal preparatory meeting had been held with all Board members invited to discuss the financial statements. The Audit Committee and the Supervisory Board found this to be a useful tool to provide them with more time to review the extensive information provided. The Audit Committee discussed the impact of the re-classification of two properties from being assets for sale to investment properties. The only difference was due to the FX movement with no underlying

change in the valuation. The Audit Committee recommended changing the description of the Group's activity as the focal point of its operations is changing with the morphing of the asset mix due to land sales.

The Audit Committee recommended the selection of Grant Thornton to audit the Compensation Review within the scope of the annual audit.

The Audit Committee discussed XBRL reporting (eXtensible Business Reporting Language) with the Management Board, which agreed to notify the Audit Committee once the decision is made on selecting a partner to provide this service.

The Audit Committee confirmed the intended timing of the audit of the 2020 financial statements, including the compensation review, which would ultimately be confirmed in January 2021 when the Company announces its publication dates in the form of a current report.

The Audit Committee reviewed the Q3 financials and presented its comments to the Management Board for inclusion at its discretion.

The Audit Committee reviewed debt covenants in the office buildings and plans concerning its approach in the future. The conclusion was reached that the bank is relaxed about the breach on the covenant, especially given the amount of cash held by the company.

The Audit Committee discussed the scope of the annual remuneration report and the approach to its preparation.

Extension of the audit contract

The extension of the audit contract was formally announced in current report no. 29/2020 published on 15 September 2020. The timing of this current report triggered the Polish FSA's interest in the work done by the Company, and the Company provided a full account of the course of the work done to extend the contract with the auditor. From the time when the Company provided these explanations to KNF, there has been no further correspondence or discussion with the regulator on this subject.

It is important to note that the work to extend the audit contract started at the beginning of the year but took more time than expected due to the COVID-19 epidemic.

As noted above, the Audit Committee launched the official work to select the auditor on 4 February 2020. Initially, it considered whether to run a competitive process or to negotiate with the current auditor who had been serving in this capacity for two years. During the course of this process, the COVID-19 epidemic broke out, which affected the work on the annual audit and the pace of running the negotiations with the auditor. In March 2020 the decision was made with the full participation of the Supervisory Board and the Management Board, after considering all of the major advantages and disadvantages of the various approaches, to opt for a contract extension, as this would enable the Company to benefit

from the auditor moving up the learning curve, while also benefiting from the lower fee proposed by the current auditor in the previous competitive process held a mere two years earlier. It was also deemed to be important that the fee schedule should be sliding to reflect the shrinking size of the CPD Group in connection with the sales of its various assets and distribution of profits to the shareholders.

The auditor submitted its proposal on 22 April 2020. Having regard for the course of the audit of the 2019 financial statements and some of the shortcomings, negotiations were held with the auditor by the Company, the Supervisory Board Chairman and the Audit Committee Chairman. On 10 July 2020 the Audit Committee adopted a recommendation to sign the audit contract with Grant Thornton with the agreed upon revisions to the contract. The Supervisory Board approved the wording of the new proposals on 21 July 2020. The final amendments were made to the contract and the Audit Committee approved the wording of the full contract on 27 July 2020 and the auditor accepted the contract on 29 July 2020. In turn, following summer holidays, the Supervisory Board adopted the resolution on 15 September 2020 to approve the audit contract and the Company signed the contract on 16 September 2020 and subsequently published the pertinent announcement.

General remarks

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 2019, while giving consideration to the size and complexity of the Group and the number of employees.

The basis for the Audit Committee's risk assessment was the updated risk profile prepared by the Management Board and presented to the Audit Committee on 31 January 2019. As needed during the year, the Audit Committee analyzed specific risks as they emerged and evolved.

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.

*Report of the Audit Committee
of the CPD SA Supervisory Board regarding its work in 2020
Warsaw, 26 April 2021*

The Audit Committee received regular information about the Company's results and financial position prior to the publication of the Company's annual, semi-annual and quarterly standalone and consolidated financial statements. The Audit Committee also received highly extensive disclosures from the Management Board and the Company's financial controller and internal auditor.

The Audit Committee paid ample attention to the Company's budget and cash position to ensure that it retains suitable funds to meet all of its present and future obligations while also distributing earnings to shareholders through share buybacks.

At the appropriate times during the year the Audit Committee shared its opinions and recommendations with the Supervisory Board and the Management Board.

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