# REPORT BY THE SUPERVISORY BOARD OF DOM DEVELOPMENT S.A.

## ON THE ASSESSMENT OF:

- **FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013,**
- **MANAGEMENT BOARD'S REPORT OF ACTIVITIES OF DOM DEVELOPMENT S.A. IN 2013,**
- **CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013,**
- **MANAGEMENT BOARD'S REPORT OF ACTIVITIES OF DOM DEVELOPMENT S.A. CAPITAL GROUP IN 2013**

**for the period**
**from 1 January 2013 until 31 December 2013**

**CONTENTS**

## 1. ASSESSMENT OF THE FINANCIAL STATEMENTS AND MANAGEMENT BOARD'S REPORT OF ACTIVITIES

### 1.1. SCOPE OF THE ASSESSMENT

The Supervisory Board of Dom Development S.A. with its registered office in Warsaw examined and assessed:

a) Financial statements for the year ended 31 December 2013

The financial statements for the year ended on 31 December 2013 prepared in accordance with International Financial Reporting Standards (IFRS), of Dom Development S.A. with its registered office at Pl. Piłsudskiego 3 in Warsaw ("**Company**"), consist of:

- balance sheet prepared as at 31 December 2013 with the balance of assets and liabilities in the amount of PLN **1 725 809** thousand;
- income statement for the period from 1 January 2013 to 31 December 2013 with a net profit of PLN **54 352** thousand;
- statement of comprehensive income for the period from 1 January 2013 to 31 December 2013 with a comprehensive income of PLN **54 388** thousand;
- statement of changes in shareholders' equity in the period from 1 January 2013 to 31 December 2013 with the PLN **36 048** thousand decrease in shareholders' equity;
- cash flow statement for the period from 1 January 2013 to 31 December 2013 with PLN **148 262** thousand net cash and cash equivalents increase;
- additional notes to the financial statements.

b) Management Board's report of activities of Dom Development S.A. in 2013

c) consolidated financial statements of Dom Development S.A. Capital Group for the year ended on 31 December 2013

The consolidated financial statements for the year ended on 31 December 2013 prepared in accordance with International Financial Reporting Standards (IFRS), of Dom Development S.A. Capital Group, where Dom Development S.A. with its registered office at pl. Piłsudskiego 3 in Warsaw is the parent company, consist of:

- consolidated balance sheet prepared as at 31 December 2013 with the balance of assets and liabilities in the amount of PLN **1 728 894** thousand;
- consolidated income statement for the period from 1 January 2013 until 31 December 2013 with a net profit of PLN **54 540** thousand;
- consolidated statement of comprehensive income for the period from 1 January 2013 to 31 December 2013 with a net comprehensive income of PLN **54 576** thousand;
- consolidated statement of changes in shareholders' equity in the period from 1 January 2013 to 31 December 2013 with the PLN **35 860** thousand decrease in shareholders' equity;
- consolidated cash flow statement for the period from 1 January 2013 to 31 December 2013 with PLN **146 332** thousand net cash and cash equivalents increase;
- additional notes to the financial statements.

d) Management Board's Report of activities of Dom Development S.A. Capital Group in 2013.

## 1.2. Financial statements audit

The financial statements and the consolidated financial statements for the year ended on 31 December 2013 were audited on the basis of an agreement between Dom Development S.A. and Ernst & Young Audyt Polska Spółka z ograniczoną odpowiedzialnością spółka komandytowa (*limited partnership*) with its registered office in Warsaw at RONDO ONZ 1, listed by the National Council of Statutory Auditors under number 130. The selection of certified auditor was approved by resolution no. 03/03/13 adopted on 22 March 2013 by the Supervisory Board of Dom Development S.A.

The audit was carried out by the Certified Auditor in accordance with:

a) Chapter 7 of the Polish Accounting Act dated 24 September 1994 (Journal of Laws of 2013 item 330, as amended),

b) national auditing standards issued by the National Council of Statutory Auditors in Poland.

The Supervisory Board assessed the following statements and reports submitted by the Management Board:

- Financial statements for the year ended on 31 December 2013
- Management Board's report of activities of Dom Development S.A. in 2013
- Consolidated financial statements of Dom Development S.A. Capital Group for the year ended on 31 December 2013
- Management Board's Report of activities of Dom Development S.A. Capital Group in 2013.

and came to the conclusion, sharing the opinion of the Certified Auditor, that the information contained therein is consistent with the accounting books and documents as well as factual circumstances.

## 1.3. Assessment by the Supervisory Board

In the opinion of the Supervisory Board:

a) The financial statements for the year ended on 31 December 2013:

   - give a true and fair view of the assets and financial position of Dom Development S.A. as at 31 December 2013, as well as its financial result for the period from 1 January 2013 to 31 December 2013;
   - have been prepared in accordance with International Financial Reporting Standards as adopted by the EU;
   - are consistent with the laws and regulations regulating the preparation of financial statements and affecting the presentation and content of the financial statements;

b) The Management Board's report of activities of Dom Development S.A. in 2013:

   - is complete in the meaning of art. 49 par. 2. of the Accounting Act and the Regulation by the Minister of Finance dated 19 February 2009 on the current and periodic submissions by securities issuers and the terms of confirming equivalency of information required under the regulations of a non-Member State (Journal of Laws of 2009 No. 33 item 259 as amended). The information contained in the Management Board's report of activities of the Company, which is taken from the audited financial statements, is consistent with them;

c) The consolidated financial statements of Dom Development S.A. Capital Group for the year ended on 31 December 2013:

- give a true and fair view of the assets and financial position of Dom Development S.A. Capital Group as at 31 December 2013, as well as its financial result for the period from 1 January 2013 to 31 December 2013;
- have been prepared in accordance with International Financial Reporting Standards as adopted by the EU;
- are consistent with the laws and regulations regulating the preparation of consolidated financial statements and affecting the presentation and content of the financial statements;

d) The Management Board's Report of activities of Dom Development S.A. Capital Group in 2013:

- is complete in the meaning of art. 49 par. 2. of the Accounting Act and the Regulation by the Minister of Finance dated 19 February 2009 on the current and periodic submissions by securities issuers and the terms of confirming equivalency of information required under the regulations of a non-Member State (Journal of Laws of 2009 No. 33 item 259 as amended). The information contained in the Management Board's report of activities of the Dom Development S.A. Capital Group, which is taken from the audited consolidated financial statements, is consistent with them.

## 2. ASSESSMENT OF THE POSITION OF THE COMPANY BASED ON THE FINANCIAL STATEMENTS OF DOM DEVELOPMENT S.A. FOR THE YEAR ENDED 31 DECEMBER 2013 AND THE MANAGEMENT BOARD'S REPORT OF ACTIVITIES OF DOM DEVELOPMENT S.A. IN 2013

### 2.1. Certified Auditor's opinion on the financial statements of Dom Development S.A. for the financial year ended 31 December 2013

The Supervisory Board is pleased to note that the independent certified auditor issued an unqualified opinion on the financial statements of Dom Development S.A. for the financial year ended 31 December 2013.

### 2.2. The shareholders of Dom Development S.A. who held, both directly or indirectly through subsidiaries, at least 5% of the overall number of votes at the General Shareholders Meeting as at 31 December 2013

As at 31 December 2013 the parent company Dom Development S.A. was controlled by Dom Development B.V. which held 59.49% of the Company's shares.

The table below shows the list of shareholders who have, directly or indirectly through subsidiaries, significant shareholdings as at 31 December 2013.

| | Balance as at 31 December 2013 | | | |
|---|---|---|---|---|
| | **Shares** | **% of capital** | **Number of votes at the GSM** | **% of votes at the GSM** |
| Dom Development B.V. | 14 726 172 | 59.49 | 14 726 172 | 59.49 |
| Jarosław Szanajca | 1 534 050 | 6.20 | 1 534 050 | 6.20 |
| Aviva Powszechne Towarzystwo Emerytalne Aviva BZ WBK SA *) | 1 313 383 | 5.31 | 1 313 383 | 5.31 |
| Grzegorz Kiełpsz | 1 280 750 | 5.17 | 1 280 750 | 5.17 |

*) Shareholding of Aviva Powszechne Towarzystwo Emerytalne (*General Pension Society*) Aviva BZ WBK S.A. ("Society") has been presented as per the latest notice as of 11.07.2011 received by the Company from the Society.

## 2.3. Evaluation of basic economic and financial figures disclosed in the annual financial statements of Dom Development S.A. for 2013

### 2.3.1 Balance sheet

Structure of the Company's assets as at 31 December 2013, and movements since the end of 2012.

| **ASSETS** | **31.12.2013 in thousand PLN** | **Share in assets** | **31.12.2012 in thousand PLN** | **Change 2013/2012** |
|---|---|---|---|---|
| **Total fixed assets** | **7 557** | **<1%** | **8 604** | **(12)%** |
| **Current assets** | | | | |
| Inventory | 1 344 296 | 78% | 1 305 568 | 3% |
| Trade and other receivables | 43 421 | 3% | 27 993 | 55% |
| Other current assets | 4 071 | <1% | 7 217 | (44)% |
| Cash and cash equivalents and Short-term financial assets | 326 464 | 19% | 407 814 | (20)% |
| **Total current assets** | **1 718 252** | **100%** | **1 748 592** | **(2)%** |
| **Total assets** | **1 725 809** | **100%** | **1 757 196** | **(2)%** |

Structure of the Company's shareholders' equity and liabilities as at 31 December 2013, and movements since the end of 2012.

| **EQUITY AND LIABILITIES** | **31.12.2013 in thousand PLN** | **Share in equity and liabilities** | **31.12.2012 in thousand PLN** | **Change 2013/2012** |
|---|---|---|---|---|
| **Shareholders' equity** | | | | |
| Share capital | 24 753 | 1% | 24 715 | <1% |
| Share premium less treasury shares | 234 283 | 14% | 233 733 | <1% |
| Reserve and supplementary capitals, and accumulated unappropriated pro | 597 474 | 35% | **634 110** | (6)% |
| **Total shareholders' equity** | **856 510** | **50%** | **892 558** | **(4)%** |
| **Liabilities** | | | | |
| Total long-term liabilities | 486 065 | 28% | **450 958** | 8% |
| Total short-term liabilities | 383 234 | 22% | **413 680** | (7)% |
| **Total liabilities** | **869 299** | **50%** | **864 638** | **<1%** |
| **Total equity and liabilities** | **1 725 809** | **100%** | **1 757 196** | **(2)%** |

### 2.3.2 Income statement

Income statement of the Company for the year ended 31 December 2013 compared to 2012.

| | 01.01--31.12.2013 | sale % | 01.01--31.12.2012 | Change 2013/2012 |
|---|---|---|---|---|
| Sales revenue | 676 387 | 100% | 851 591 | (21)% |
| Cost of sales | 519 316 | 77% | 647 535 | (20)% |
| Gross profit on sales | 157 071 | 23% | 204 056 | (23)% |
| Operating profit | 73 042 | 11% | 114 022 | (36)% |
| Profit before tax | 69 451 | 10% | 113 486 | (39)% |
| **Net profit** | **54 352** | **8%** | **91 207** | **(40)%** |
| **Earnings per share (in PLN)** | 2.20 | | 3.70 | (41)% |

### 2.3.3 Cash flow statement

| | (in thousand PLN) | | Change |
|---|---|---|---|
| | 2013 | 2012 | |
| Cash and cash equivalents – opening balance | **173 045** | **376 833** | (54)% |
| Net cash flow from operating activities | **(7 103)** | **126 029** | na. |
| Net cash flow from investing activities | **231 825** | **(238 026)** | na. |
| Net cash flows from financing activities | **(76 460)** | **(91 791)** | na. |
| Cash and cash equivalents – closing balance | **321 307** | **173 045** | 86% |

2013 opened with a cash and cash equivalents balance of PLN 173 045 thousand and closed with a balance of PLN 321 307 thousand. As such, in the period between 1 January 2013 and 31 December 2013, the balance of cash and cash equivalents increased by PLN 148 262 thousand. The increase in cash mostly resulted from the maturing, during the year, of bank deposits with maturity exceeding three months (in the amount of PLN 233 863 thousand) and their reclassification from 'short-term financial assets' to 'cash and cash equivalents'. The movement is shown through the cash flow statement as presented as 'cash from investing activities'.

In 2013, the Company recorded a net cash outflow from operating activities amounting to PLN 7 103 thousand. This is a result of balanced operating activities in 2013 where, in addition to generating significant revenue from the sale of apartments in new investments and the sale of finished apartments, the Company also started numerous new development projects. At the same time, the Company spent significantly more purchasing land for its future projects in 2013 than it did in 2012.

In 2013, the Company disclosed a net inflow of cash from investing activities amounting to PLN 231 825 thousand. This relates mostly to the presentation of closed bank deposits with a maturity of over 3 months amounting to PLN 233 863 thousand as investment income.

In 2013, the Company recorded a net cash outflow resulting from financing activities amounting to PLN 76 460 thousand. The excess of financial outflow over inflow results from a combination of decreased balance of loans (net cash outflow of PLN 36 000 thousand), issuance of bonds (net cash inflow of PLN 50 000 thousand) and the dividend distributed by the Company amounting to PLN 91 048 thousand. Meanwhile the Company received PLN 588 thousand from the issuance of ordinary shares in the Company as a result of the exercise of the share options by the participants in the Management Options Program II.

### 2.3.4 Profitability ratios

The ratios showing profitability of the Company in 2013 have slightly deteriorated compared to the previous year. This predominantly results from the fact that the average gross margin generated on products delivered in 2013 was lower than on products delivered in 2012. Moreover, a notable reduction in the number of deliveries in 2013 compared to 2012 (21%) resulted in a reduction in the operating profit and net profit.

| **PROFITABILITY RATIOS** | **2013** | **2012** |
|---|---|---|
| Operating profit margin<br>*EBITDA / net sales revenue* | 11.3% | 13.7% |
| Net profit margin<br>*Net profit / net sales revenue* | 8.0% | 10.7% |
| Return on assets (ROA)<br>*Net profit / total assets* | 3.1% | 5.2% |
| Return on equity (ROE)<br>*Net profit / shareholders' equity* | 6.3% | 10.2% |

### 2.3.5 Liquidity ratios

Special attention should be given to the fact that financial liquidity has been adequately secured.

All the liquidity ratios have remained very high in 2013 compared to 2012. This is due to a number of long-term decisions and actions taken by the Company's Management Board. These high ratios largely result from the relevant financing structure applied, with a policy of securing medium and longer term debt maturities. Liquidity is also impacted by decisions regarding the management of construction and financing of current investments (including decisions when to commence the construction of individual projects and concerning the product mix offered for sale), the purchase strategy of new properties and management of suitable employment levels and overheads.

The credibility of the Company in the financial market is high which is reflected by a diversified financing structure and by the willingness of banks as well as other financial institutions to grant new loans and other forms of long-term finance (such as bonds) to the Company.

| **LIQUIDITY RATIOS** | **2013** | **2012** |
|---|---|---|
| Current ratio<br>*current assets / short-term liabilities less deferred income* | 11.33 | 9.89 |
| Quick ratio<br>*current assets less inventory / short-term liabilities less deferred income* | 2.47 | 2.51 |
| Cash ratio<br>*cash and cash equivalents, and bank deposits with a maturity of over 3 months / short-term liabilities less deferred income* | 2.12 | 2.30 |

### 2.3.6 Leverage ratios

Appropriate operating policy (i.e. proper commencement and pace of projects as well as controlled purchases of land) and financing policy (the financing structure) maintained presented ratios at appropriate levels to support the business activity and maintain the Company's creditworthiness. The leverage ratios at the end of 2013 were comparable to these at the end of 2012.

| LEVERAGE RATIOS | 2013 | 2012 |
|---|---|---|
| Equity ratio<br>*shareholders' equity / total assets* | 49.6% | 50.8% |
| Liabilities to equity ratio<br>*total liabilities / shareholders' equity* | 101.5% | 96.9% |
| Liabilities to assets ratio<br>*total liabilities / total assets* | 50.4% | 49.2% |
| Interest bearing debt to equity ratio<br>*interest bearing liabilities (including accrued interest) / shareholders' equity* | 52.3% | 48.7% |
| Net interest bearing debt to equity ratio<br>*interest bearing liabilities (including accrued interest) less cash and cash equivalents, and bank deposits with a maturity of over 3 month / shareholders' equity* | 14.2% | 3.1% |

### 2.3.7 Summary and assessment

Based on the financial statements of Dom Development S.A. for the financial year 2013 and the Management Board's report of activities of the Company in the financial year 2013, the Supervisory Board is of the opinion that the year 2013 was a satisfactory year for Dom Development S.A in the context of a relatively challenging market.

In 2013, the Company's financial management was focused on seeking sources of long-term external financing for the projects under construction and on maintaining more-than-adequate levels of liquidity. The Management Board regularly analyses both the current financing structure and makes plans for the future optimum financing structure in order to achieve satisfactory financial ratios and financial results over the medium term, and at the same time, to ensure the liquidity and financial security of the Company.

After satisfactory results in 2013 in a challenging economic environment, 2014 has the potential to be a better year for the real estate development industry and for the economy as a whole. The residential real estate market will be impacted mostly by macroeconomic factors, such as interest rate policy. The major responsibility of the Management Board is not only to ensure that the Company is prepared to react quickly to new challenges but most of all to maintain a leading position in an improving residential market, absent any major shocks. The major steps undertaken in this respect include:

- ensuring that adequate sources of finance are available to the Company, both for current and future development projects;
- co-operation with banks, and assisting customers in obtaining mortgages for the purchase of apartments;
- adjusting the Company's sales offer to the market demand, with particular attention to utilising any potential government-subsidised programmes that support purchases of apartments;
- aligning land purchases to the Company's existing and future needs;
- utilising the existing land bank in the most appropriate manner;
- generating sales by improving the sales and marketing processes;
- maintaining customer confidence in the 'Dom Development' brand by maintaining quality,
- restructuring the organization and employment levels to the anticipated level of operational activities;
- optimising overhead efficiency.

In 2013, the activities of the Company generated a positive result at each level of the income statement.

Having analysed the financial statements for 2013 and the Management Board's report of activities of the Company in 2013, the Supervisory Board shares the opinion of the Management Board as to the strong financial position of Dom Development S.A. at the end of 2013 that provides solid foundations for the continuing development of the Company.

This opinion is based on both, the analysis of current operations and the financial standing of the Company, and the analysis of the Management Board's activities and effectiveness of these activities. It relates predominantly to the prompt, effective and professional reaction of the Management Board to rapid changes in the market where the Company has been operating in recent years. Further actions by the Management Board in 2013 are assessed likewise.

Over the years, the Company has developed an established position as the leader in the Warsaw residential market, gaining considerable experience in terms of execution of development projects as well as the sale and financing of these projects.

The Supervisory Board also appreciates the commitment of the Management Board of the Company in 2013 to the matters relating to the internal control and risk management systems of the Company.

## 3. ASSESSMENT OF THE POSITION OF THE DOM DEVELOPMENT S.A. CAPITAL GROUP BASED ON THE CONSOLIDATED FINANCIAL STATEMENTS OF DOM DEVELOPMENT S.A. CAPITAL GROUP FOR THE YEAR ENDED 31 DECEMBER 2013 AND THE MANAGEMENT BOARD'S REPORT OF ACTIVITIES OF DOM DEVELOPMENT S.A. CAPITAL GROUP IN 2013

### 3.1. Certified Auditor's opinion on the consolidated financial statements of the Group for the financial year ended 31 December 2013

The Supervisory Board is pleased to note that the independent certified auditor issued an unqualified opinion on the consolidated financial statements of Dom Development S.A. Capital Group for the financial year ended 31 December 2013.

### 3.2. The shareholders of Dom Development S.A. who held, both directly or indirectly through subsidiaries, at least 5% of the overall number of votes at the General Shareholders Meeting as at 31 December 2013

As at 31 December 2013 the Group was controlled by Dom Development B.V. which held 59.49% of the shares in Dom Development S.A.

The table below shows the list of shareholders who have, directly or indirectly through subsidiaries significant shareholdings as at 31 December 2013.

| | Balance as at 31 December 2013 | | | |
|---|---|---|---|---|
| | **Shares** | **% of capital** | **Number of votes at the GSM** | **% of votes at the GSM** |
| Dom Development B.V. | 14 726 172 | 59.49 | 14 726 172 | 59.49 |
| Jarosław Szanajca | 1 534 050 | 6.20 | 1 534 050 | 6.20 |
| Aviva Powszechne Towarzystwo Emerytalne Aviva BZ WBK SA *) | 1 313 383 | 5.31 | 1 313 383 | 5.31 |
| Grzegorz Kiełpsz | 1 280 750 | 5.17 | 1 280 750 | 5.17 |

*) Shareholding of Aviva Powszechne Towarzystwo Emerytalne (*General Pension Society*) Aviva BZ WBK S.A. ("Society") has been presented as per the latest notice as of 11.07.2011 received by the Company from the Society.

## 3.3. Evaluation of basic economic and financial figures disclosed in the annual financial statements of Dom Development S.A. Capital Group for 2013

### 3.3.1 Consolidated balance sheet

Structure of the Group's assets as at 31 December 2013, and movements since the end of 2012.

| ASSETS | 31.12.2013 in thousand PLN | Share in assets | 31.12.2012 in thousand PLN | Change 2013/2012 |
|---|---|---|---|---|
| **Total fixed assets** | **7 489** | **<1%** | **8 236** | **(9)%** |
| **Current assets** | | | | |
| Inventory | 1 346 599 | 78% | 1 305 568 | 3% |
| Trade and other receivables | 43 328 | 3% | 27 980 | 55% |
| Other current assets | 4 071 | <1% | 7 219 | (44)% |
| Cash and cash equivalents and Short-term financial assets | 327 407 | 19% | 410 687 | (20)% |
| **Total current assets** | **1 721 405** | **100%** | **1 751 454** | **(2)%** |
| **Total assets** | **1 728 894** | **100%** | **1 759 690** | **(2)%** |

Structure of the Group's shareholders' equity and liabilities as at 31 December 2013, and movements since the end of 2012.

| EQUITY AND LIABILITIES | 31.12.2013 in thousand PLN | Share in equity and liabilities | 31.12.2012 in thousand PLN | Change 2013/2012 |
|---|---|---|---|---|
| **Shareholders' equity** | | | | |
| Share capital | 24 753 | 1% | 24 715 | <1% |
| Share premium less treasury shares | 234 283 | 14% | 233 733 | <1% |
| Reserve and supplementary capitals, and accumulated unappropriated profit (loss) | 598 018 | 35% | 634 574 | (6)% |
| **Total shareholders' equity** | **857 054** | **50%** | **893 022** | **(4)%** |
| Non-controlling interests | (513) | <1% | (621) | (17)% |
| **Total shareholders' equity** | **856 541** | **50%** | **892 401** | **(4)%** |
| | | | | |
| **Liabilities** | | | | |
| Total long-term liabilities | 488 638 | 28% | 452 686 | 8% |
| Total short-term liabilities | 383 715 | 22% | 414 603 | (7)% |
| **Total liabilities** | **872 353** | **50%** | **867 289** | **<1%** |
| **Total equity and liabilities** | **1 728 894** | **100%** | **1 759 690** | **(2)%** |

### 3.3.2 Consolidated income statement

Consolidated income statement of the Group for the year ended 31 December 2013 compared to 2012.

| | 01.01 -31.12.2013 in thousand PLN | sale % | 01.01 -31.12.2012 in thousand PLN | Change 2013/2012 |
|---|---|---|---|---|
| Sales revenue | 676 377 | 100% | 851 413 | (21)% |
| Cost of sales | 519 316 | 77% | 647 435 | (20)% |
| Gross profit on sales | 157 061 | 23% | 203 978 | (23)% |
| Operating profit | 73 334 | 11% | 113 511 | (35)% |

| | | | | |
|---|---|---|---|---|
| Profit before tax | 69 693 | 10% | 113 512 | (39)% |
| **Net profit** | **54 540** | **8%** | **91 233** | **(40)%** |
| **Basic earnings per share (in PLN)** | 2.20 | | 3.70 | (41)% |

### 3.3.3 Consolidated cash flow statement

| | (in thousand PLN) | | Change |
|---|---|---|---|
| | 2013 | 2012 | |
| Cash and cash equivalents – opening balance | **175 918** | **380 247** | (54)% |
| Net cash flow from operating activities | **(8 674)** | **125 625** | na. |
| Net cash flow from investing activities | **231 466** | **(238 163)** | na. |
| Net cash flows from financing activities | **(76 460)** | **(91 791)** | na. |
| Cash and cash equivalents – closing balance | **322 250** | **175 918** | 83% |

2013 opened with a cash and cash equivalents balance of PLN 175 918 thousand and closed with a balance of PLN 322 250 thousand. As such, in the period between 1 January 2013 and 31 December 2013, the balance of cash and cash equivalents increased by PLN 146 332 thousand. The increase in cash mostly resulted from the maturing, during the year, of bank deposits with maturity exceeding three months (in the amount of PLN 233 863 thousand) and their reclassification from 'short-term financial assets' to 'cash and cash equivalents'. The movement is shown through the cash flow statement as presented as 'cash from investing activities'.
In 2013, the Group recorded a net cash outflow from operating activities amounting to PLN 8 674 thousand. This is a result of balanced operating activities in 2013 where, in addition to generating significant revenue from the sale of apartments in new investments and the sale of finished apartments, the Group also started numerous new development projects. At the same time, the Group spent significantly more purchasing land for its future projects in 2013 than it did in 2012.

In 2013, the Group disclosed a net inflow of cash from investing activities amounting to PLN 231 466 thousand. This relates mostly to the presentation of closed bank deposits with a maturity of over 3 months amounting to PLN 233 863 thousand as investment income.

In 2013, the Group recorded a net cash outflow resulting from financing activities amounting to PLN 76 460 thousand. The excess of financial outflow over inflow results from a combination of decreased balance of loans (net cash outflow of PLN 36 000 thousand), issuance of bonds (net cash inflow of PLN 50 000 thousand) and the dividend distributed by the Company amounting to PLN 91 048 thousand. Meanwhile the Company received PLN 588 thousand from the issuance of ordinary shares in the Company as a result of the exercise of the share options by the participants in the Management Options Program II.

### 3.3.4 Profitability ratios

The ratios showing profitability by the Group in 2013 have slightly deteriorated compared to the previous year. This predominantly results from the fact that the average gross margin generated on products delivered in 2013 was lower than on products delivered in 2012. Moreover, a notable reduction in the number of deliveries in 2013 compared to 2012 (21%) resulted in a reduction in the operating profit and net profit.

| PROFITABILITY RATIOS | 2013 | 2012 |
|---|---|---|
| Operating profit margin<br>*EBITDA / net sales revenue* | 11.3% | 13.7% |
| Net profit margin | 8.1% | 10.7% |

| | | |
|---|---|---|
| *net profit / net sales revenue* | | |
| Return on assets (ROA)<br>*net profit / total assets* | 3.2% | 5.2% |
| Return on equity (ROE)<br>*net profit / shareholders' equity* | 6.4% | 10.2% |

### 3.3.5 Liquidity ratios

Special attention should be given to the fact that financial liquidity has been adequately secured.

All the liquidity ratios have remained very high in 2013 compared to 2012. This is due to a number of long-term decisions and actions taken by the Company's Management Board. These high ratios largely result from the relevant financing structure applied, with a policy of securing medium and longer term debt maturities. Liquidity is also impacted by decisions regarding the management of construction and financing of current investments (including decisions when to commence the construction of individual projects and concerning the product mix offered for sale), the purchase strategy of new properties and management of suitable employment levels and overheads.

The Management Board is of the opinion that the credibility of the Company and the Group in the financial market is high which is reflected by a diversified financing structure and by the willingness of banks as well as other financial institutions to grant new loans and other forms of long-term finance (such as bonds) to the Company.

| **LIQUIDITY RATIOS** | **2013** | **2012** |
|---|---|---|
| Current ratio<br>*current assets / short-term liabilities less deferred income* | 11.31 | 9.86 |
| Quick ratio<br>*current assets less inventory / short-term liabilities less deferred income* | 2.46 | 2.51 |
| Cash ratio<br>*cash and cash equivalents, and bank deposits with a maturity of over 3 months / short-term liabilities less deferred income* | 2.12 | 2.31 |

### 3.3.6 Leverage ratios

Appropriate operating policy (i.e. proper commencement and pace of projects as well as controlled purchases of land) and financing policy (the financing structure), maintained presented ratios at appropriate levels to support the business activity and maintain the Company's and Group's creditworthiness. The leverage ratios at the end of 2013 were comparable to these at the end of 2012.

| **LEVERAGE RATIOS** | **2013** | **2012** |
|---|---|---|
| Equity ratio<br>*shareholders' equity / total assets* | 49.5% | 50.7% |
| Liabilities to equity ratio<br>*total liabilities / shareholders' equity* | 101.8% | 97.2% |
| Liabilities to assets ratio<br>*total liabilities / total assets* | 50.5% | 49.3% |
| Interest bearing debt to equity ratio<br>*interest bearing liabilities (including accrued interest) / shareholders' equity* | 52.3% | 48.7% |
| Net interest bearing debt to equity ratio<br>*interest bearing liabilities (including accrued interest) less cash and cash equivalents, and bank deposits with a maturity of over 3 month / shareholders' equity* | 14.1% | 2.7% |

### 3.3.7 Summary and assessment

Based on the consolidated financial statements of the Group for the financial year 2013 and the Management Board's report of activities of the Group in the financial year 2013, the Supervisory Board is of the opinion that the year 2013 was a satisfactory year for Dom Development S.A. Capital Group.

In 2013, the Group's financial management was focused on seeking sources of long-term external financing for the projects under construction and on maintaining more-than-adequate levels of liquidity. The Management Board regularly analyses both the current financing structure and makes plans for the future optimum financing structure in order to achieve satisfactory financial ratios and financial results over medium term, and at the same time, to ensure the liquidity and financial security of the Group.

After satisfactory results in 2013 in a challenging economic environment, 2014 has the potential to be a better year for the real estate development industry and for the economy as a whole. The residential real estate market will be impacted mostly by macroeconomic factors, such as interest rate policy. The major responsibility of the Management Board is not only to ensure that the Group is prepared to react quickly to new challenges but most of all to maintain a leading position in an improving residential market, absent any major shocks. The major steps undertaken in this respect include:

- ensuring that adequate sources of finance are available to the Group, both for current and future development projects;
- co-operation with banks, and assisting customers in obtaining mortgages for the purchase of apartments;
- adjusting the Group's sales offer to the market demand, with particular attention to utilising any potential government-subsidised programmes that support purchases of apartments;
- aligning land purchases to the Group's existing and future needs;
- utilising the existing land bank in the most appropriate manner;
- generating sales by improving the sales and marketing processes;
- maintaining customer confidence in the 'Dom Development' brand by maintaining quality;
- restructuring the organization and employment levels to the anticipated level of operational activities;
- optimising overhead efficiency.

In 2013, the activities of the Group generated a positive result at each level of the income statement.

Having analysed the consolidated financial statements for 2013 and the Management Board's report of activities of the Group in 2013, the Supervisory Board shares the opinion of the Management Board as to the strong financial position of Dom Development S.A. Capital Group at the end of 2013 that provides solid foundations for the continuing development the Group.

This opinion is based on both, the analysis of current operations and the financial standing of the Group and the analysis of the Management Board's activities and effectiveness of these activities. It relates predominantly to the prompt, effective and professional reaction of the Management Board to rapid changes in the market where the Company has been operating in recent years. Further actions by the Management Board in 2013 are assessed likewise.

Over the years, the Group has developed an established position as the leader in the Warsaw residential market, gaining considerable experience in terms of execution of development projects as well as the sale and financing of these projects.

The Supervisory Board also appreciates the commitment of the Management Board of the Company in 2013 to the matters relating to the internal control and risk management systems in the Group.

## 4. EVALUATION OF THE MANAGEMENT BOARD'S PROPOSAL FOR THE APPROPRIATION OF PROFIT

On 27 February 2014, the Management Board of Dom Development S.A. adopted resolution no. 02/02/14 on the Management Board's proposal concerning the distribution of the Dom Development S.A. net profit for 2013 and the appropriation of a portion of the supplementary capital for payment of a dividend. According to this resolution the Management Board proposes that the aggregate amount of PLN **54 494 598.40** (in words: fifty four million four hundred and ninety four thousand five hundred and ninety eight Polish zlotys and forty groszes) be appropriated for payment of a dividend to the shareholders in Dom Development S.A. as follows:

- the Dom Development S.A. net profit for the year ended 31 December 2013 in the amount of PLN **54 352 343.33** (in words: fifty four million three hundred and fifty two thousand three hundred and forty three Polish zlotys and thirty three groszes); and
- a portion of the Dom Development S.A. supplementary capital being the profit carried forward in the amount of PLN **142 255.07** (in words: one hundred and forty two thousand two hundred and fifty five Polish zlotys and seven groszes),

that is PLN 2.20 (in words: two Polish zlotys and twenty groszes) per share.

The Supervisory Board gives its consent to the above proposal of the Management Board.

## 5. PROPOSALS TO THE GENERAL SHAREHOLDERS MEETING OF DOM DEVELOPMENT S.A.

Having examined the submitted statements and reports for the financial year 2013 and having familiarised itself with the opinion, report and clarifications by the auditor's representative and the Management Board of Dom Development S.A., the Supervisory Board issues a positive opinion on the following documents and recommends that the General Shareholders Meeting of Dom Development S.A. approves:

- Financial statements for the year ended on 31 December 2013;
- Management Board's report of activities of Dom Development S.A. in 2013;
- Consolidated financial statements of Dom Development S.A. Capital Group for the year ended on 31 December 2013;
- Management Board's Report of activities of Dom Development S.A. Capital Group in 2013,

and issues a positive opinion on the Management Board's proposal on the appropriation of profit for 2013 and on appropriation of a portion of the supplementary capital for payment of a dividend and recommends that the General Shareholders' Meeting adopts such resolution as proposed by the Management Board of Dom Development S.A. in resolution no. 02/02/14 dated 27 February 2014.