

**CAPITAL GROUP  
DOM DEVELOPMENT S.A.**

**LONG-FORM AUDITORS' REPORT  
ON THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2016**

## I. GENERAL NOTES

### 1. Background

The holding company of the Dom Development S.A. Group (hereinafter 'the Group' or 'the Capital Group') is Dom Development S.A. ('the holding company', 'the Company').

The holding company was incorporated on the basis of a Notarial Deed dated 25 February 1999. The Company's registered office is located in Warsaw at Plac Piłsudskiego 3.

The holding company is an issuer of securities as referred to in art. 4 of the Regulation (EC) No 1606/2002 of the European Parliament and of the Council of the European Union of 19 July 2002 on the application of international accounting standards and, based on the article 55.5 of the Accounting Act dated 29 September 1994 ('the Accounting Act'), prepares consolidated financial statements of the Group in accordance with International Financial Reporting Standards as adopted by the EU.

The holding company was entered in the Register of Entrepreneurs of the National Court Register under no. KRS 0000031483 on 8 August 2001.

The Company was issued with tax identification number (NIP) 5251492233 and statistical number (REGON) 012212483.

The parent company of Dom Development S.A. is Dom Development B.V..

The principal activities of the holding company are as follows:

- real estate construction, investments and sale of real estates;
- property management;
- bookkeeping and accounting services;
- advisory and broking services in relation to mortgages.

As at 31 December 2016, the Company's issued share capital amounted to 24 782 thousand zlotys. Equity as at that date amounted to 929 461 thousand zlotys.

Based on the information included in Director's Report as well as in the current reports published by Company, the ownership structure of the holding company's issued share capital as at 31 December 2016 was as follows:

	Number of shares	Number of votes	Par value of shares	% of issued share capital
Dom Development B.V.	14 726 172	14 726 172	1,00	59,42%
Jarosław Szanajca	1 454 050	1 454 050	1,00	5,87%
Aviva Powszechnie Towarzystwo Emerytalne				
Aviva BZ WBK S.A.	1 313 383	1 313 383	1,00	5,30%
Grzegorz Kielpsz	1 280 750	1 280 750	1,00	5,17%
Pozostali akcjonariusze	6 008 237	6 008 237	1,00	24,24%
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Total	24 782 592	24 782 592	-	100,00%
	=====	=====	=====	=====

According to information included in the Entrepreneurs Register of National Court Register as at 27 February 2017, the share capital of the holding company amounted to 24 868 thousand zlotys. In

current financial year and as the date of this opinion the following changes have taken place in the structure of the share capital of the holding Company:

On 21 March 2016 the Management Board of Dom Development S.A. adopted a resolution to increase the share capital by issuing 10 320 U series ordinary shares and 1 000 V series ordinary shares as a part of the authorised capital from the amount of 24 771 thousand zlotys up to 24 782 thousand zlotys, that is by 11 thousand zlotys. The U and V series shares were issued in private placement addressed to participants in Management Share Option Programme II. These shares were registered by the District Court for the capital city of Warsaw in Warsaw, 12th Commercial Division of the National Court Register on 17 May 2016.

On 5 December 2016 the Management Board of Dom Development S.A. adopted a resolution to increase the share capital by issuing 85 830 W series ordinary shares as a part of the authorised capital from the amount of 24 782 thousand zlotys up to 24 868 thousand zlotys, that is by 86 thousand zlotys. The W series shares were issued in private placement addressed to participants in Management Share Option Programme II. These shares were registered by the District Court for the capital city of Warsaw in Warsaw, 12th Commercial Division of the National Court Register on 10 January 2017.

Movements in the issued share capital of the holding company in the financial year were as follows:

	Number of shares (in thousand)	Par value of shares (in thousand)
Opening balance	24 771	24 771
Increase in share capital	11	11
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Closing balance	24 782	24 782
	=====	=====

As at 27 February 2017, the holding company's Management Board was composed of:

Jarosław Szanajca	- President
Janusz Zalewski	- Vicepresident
Małgorzata Kolarska	- Vicepresident
Janusz Stolarczyk	- Member
Terry Roydon	- Member

There were no changes in the holding company's Management Board composition during the reporting period as well as from the balance sheet date to the date of the opinion.

## **2. Group Structure**

As at 31 December 2016, the Dom Development S.A. Group consisted of the following subsidiaries (direct or indirect):

Entity name	Consolidation method	Type of opinion	Name of authorised entity that audited financial statements	Balance sheet date
Dom Development Morskie Oko Sp. z o.o. w likwidacji	Full consolidation	Not audited until the date of the report		31 December 2016
Dom Development Grunty Sp. z o.o.	Full consolidation	Not audited until the date of the report		31 December 2016
Fort Mokotów Inwestycje sp. z o.o. w likwidacji	Full consolidation	Not audited until the date of the report		31 December 2016
Dom Development Wrocław sp. z o.o. (formerly Vratislavia Dom Development sp. z o.o.)	Full consolidation	Not audited until the date of the report		31 December 2016

As at 31 December 2016 shares in the following associates (direct and indirect) were recognised in the Group's consolidated financial statements using the equity method:

Name and registered office	Type of activity
Fort Mokotów Sp. z o.o. w likwidacji	Execution of construction projects

Details of the type and impact of changes in entities included in the consolidation as compared to the prior year may be found in Note 7.1 of the additional notes ("the additional notes and explanations") to the consolidated financial statements of the Group for the year ended 31 December 2016.

## **3. Consolidated Financial Statements**

### **3.1 Auditors' opinion and audit of consolidated financial statements**

Ernst & Young Audyt Polska spółka z ograniczoną odpowiedzialnością sp. k. with its registered office in Warsaw, at Rondo ONZ 1, is registered on the list of entities authorised to audit financial statements under no. 130.

Ernst & Young Audyt Polska spółka z ograniczoną odpowiedzialnością sp. k. was appointed by the Supervisory Board on 21 March 2016 to audit the Group's financial statements.

Ernst & Young Audyt Polska spółka z ograniczoną odpowiedzialnością sp. k. and the key certified auditor in charge of the audit meet the conditions required to express an impartial and independent opinion on the financial statements, as defined in Art. 56.3 and 56.4 of the Act on statutory auditors and their self-governance, audit firms authorized to audit financial statements and public oversight, dated 7 May 2009.

Under the contract executed on 24 September 2012 and annexed on 1 June 2016 with the holding company's Management Board, we have audited the consolidated financial statements for the year ended 31 December 2016.

Our responsibility was to express an opinion on the consolidated financial statements based on our audit. The auditing procedures applied to the consolidated financial statements were designed to enable us to express an opinion on the consolidated financial statements taken as a whole. Our procedures did not extend to supplementary information that does not have an impact on the consolidated financial statements taken as a whole.

Based on our audit, we issued an unqualified auditors' opinion dated 27 February 2017, stating the following:

**'To the General Shareholders Meeting and Supervisory Board of Dom Development S.A.'**

### **Report on the Audit of the Consolidated Financial Statements**

We have audited the accompanying consolidated financial statements for the year ended 31 December 2016 of Capital Group of Dom Development S.A. ('the Group'), with parent's company Dom Development S.A. ('the Company') registered office located in Warsaw, Plac Piłsudskiego 3 which comprise consolidated balance sheet as at 31 December 2016, consolidated income statement, consolidated statement of comprehensive income, consolidated cash flow statement and consolidated statement of changes in shareholder's equity for the period from 1 January 2016 to 31 December 2016 and additional notes to the financial statements ('the accompanying consolidated financial statements').

#### *Responsibilities of the Management Board and members of the supervisory board for the consolidated financial statements*

The Management Board is responsible in accordance with the Accounting Act dated 29 September 1994 ('the Accounting Act'), regulations issued on the basis of the Accounting Act for the preparation of the consolidated financial statements and fair presentation in accordance with International Accounting Standards, International Financial Reporting Standards and related Interpretations announced in the form of European Commission regulations ('International Financial Reporting Standards as adopted by European Union') and other applicable laws. The Management Board is also responsible for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

According to the Accounting Act the Management Board and members of the supervisory board are required to ensure that the consolidated financial statements meet the requirements of the Accounting Act.

#### *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements*

Our responsibility is to express an opinion on accompanying consolidated financial statements based on our audit.

We conducted our audit in accordance with chapter 7 of the Accounting Act and National Auditing Standards in the version of International Standards on Auditing as adopted by Resolution no 2783/52/2015 of the National Council of Statutory Auditors dated 10 February 2015 with subsequent

amendments ('National Auditing Standards'). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

In accordance with National Auditing Standard 320 point 5 the concept of materiality is applied by the auditor both in planning and performing the audit, and in evaluating the effect of identified misstatements on the audit and of uncorrected misstatements, if any, on the consolidated financial statements and in forming the opinion in the auditor's report. Hence all auditor's assertions and statements contained in the auditor's report, including those on other information or regulatory requirements, are made with the contemplation of the qualitative and quantitative materiality levels established in accordance with auditing standards and auditor's professional judgement.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### *Opinion*

In our opinion, the accompanying consolidated financial statements:

- give a true and fair view of the financial position of the Group as at 31 December 2016 and its financial performance and its cash flows for the period from 1 January 2016 to 31 December 2016 in accordance with International Financial Reporting Standards as adopted by European Union and accounting policies;
- are in respect of the form and content, in accordance with legal regulations governing the preparation of consolidated financial statements and the Company's Articles of Association.

## **Report on Other Legal and Regulatory Requirements**

### *Report on the Directors' Report of the Group*

Our opinion on the consolidated financial statements does not include the Directors' Report of the Group.

The Company's Management Board is responsible for preparation of the Directors' Report of the Group in accordance with the Accounting Act and other applicable laws. In addition the Company's Management Board and members of the supervisory board are obliged to state that the Directors' Report of the Group meet the requirements of the Accounting Act.

In connection with the audit of the consolidated financial statements, our responsibility was to read the content of the Directors' Report of the Group and consider whether the information contained in it take into account the provisions of art. 49 of the Accounting Act and the Decree of the Minister of Finance

dated 19 February 2009 on current and periodic information published by issuers of securities and conditions for recognition as equivalent the information required by laws of non-EU member states ('the Decree on current and periodic information') and whether they are consistent with the information contained in the accompanying consolidated financial statements. Our responsibility was also to report, based on our knowledge of the Group and its environment obtained during the audit of the consolidated financial statements, whether the Directors' Report does not include material misstatements.

We have concluded that the information included in the Directors' Report of the Group corresponds with the relevant regulations of art. 49 of the Accounting Act and the Decree on current and periodic information and that the information derived from the accompanying consolidated financial statements reconciles with the Directors' Report of the Group. Based on our knowledge of the Group and its environment obtained during the audit of the consolidated financial statements, we have not identified material misstatements in the Directors' Report of the Group.

In connection with the conducted audit of the consolidated financial statements, our responsibility was also to read the Company's representation on application of corporate governance which constitutes a separate part of the Directors' Report of the Group. We concluded that in the representation the Company included information required by implementing rules issued under art. 60 para. 2 of the Act of 29 July 2005 on public offering and on the terms of introducing financial instruments into an organised trading system and on public companies. This information is, in all material respects, in accordance with applicable regulations and with the information included in the accompanying consolidated financial statements.'

We conducted the audit of the consolidated financial statements during the period from 21 November 2016 to 27 February 2017. We were present at the holding company's head office from 21 November 2016 to 2 December 2016 and from 6 February 2017 to 24 February 2017.

### **3.2 Representations provided and data availability**

The Management Board of the holding company confirmed its responsibility for the truth and fairness<sup>1</sup> of the consolidated financial statements and the preparation of the financial statements in accordance with the required applicable accounting policies, and the correctness of consolidation documentation. The Board stated that it provided us with all balance sheets and income statements of the Group companies included in the consolidated financial statements, consolidation documentation and other required documents as well as all necessary explanations. We also obtained a written representation dated 27 February 2017, from the Management Board of the holding company confirming that:

- the information included in the consolidation documentation was complete;
- all contingent liabilities had been disclosed in the consolidated financial statements, and
- all material events from the balance sheet date to the date of the representation letter had been disclosed in the consolidated financial statements;

and confirmed that the information provided to us was true and fair to the best of the holding company Management Board's knowledge and belief, and included all events that could have had an effect on the consolidated financial statements.

At the same time declare that during the audit of the financial statements, there were no limitations of scope.

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<sup>1</sup> Translation of the following expression in Polish: "rzetelność i jasność"

### 3.3 Consolidated financial statements for prior financial year

The consolidated financial statements of the Group for the year ended 31 December 2015 were audited by Jarosław Dac, key certified auditor no. 10138, acting on behalf of Ernst & Young Audyt Polska spółka z ograniczoną odpowiedzialnością sp. k., the company entered on the list of entities authorized to audit financial statements conducted by the National Council of Statutory Auditors with the number 130. The key certified auditor issued an unqualified opinion on the consolidated financial statements for the year ended 31 December 2015.

The consolidated financial statements for the year ended 31 December 2016 were approved by the General Shareholders' Meeting on 2 June 2016.

The consolidated financial statements of the Group for the financial year ended 31 December 2015, together with the auditors' opinion, a copy of the resolution approving the consolidated financial statements and the Directors' Report, were filed on 13 June 2016 with the National Court Register.

## 4. Analytical Review

### 4.1 Basic data and financial ratios

Presented below are selected financial ratios indicating the economic or financial performance of the Company for the years 2014 – 2016. The ratios were calculated on the basis of financial information included in the financial statements for the years ended 31 December 2015 and 31 December 2016.

	<b>2016</b>	<b>2015</b>	<b>2014</b>
<b>Total assets</b>	1 977 292	1 752 953	1 606 257
<b>Shareholders' equity</b>	929 461	883 425	858 271
<b>Net profit/ loss</b>	125 783	80 792	55 935
<b>Return on assets (%)</b>	6.4%	4.6%	3.5%
$\frac{\text{Net profit} \times 100\%}{\text{Total assets}}$			
<b>Return on equity (%)</b>	14.2%	9.4%	6.5%
$\frac{\text{Net profit} \times 100\%}{\text{Shareholders' equity at the beginning of the period}}$			
<b>Profit margin (%)</b>	10.9%	8.9%	7.1%
$\frac{\text{Net profit} \times 100\%}{\text{Sales of finished goods, goods for resale and raw materials}}$			
<b>Liquidity I</b>	2.7	4.0	3.8
$\frac{\text{Current assets}}{\text{Short-term creditors}}$			



	<b>2016</b>	<b>2015</b>	<b>2014</b>
<b>Liquidity III</b>	0.6	0.5	0.8
Cash and cash equivalents			
Short-term creditors			
<b>Debtors days</b>	2 days	2 days	2 days
Trade debtors x 365			
Sales of finished goods, goods for resale and raw materials			
<b>Creditors days</b>	65 days	78 days	65 days
Trade creditors x 365			
Costs of finished goods, goods for resale and raw materials sold			
<b>Inventory days</b>	624 days	771 days	711 days
Inventory x 365			
Costs of finished goods, goods for resale and raw materials sold			
<b>Stability of financing (%)</b>	63.8%	75.5%	73.8%
(Equity + long-term provisions and liabilities) x 100%			
Total liabilities, provisions and equity			
<b>Debt ratio (%)</b>	53.0%	49.6%	46.6%
(Total liabilities and provisions) x 100%			
Total assets			
<b>Rate of inflation:</b>			
Yearly average	-0.6%	-0.9%	0.0%
December to December	0.8%	-0.5%	-1.0%

#### 4.2 Comments

The following trends may be observed based on the above financial ratios:

- return on asset ratio reached 6.4% in the year 2016 and was higher than in the year 2015 when it reached 4.6% and in 2014 when it reached 3.5%,
- return on equity ratio reached 14.2% in the year 2016 and was higher than in the year 2015 when it reached 9.4% and in 2014 when it reached 6.5%,
- profit margin ratio amounted to 10.9% in the year 2016 and was higher than in the year 2015 and 2014 when it reached 8.9% and 7.1% respectively,
- liquidity ratio I leveled at 2.7 as at the end of 2016, for comparison as at the end of 2015 and 2014 it leveled at 4.0 and 3.8 respectively,

- liquidity ratio III reached 0.6 as at the end of 2016 and was higher than as at the end of 2015 when it reached 0.5 and lower than in the year 2014 when it reached 0.8
- debtors days ratio reached 2 days in the year 2016, for comparison in the year 2015 and 2014 it also reached 2 days,
- creditors days ratio reached 65 days in the year 2016, for comparison in the year 2015 and 2014 it reached 78 days and 65 days respectively,
- inventory days ratio for the year 2016 leveled at 624 days, for comparison in the year 2015 and 2014 the ratio reached 771 days and 711 days respectively,
- stability of financing ratio amounted to 63.8% as at 31 December 2016 and was lower than as at the end of 2015 when it amounted to 75.5% and lower than as at the end of 2014 when it amounted to 73.8%,
- debt ratio as at the end of 2016 amounted to 53.0% and was higher than as at the end of 2015 when it reached 49.6% and higher than as at the end of 2014 when it reached 46.6%.

#### **4.3 Going concern**

Nothing came to our attention during the audit that caused us to believe that the holding company is unable to continue as a going concern for at least twelve months subsequent to 31 December 2016 as a result of an intended or compulsory withdrawal from or a substantial limitation in its current operations.

In Note 7.2 of the additional notes and explanations to the audited consolidated financial statements for the year ended 31 December 2016, the Management Board of the holding company has stated that the financial statements of the Group entities included in the consolidated financial statements were prepared on the assumption that these entities will continue as a going concern for a period of at least twelve months subsequent to 31 December 2016 and that there are no circumstances that would indicate a threat to its continued activity.

## **II. DETAILED REPORT**

### **1. Completeness and accuracy of consolidation documentation**

During the audit no material irregularities were noted in the consolidation documentation which could have a material effect on the audited consolidated financial statements, and which were not subsequently adjusted. These would include matters related to the requirements applicable to the consolidation documentation (and in particular eliminations relating to consolidation adjustments).

### **2. Accounting policies for the valuation of assets and liabilities**

The Group's accounting policies and rules for the presentation of data are detailed in note 7.4 of the additional notes and explanations to the Group's consolidated financial statements for the year ended 31 December 2016.

### **3. Structure of assets, liabilities and equity**

The structure of the Group's assets and equity and liabilities is presented in the audited consolidated financial statements for the year ended 31 December 2016.

The data disclosed in the consolidated financial statements reconcile with the consolidation documentation.

#### **3.1 Shareholders' funds including non-controlling interest**

The amount of shareholders' funds is consistent with the amount stated in the consolidation documentation and appropriate legal documentation. Non-controlling interest amounted to minus 46 thousand zlotys as at 31 December 2016. It was correctly calculated and is consistent with the consolidation documentation.

Information on shareholders' funds has been presented in note 7.16 of the additional notes and explanations to the consolidated financial statements.

#### **3.2 Financial year**

The financial statements of all Group companies, except for Fort Mokotów Inwestycje sp. z o.o. w likwidacji, forming the basis for the preparation of the consolidated financial statements were prepared as at 31 December 2016 and include the financial data for the period from 1 January 2016 to 31 December 2016.

## **4. Consolidation adjustments**

### **4.1 Elimination of inter-company balances (receivables and liabilities) and inter-company transactions (revenues and expenses) of consolidated entities.**

All eliminations of inter-company balances (receivables and liabilities) and inter-company transactions (revenues and expenses) of the consolidated companies reconcile with the consolidation documentation.

### **4.2 Elimination of unrealised gains/losses of the consolidated companies, included in the value of assets, as well as relating to dividends**

All eliminations of unrealised gains/losses of the consolidated companies, included in the value of assets, as well as relating to dividends reconcile with the consolidation documentation.

**5. Disposal of all or part of shares in a subordinated entity**

During the financial year the Group did not sell any shares in subordinated entities.

**6. Items which have an impact on the Group's result for the year**

Details of the items which have an impact on the Group's result for the year have been included in the audited consolidated financial statements for the year ended 31 December 2016.

**7. The appropriateness of the departures from the consolidation methods and application of the equity accounting as defined in International Financial Reporting Standards as adopted by the EU**

During the process of preparation of the consolidated financial statements there were no departures from the consolidation methods or application of the equity accounting that would have resulted in the modifications in the auditors' opinion.

**8. Additional Notes and Explanations to the Consolidated Financial Statements**

The additional notes and explanations to the consolidated financial statements for the year ended 31 December 2016 were prepared, in all material respects, in accordance with International Financial Reporting Standards as adopted by the EU.

**9. Directors' Report**

We have read the 'Directors' Report for the period from 1 January 2016 to 31 December 2016 and the rules of preparation of annual statements' ('the Directors' Report') and concluded that the information contained in it take into account the provisions of 49 para 2 of the Accounting Act and the Decree of the Minister of Finance dated 19 February 2009 on current and periodic information published by issuers of securities and conditions for recognition as equivalent the information required by laws of non-EU member states and they are consistent with the information contained in the accompanying financial statements. We have also concluded, based on our knowledge of the Company and its environment obtained during the audit of the financial statements, that the Directors' Report does not include material misstatements. We have read also the Company's representation on application of corporate governance which constitutes a separate part of the Directors' Report of the Capital Group. We concluded that in the representation the Company included information required by implementing rules issued under art. 60 para. 2 of the Act of 29 July 2005 on public offering and on the terms of introducing financial instruments into an organised trading system and on public companies. This information is, in all material respects, in accordance with applicable regulations and with the information included in the consolidated financial statements.

## **10. Conformity with Law and Regulations**

We have obtained a letter of representations from the Management Board of the holding company confirming that no laws, regulations or provisions of the Group entities' Articles of Association were breached during the financial year.

Warsaw, 27 February 2017

Key Certified Auditor

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Jarosław Dac  
Certified Auditor  
No. 10138

on behalf of  
Ernst & Young Audyt Polska spółka  
z ograniczoną odpowiedzialnością sp. k.  
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