# DOM DEVELOPMENT S.A.

## CONSOLIDATED FINANCIAL STATEMENTS
## FOR THE YEAR ENDED

## 31 DECEMBER 2015

Prepared in accordance
with the International Financial Reporting Standards

## CONTENTS

## 1. APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS BY THE MANAGEMENT BOARD OF THE COMPANY

These consolidated financial statements for the year ended on 31 December 2015, comprising:

- consolidated balance sheet prepared as at 31 December 2015 with the balance of assets and liabilities in the amount of PLN 1 752 953 thousand;
- consolidated income statement for the period from 1 January 2015 to 31 December 2015 with a net profit of PLN 80 792 thousand;
- consolidated statement of comprehensive income for the period from 1 January 2015 to 31 December 2015 with a total net comprehensive income of PLN 80 784 thousand;
- consolidated statement of changes in shareholders' equity in the period from 1 January 2015 to 31 December 2015 with the balance of shareholders' equity in the amount of PLN 883 425 thousand as at 31 December 2015;
- consolidated cash flow statement for the period from 1 January 2015 to 31 December 2015 with the PLN 221 640 thousand net cash and cash equivalents as at 31 December 2015;
- additional notes to the consolidated financial statements.

were prepared and approved by the Management Board of the Company on 26 February 2015.

Jarosław Szanajca,
President of the Management Board

Janusz Zalewski,
Vice President of the Management Board

Małgorzata Kolarska,
Vice President of the Management Board

Janusz Stolarczyk,
Member of the Management Board

Terry R. Roydon,
Member of the Management Board

(all amounts in thousands PLN unless stated otherwise)

## 2. CONSOLIDATED BALANCE SHEET

| ASSETS | Note | 31.12.2015 | 31.12.2014 |
|---|---|---|---|
| **Fixed assets** | | | |
| Intangible assets | **7.6** | 3 504 | 2 593 |
| Tangible fixed assets | **7.7** | 7 032 | 6 286 |
| Investments in associates and jointly controlled entities | **7.9** | - | - |
| Long-term receivables | **7.10** | 1 523 | 1 626 |
| Other long-term assets | | 6 651 | 2 645 |
| **Total fixed assets** | | **18 710** | **13 150** |
| | | | |
| **Current assets** | | | |
| Inventory | **7.11** | 1 478 660 | 1 231 538 |
| Trade and other receivables | **7.12** | 27 528 | 5 541 |
| Other current assets | **7.13** | 2 668 | 3 224 |
| Short-term financial assets | **7.14** | 3 747 | 34 463 |
| Cash and cash equivalents | **7.15** | 221 640 | 318 341 |
| **Total current assets** | | **1 734 243** | **1 593 107** |
| **Total assets** | | **1 752 953** | **1 606 257** |

| EQUITY AND LIABILITIES | Note | 31.12.2015 | 31.12.2014 |
|---|---|---|---|
| **Shareholders’ equity** | | | |
| Share capital | **7.16** | 24 771 | 24 770 |
| Share premium | **7.17** | 234 534 | 234 520 |
| Other capital (supplementary capital) | | 517 466 | 517 379 |
| Reserve capital from valuation of share options | **7.44** | 25 126 | 25 126 |
| Reserve capital from valuation of cash flow hedges | | 82 | - |
| Reserve capital from reduction of share capital | | 510 | 510 |
| Unappropriated profit | | 81 115 | 56 212 |
| **Equity attributable to the shareholders of parent company** | | **883 604** | **858 517** |
| Non-controlling interests | | (179) | (246) |
| **Total shareholders' equity** | | **883 425** | **858 271** |
| | | | |
| **Liabilities** | | | |
| **Long-term liabilities** | | | |
| Loans, long-term portion | **7.20** | 100 000 | 98 000 |
| Bonds, long-term portion | **7.21** | 270 000 | 170 000 |
| Deferred tax provision | **7.23** | 20 064 | 9 673 |
| Long-term provisions | **7.24** | 11 354 | 12 303 |
| Other long-term liabilities | **7.25** | 30 729 | 27 672 |
| **Total long-term liabilities** | | **432 147** | **317 648** |
| | | | |
| **Short-term liabilities** | | | |
| Trade payables, tax and other liabilities | **7.26** | 190 523 | 139 799 |
| Loans, short-term portion | **7.20** | - | 26 000 |
| Bonds, short-term portion | **7.21** | - | 100 000 |
| Accrued interest on loans and bonds | **7.22** | 3 403 | 3 745 |
| Corporate income tax payables | | 1 183 | 164 |
| Short-term provisions | **7.27** | 7 262 | 9 054 |
| Deferred income | **7.28** | 235 010 | 151 576 |
| **Total short-term liabilities** | | **437 381** | **430 338** |
| **Total liabilities** | | **869 528** | **747 986** |
| **Total equity and liabilities** | | **1 752 953** | **1 606 257** |

(all amounts in thousands PLN unless stated otherwise)

## 3. CONSOLIDATED INCOME STATEMENT

| | Note | Year ended 31.12.2015 | Year ended 31.12.2014 |
|---|---|---|---|
| Sales revenue | **7.35** | 904 195 | 784 264 |
| Cost of sales | **7.36** | (700 248) | (632 215) |
| **Gross profit on sales** | | **203 947** | **152 049** |
| | | | |
| Selling costs | **7.36** | (45 645) | (39 797) |
| General administrative expenses | **7.36** | (49 058) | (47 370) |
| Other operating income | **7.38** | 3 710 | 15 024 |
| Other operating expenses | **7.39** | (10 495) | (10 887) |
| **Operating profit** | | **102 459** | **69 019** |
| | | | |
| Financial income | **7.40** | 1 983 | 5 672 |
| Financial costs | **7.41** | (3 829) | (5 257) |
| **Profit before tax** | | **100 613** | **69 434** |
| | | | |
| Income tax | **7.33** | (19 821) | (13 499) |
| **Net profit** | | **80 792** | **55 935** |
| | | | |
| **Net profit attributable to:** | | | |
| Shareholders of the parent company | | 80 725 | 55 668 |
| Non-controlling interests | | 67 | 267 |
| | | | |
| **Earnings per share:** | | | |
| Basic, from the profit for the period, attributable to parent company's shareholders (PLN) | **7.32** | **3.26** | **2.25** |
| Diluted, from the profit for the period, attributable to parent company's shareholders (PLN) | **7.32** | **3.25** | **2.25** |

(all amounts in thousands PLN unless stated otherwise)

## 4. CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

| | Year ended | |
|---|---|---|
| | **31.12.2015** | **31.12.2014** |
| **Net profit** | **80 792** | **55 935** |
| | | |
| **Other comprehensive income** | | |
| Net change to cash flow hedges | 101 | 27 |
| Income tax | (19) | (5) |
| **Other net comprehensive income** | **82** | **22** |
| **Total net comprehensive income** | **80 874** | **55 957** |
| | | |
| **Net comprehensive income attributable to:** | | |
| Shareholders of the parent company | 80 807 | 55 690 |
| Non-controlling interests | 67 | 267 |

(all amounts in thousands PLN unless stated otherwise)

## 5. CONSOLIDATED CASH FLOW STATEMENT

| | Note | Year ended 31.12.2015 | Year ended 31.12.2014 |
|---|---|---|---|
| **Cash flow from operating activities** | | | |
| Profit before tax | | **100 613** | **69 434** |
| Adjustments: | | | |
| Depreciation | | 4 409 | 3 259 |
| (Profit)/loss on foreign exchange differences | | 56 | (141) |
| (Profit)/loss on investments | | 232 | 428 |
| Interest cost/(income) | | 17 764 | 18 595 |
| Cost of the management option programmes | | - | 13 |
| Changes in the operating capital | | | |
| Changes in provisions | | (2 740) | 1 880 |
| Changes in inventory | | (251 496) | 111 542 |
| Changes in receivables | | (21 884) | 37 762 |
| Changes in short-term liabilities, excluding loans and bonds | | 54 473 | 4 013 |
| Changes in prepayments and deferred income | | 80 199 | (82 029) |
| Other adjustments | | (56) | 141 |
| **Cash flow generated from operating activities** | | **(18 430)** | **164 897** |
| Interest received | | 5 769 | 8 591 |
| Interest paid | | (18 938) | (23 417) |
| Income tax paid | | (8 430) | (13 128) |
| **Net cash flow from operating activities** | | **(40 029)** | **136 943** |
| | | | |
| **Cash flow from investing activities** | | | |
| Proceeds from the sale of intangible assets and tangible fixed assets | | 226 | 232 |
| Proceeds from borrowings granted | | - | - |
| Bank deposits with a maturity over three months (made and/or closed) | | 29 999 | (30 001) |
| Acquisition of intangible and tangible fixed assets | | (6 157) | (6 273) |
| Acquisition of financial assets | | (1 005) | (585) |
| **Net cash flow from investing activities** | | **23 063** | **(36 627)** |
| | | | |
| **Cash flows from financing activities** | | | |
| Proceeds from issue of shares (exercise of share options) | | - | 270 |
| Proceeds from contracted loans | **7.20** | 80 000 | 20 000 |
| Commercial papers issued | **7.21** | 100 000 | - |
| Repayment of loans and borrowings | **7.20** | (104 000) | (70 000) |
| Redemption of commercial papers | **7.21** | (100 000) | - |
| Dividends paid | **7.19** | (55 735) | (54 495) |
| Payment of financial lease liabilities | | - | - |
| **Net cash flow from financing activities** | | **(79 735)** | **(104 225)** |
| | | | |
| **Increase / (decrease) in net cash and cash equivalents** | | **(96 701)** | **(3 909)** |
| **Cash and cash equivalents – opening balance** | **7.15** | **318 341** | **322 250** |
| **Cash and cash equivalents – closing balance** | **7.15** | **221 640** | **318 341** |

(all amounts in thousands PLN unless stated otherwise)

## 6. CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

| | Share capital | Share premium less treasury shares | Other capital (supplementary capital) | Reserve capital: from reduction of share capital | Reserve capital: from valuation of cash flow hedges | Reserve capital: from valuation of share options | Accumulated unappropriated profit (loss) | Equity attributable to the shareholders of parent company | Non-controlling interests | Total shareholders' equity |
|---|---|---|---|---|---|---|---|---|---|---|
| **Balance as at 1 January 2015** | **24 770** | **234 520** | **517 379** | **510** | **0** | **25 126** | **56 212** | **858 517** | **(246)** | **858 271** |
| Share capital increase by exercising share options (note 7.16, 7.17) | 1 | 14 | - | - | - | - | - | **15** | - | **15** |
| Transfer of profit to supplementary capital | - | - | 87 | - | - | - | (87) | **-** | - | **-** |
| Payment of dividends to shareholders | - | - | - | - | - | - | (55 735) | **(55 735)** | - | **(55 735)** |
| Creation of reserve capital from the valuation of the share options | - | - | - | - | - | - | - | **-** | - | **-** |
| Net profit for the reporting period | - | - | - | - | - | - | 80 725 | **80 725** | 67 | **80 792** |
| Other net comprehensive income for the reporting period | - | - | - | - | 82 | - | - | **82** | - | **82** |
| **Balance as at 31 December 2015** | **24 771** | **234 534** | **517 466** | **510** | **82** | **25 126** | **81 115** | **883 604** | **(179)** | **883 425** |

| | Share capital | Share premium less treasury shares | Other capital (supplementary capital) | Reserve capital: from reduction of share capital | Reserve capital: from valuation of cash flow hedges | Reserve capital: from valuation of share options | Accumulated unappropriated profit (loss) | Equity attributable to the shareholders of parent company | Non-controlling interests | Total shareholders' equity |
|---|---|---|---|---|---|---|---|---|---|---|
| **Balance as at 1 January 2014** | **24 753** | **234 283** | **517 521** | **510** | **(22)** | **25 113** | **54 896** | **857 054** | **(513)** | **856 541** |
| Share capital increase by exercising share options (note 7.16, 7.17) | 17 | 237 | - | - | - | - | - | **254** | - | **254** |
| Transfer of profit to supplementary capital | - | - | (142) | - | - | - | 142 | **-** | - | **-** |
| Payment of dividends to shareholders | - | - | - | - | - | - | (54 494) | **(54 494)** | - | **(54 494)** |
| Creation of reserve capital from the valuation of the share options | - | - | - | - | - | 13 | - | **13** | - | **13** |
| Net profit for the reporting period | - | - | - | - | - | - | 55 668 | **55 668** | 267 | **55 935** |
| Other net comprehensive income for the reporting period | - | - | - | - | 22 | - | - | **22** | - | **22** |
| **Balance as at 31 December 2014** | **24 770** | **234 520** | **517 379** | **510** | **-** | **25 126** | **56 212** | **858 517** | **(246)** | **858 271** |

(all amounts in thousands PLN unless stated otherwise)

# 7. ADDITIONAL NOTES TO THE FINANCIAL STATEMENTS

## 7.1. General information about the parent company of the Dom Development S.A. Capital Group and the Group

### General information about the parent company of the Dom Development S.A. Capital Group

The parent company of Dom Development S.A. Capital Group ("the Group") is the public limited company Dom Development S.A. ("the Company" / "the parent company") with its registered office in Warsaw (00-078 Warsaw, Plac Piłsudskiego 3) entered into the National Court Register under number 0000031483, maintained by the District Court for the capital city of Warsaw, 12th Commercial Division of the National Court Register.

According to the Polish Classification of Business Activity the Company's scope of activity is the development of building projects – PKD 4110Z (NACE F41.1). The Group conducts its activities mainly in Warsaw and its vicinity, and Wrocław.

The Company is a majority-owned subsidiary of Dom Development B.V. with its registered office in the Netherlands. As at 31 December 2015 the parent company Dom Development S.A. was controlled by Dom Development B.V. which held 59.45% of the Company's shares.

### General information about the Group

The Group's structure and the parent company interest in the share capital of the entities comprising the Group as at 31 December 2015 is presented in the table below:

| Entity | Country of registration | % of the share capital held by the parent company | % of the votes held by the parent company | Consolidation method |
|---|---|---|---|---|
| **Subsidiaries** | | | | |
| Dom Development Morskie Oko sp. z o.o., under liquidation | Poland | 100% | 100% | full consolidation |
| Dom Development Grunty sp. z o.o. | Poland | 46% | 100% | full consolidation |
| **The Group has been also engaged in the joint venture:** | | | | |
| Fort Mokotów sp. z o.o., under liquidation | Poland | 49% | 49% | equity method |

The main area of activity of the Group is the construction and sale of residential real estate.

The main area of activity of Dom Development Grunty sp. z o.o., a subsidiary is purchase of real estate for development activities of the Group.

The liquidation of Fort Mokotów Sp. z o.o., under liquidation was commenced on 28 July 2008, having completed Marina Mokotów investment.

All companies operating within the Group conduct business activities in the territory of Poland under the Code of Commercial Companies and Partnerships and their term of operation is unlimited, except for Fort Mokotów sp. z o.o. and Dom Development Morskie Oko sp. z o.o., both under liquidation.

In the twelve-month period ended 31 December 2015 the Group did not discontinue any of its activities.

In the twelve-month period ended 31 December 2015 the Group did not make any material changes to its structure, including mergers, acquisitions or sale of the Group's entities, long-term investments, demergers, restructuring or discontinuation of activities.

## 7.2. Basis for the preparing of the consolidated financial statements

These consolidated financial statements have been prepared on a historical cost basis.

The consolidated financial statements have been prepared on the assumption that the companies operating within the Group will continue as a going concern in the foreseeable future. No circumstances that would indicate that there is a threat to the continued activity of the Group are known as at the date of the approval of these consolidated financial statements.

The functional currency of the parent company and other companies incorporated in these consolidated financial statements id Polish zloty PLN. These consolidated financial statements are stated in Polish zloty (PLN). Financial data included in the consolidated financial statements are expressed in thousands of PLN unless stated otherwise.

The principles of measurement of assets, liabilities and financial result presented in the additional information to the consolidated financial statements are consistent with the accounting principles adopted by the parent company.

## 7.3. Compliance statement

Polish law requires the Group to prepare its consolidated financial statements in accordance with the International Financial Accounting Standards (IFRS) adopted by the European Union (EU). Having considered the process of IFRS introduction that takes place in the EU and the activities of the Group, in the context of accounting policies applied by the Group there are no differences in IFRS that have been put into force and IFRS that have been endorsed by the EU for the financial year ended 31 December 2015.

These consolidated financial statements were prepared in accordance with all applicable IFRSs that have been adopted by the European Union.

IFRSs comprise standards and interpretations approved by the International Accounting Standards Board ("IASB") and the International Financial Reporting Interpretations Committee ("IFRIC").

Certain companies operating within the Group keep their books of accounts in accordance with accounting policies (principles) specified in the Accounting Act dated 29 September 1994 ("the Accounting Act") as amended and the regulations issued based on that Act ("Polish Accounting Standards"). The consolidated financial statements incorporate certain adjustments, not included in the books of account of such companies operating within the Group, which were made in order to align the financial statements to IFRS.

These consolidated financial statements are prepared based on the same accounting principles (policies) as for the consolidated financial statements of the Group for the year ended 31 December 2014, except for the following amendments to existing standards and new interpretations that are effective for annual periods beginning on 1 January 2015:

- Improvements resulting from IFRS reviews 2011-2013, including:
  - Amendments to IFRS 3 *Business Combinations*

    It is clarified in this amendment that not only joint ventures but also joint arrangements are not within the scope of IFRS 3. This exception applies only to the preparation of the financial statements for the joint arrangement. The amendments shall apply prospectively.
  - Amendments to IFRS 13 *Fair Value Measurement*

    It is clarified in this amendment that the portfolio exception applies not only to financial assets and financial liabilities but also to all contracts within the scope of IAS 39. The amendments shall apply prospectively.
- Amendments to IAS 40 *Investment Property*

  Description of ancillary services as specified in IAS 40 differentiates investment property from the owner-occupied property (i.e. from tangible fixed assets). The amendment shall apply prospectively, and it is clarified that IFRS 3, as opposed to ancillary service definition in IAS 40, is to be used to determine whether a transaction is the acquisition of an asset or an undertaking.

- IFRIC 21 *Levies*

  The interpretation clarifies that the obligating event for the recognition of a liability to pay a levy is the activity described in the relevant legislation that triggers the payment of the levy. If an obligation is triggered on reaching a minimum threshold, the liability is not recognised until that minimum threshold is reached. IFRIC 21 shall apply retrospectively.

The introduced amendments and new standards were scrutinized by the Group and they do not materially affect the Group's financial position, operating results or the scope of information presented in these consolidated financial statements.

The following standards and interpretations issued by the International Accounting Standards Board or the International Financial Reporting Interpretation Committee that have not come into force:

- IFRS 9 Financial Instruments (published on 24 July 2014) – not endorsed by the EU until the date of approval of these financial statements – effective for annual periods beginning on or after 1 January 2018,
- Amendments to IAS 19 Defined benefit plans: Employee Contributions (published on 21 November 2013) – effective for annual periods beginning on or after 1 July 2014; in the EU effective latest for annual periods beginning on or after 1 February 2015,
- Improvements resulting from IFRS reviews 2010-2012 (published on 12 December 2013) – some amendments are effective for annual periods beginning on or after 1 July 2014, and some prospectively for the transactions effected on or after 1 July 2014; in the EU effective latest for annual periods beginning on or after 1 February 2015,
- IFRS 14 Regulatory Deferral Accounts (published on 30 January 2014) – the European Commission decided not to propose an interim standard for endorsement before the final standard is released – not endorsed by the EU until the date of approval of these financial statements – effective for annual periods beginning on or after 1 January 2016,
- Amendments to IFRS 11 Accounting for Acquisitions of Interests in Joint Operations (published on 6 May 2014) – effective for annual periods beginning on or after 1 January 2016,
- Amendments do IAS 16 and IAS 38 Clarification of Acceptable Methods of Depreciation and Amortisation (published on 12 May 2014) – effective for annual periods beginning on or after 1 January 2016,
- IFRS 15 Revenue from Contracts with Customers (published on 28 May 2014) to include amendments to IFRS 15 Effective Date of IFRS 15 (published on 11 September 2015) – not endorsed by the EU until the date of approval of these financial statements – effective for annual periods beginning on or after 1 January 2018,
- Amendments to IAS 16 and IAS 41 Agriculture: Bearer Plants (published on 30 June 2014) – effective for annual periods beginning on or after 1 January 2016,
- Amendments to IAS 27 Equity Method in Separate Financial Statements (published on 12 August 2014) – effective for annual periods beginning on or after 1 January 2016,
- Amendments to IFRS 10 and IAS 28 Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (published on 11 September 2014) – have not been decided as to the time frame of individual stages of EFRAG endorsement of these amendments – not endorsed by the EU until the date of approval of these financial statements - effective date deferred indefinitely by IASB,
- Improvements resulting from IFRS reviews 2012-2014 (published on 25 September 2014) – effective for annual periods beginning on or after 1 January 2016,
- Amendments to IFRS 10, IFRS 12 and IAS 28 Investment Entities: Applying the Consolidation Exception (published on 18 December 2014) – effective for annual periods beginning on or after 1 January 2016 – not endorsed by the EU until the date of approval of these financial statements,
- Amendments to IAS 1 Disclosure Initiative (published on 18 December 2014) – effective for annual periods beginning on or after 1 January 2016,
- IFRS 16 Leases (published on 13 January 2016) - have not been decided as to the time frame of individual stages of EFRAG endorsement of these amendments – not endorsed by the EU until the date of approval of these financial statements – effective for annual periods beginning on or after 1 January 2019,
- Amendments to IAS 12 Recognition of deferred tax assets for unrealised losses (published on 19 January 2016) – not endorsed by the EU until the date of approval of these financial statements – effective for annual periods beginning on or after 1 January 2017,

- Amendments to IAS 7 Disclosure Initiative (published on 29 January 2016) – not endorsed by the EU until the date of approval of these financial statements – effective for annual periods beginning on or after 1 January 2017.

The Management Board is verifying effect of the above standards on the Group's financial position, operating results or the scope of information presented in the Company's financial statements.

## 7.4. Significant accounting policies

### Basis of consolidation

These consolidated financial statements comprise the financial statements of Dom Development S.A. and its subsidiaries prepared for the year ended 31 December 2015. The financial statements of the subsidiaries, after giving consideration to the adjustments made to achieve conformity with IFRS, are prepared for the same reporting period as those of the parent company, using consistent accounting policies, and based on the same accounting policies applied to similar business transactions and events. Adjustments are made to bring into line any dissimilar accounting policies that may exist.

All significant intercompany balances and transactions, including unrealised gains arising from intra-group transactions, have been eliminated in full. Unrealised losses are eliminated unless they indicate an impairment.

Subsidiaries are consolidated from the date on which control is transferred to the Group and cease to be consolidated from the date on which control is transferred out of the Group. Control is exercised by the parent company when the parent company holds, directly or indirectly, through its subsidiaries, more than half of the votes at the shareholders' meeting of that subsidiary, unless it is possible to prove that such holding does not represent control. Control is also exercised if the Company has the power to govern the financial or operating policy of a subsidiary.

Changes in the ownership interest of the parent company which do not result in the loss of control over a subsidiary are accounted for as equity transactions. In such cases, the Group adjusts the carrying value of the controlling interests and non-controlling interests in order to reflect the relative changes in the interests in the subsidiary. All differences between the value of the adjustment to the non-controlling interests and the fair value of the amount paid or received, are accounted for as the shareholders' equity and attributed to the owners of the parent company.

### Investments in associates and jointly controlled entities

Investment in associates and jointly controlled entities are accounted for using the equity method. Associates and jointly controlled entities are entities in which the parent company has, either directly or through its subsidiaries, significant influence and which are not its subsidiaries. The financial statements of the associates and jointly controlled entities are the basis for valuation of shares held by the parent company using the equity method. The reporting periods applied by the associates and the parent company are the same. These entities apply accounting policies as defined in the Accounting Act. Relevant adjustments are made to align financial data of the associates and jointly controlled entities with IFRS applied by the Group, before the share in their net assets is calculated. Investments in the associates and jointly controlled entities are disclosed in the balance sheet at cost plus post-purchase changes in the parent's share in the associates' and the entities' net assets, less any impairment losses. The consolidated income statement reflects the parent's share in the results of the associated and jointly controlled entities. A carrying value adjustment may also be required due to a change in proportion of the share in the associated or the jointly controlled entity, resulting from changes in other comprehensive income of this entity. The Group's share in these changes is disclosed in other comprehensive income of the Group.

Impairment assessment of the investment in associates and jointly controlled entities takes place when there are reasons indicating that such impairment occurred or when impairment write down made in the past years is no longer required.

### Tangible fixed assets

All tangible fixed assets are stated at purchase price less accumulated depreciation (except for land), less accumulated impairment write downs. Replacement cost of existing parts of a tangible fixed asset can be capitalised, if material. Depreciation is calculated on straight-line basis over the useful life of the asset. Depreciation rates for buildings and structures range from 2.5% to 4.5%, for vehicles the rate applied is 20% and for other fixed assets from 10% to 30%.

**Inventory**

*Finished goods*

Finished goods represent mainly housing units and parking places. They are valued at the lower of either the cost or net realizable value.

The net realisable value is the estimated sales price evaluated by the Management Board based on market prices.

*Work in progress*

Work in progress is valued at the lower of either the purchase price/cost of production or net realisable value. In case of discrepancies an impairment write down is made. For the Company's real estate development projects, assessment of the need for impairment write down is determined using the "inventory impairment test" described below based on the analysis of production costs and net realisable value.

*Inventory impairment test:*

If a construction project is expected to generate a loss, this entails a revaluation write down of work in progress (including the value of land), which is immediately recognised in the income statement.

For each real estate development project there are budgets prepared, which cover both, past and future cash flows for each undertaken project. These budgets are subject to revaluation at least once every three months. For the purposes of impairment review, budgets of projects cover all past and projected net revenues less direct costs of land acquisition, design, construction and other costs related to the preparation of a project, show-flats and sales offices on-site. These budgets are also encumbered with related past and projected costs of external financing and projected claims from customers (if applicable).

The budgets of projects are prepared in compliance with the prudence principle.

If a project contribution, calculated taking into account all revenues and the above-mentioned costs, is positive, there is no need to make an inventory impairment revaluation write down. A negative contribution implies that there is a potential problem of impairment, which, following a thorough analysis of cash flows for a given project, results in the recording of an impairment revaluation write down in the amount of the estimated negative value of this contribution.

The revaluation write down is recognized as the cost of sales in "Inventory write down to the net realisable value". The reversal, if any, of such an impairment write down for a given project is possible if the projected contribution for this project assumes a positive value.

If the project consists of several stages, the inventory impairment review is conducted in the following manner:

a) all future phases of the project are treated as a single project for the purposes of impairment review,
b) each phase of the project, in which sales and construction have already begun, is separated from the rest of the (construction) project and is considered separately for the purposes of impairment review.

**Costs of external financing**

Costs of external financing are disclosed as costs in the income statement in the period, in which they were incurred, except for capitalized costs, i.e. costs that may be assigned to costs of production of qualifying assets (in the case of the Group: to work-in-progress) as a part of their production costs.

The financial costs are capitalized into work-in-progress exclusively in the period, during which the real estate development project is active. The project is considered active if designing or construction work is underway for the acquired land and during the process of obtaining key administrative decisions necessary to run the project.

The financial costs cease to be capitalized upon completion of substantially all activities, which have to be undertaken in order to prepare flats for hand-over to customers.

The capitalization of financial costs is suspended in the case of suspension of activities connected with the project-related investment activity, including works related to design, the construction process and obtaining required permits and administrative decisions concerning the project.

### Trade and other receivables

Trade receivables are recognised and disclosed at original invoice amounts less provision for bad debts. Revaluation write down for doubtful debt is estimated when it is unlikely to collect the full amount of a receivable.

If the effect of the time value of money is material, the value of receivables is determined by discounting the estimated future cash flows to present value. Where discounting is used, any increase in the balance due to the passage of time is recognized as financial income.

### Bank deposits with a maturity over three months

Bank deposits with a maturity over three months (as of the date when they are made) are presented in "Short-term financial assets".

### Cash and cash equivalents

Cash and short-term deposits with the maturity of up to three months (when created) are disclosed in the balance sheet at a nominal value and comprise cash at banks, in hand and short-term deposits with an original maturity of three months or less. For the purpose of the cash flow statement, the balance of cash and cash equivalents consist of cash and cash equivalents as defined above less outstanding bank overdrafts.

### Interest-bearing loans, borrowings and commercial papers

All loans, borrowings and commercial papers are initially recognized at the fair value less transaction costs associated with the loans or borrowings.

After initial recognition, interest-bearing loans, borrowings and commercial papers are subsequently valued at amortised cost, using the effective interest rate method.

Amortised cost is calculated by taking into account any transaction costs for loan or borrowing, and any discount or premium related to raising the funds.

### Trade payables, tax and other liabilities

Short-term trade payables, and tax and other liabilities are disclosed at the amount due and payable.

If the effect of the time value of money is material (in particular it relates to the guarantee retentions), the value of payables is determined by discounting the estimated future cash flows to present value. Where discounting is used, any decrease in the balance due to the passage of time is recognized as financial cost.

### Provisions

Provisions are created when the companies operating within the Group have a present obligation (legal or constructive) as a result of a past event, and if it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The expense relating to any provision is disclosed in the income statement net of any reimbursement.

### Revenue recognition

Revenue is recognised to the extent that it is probable that the Group will achieve economic benefits from a given transaction and the revenue can be reliably measured. The following specific recognition criteria must be met before revenue is recognised:

*Sale of products*

The revenue from the sale of real estate (housing units, commercial space, etc.) – pursuant to the guidelines included in IFRIC 15 "Agreements for the Construction of Real Estate" - this revenue is recognised at the moment when control over the real estate is transferred to the buyer of said real estate together with the transfer of significant risks and rewards typical to the ownership rights. According to the Company's judgement this occurs at the moment of handover of the real estate to the buyer, which is based on a handover document signed by both parties and subject to the condition that the buyer has made 100% payment of the sale price for the real estate.

*Sale of services*

The revenue from the sale of services, including income from housing real estate administration fees, is recognized within the period, in which a service is provided.

### Foreign currency translation

The financial statements are presented in PLN, which is the Group's functional (for measurement) and presentation currency. Transactions in foreign currencies are initially recorded at the exchange rate of the functional currency at the date of the transaction. Pecuniary assets and liabilities in foreign currencies are translated at the exchange rate of the functional currency applicable on the balance sheet date. The exchange rate differences are recognised in the income statement as financial income/cost.

### Taxes

*Current tax*

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those applicable as at the balance sheet date.

*Deferred tax*

For financial reporting purposes, the deferred tax is calculated by the method of the balance sheet liabilities in relation to the timing differences as at the balance sheet date between the tax value of assets and liabilities and their carrying value recognized in the financial statements.

Deferred tax assets are recognised with regards to all negative timing differences, carry-forward of unused tax credits and unused tax losses to the extent that it is probable that the taxable profit will be available against which the deductible timing differences and the carry-forward of unused tax credits and unused tax losses, can be utilised.

The carrying value of a deferred tax asset is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be realised. An unrecognised deferred tax asset is reassessed at each balance sheet date and is recognised to the extent that it reflects the probability that future taxable profit will allow the deferred tax asset to be recovered.

The provision for deferred tax is created in the amount of the income tax that will be payable in future due to positive timing differences, i.e. the differences that will increase the taxable base in the future.

The assets and provisions for deferred tax are valued at the tax rates that are expected to be applicable to the year when the asset component is realised or the provision is released, assuming as the basis the tax rates (and tax regulations) that are legally or actually applicable as at the balance sheet date.

The income tax for the items recognised outside of the income statement is recognised outside of the income statement, that is in other comprehensive income for items recognised as other comprehensive income or directly in the shareholders' equity for items recognised as the shareholders' equity.

The assets and provisions for deferred tax are offset by the Group only if a legally enforceable right exists to offset the current tax assets against current tax liabilities and the deferred tax relates to the same taxable entity and the same taxation authority.

### Dividends

Dividends are recognised when the shareholders' rights to receive the payment are established.

### Earnings per share

Earnings per share for each reporting period is calculated as the quotient of the net profit for the given accounting period and the weighted average of shares in that period.

(all amounts in thousands PLN unless stated otherwise)

## 7.5. Key figures based on professional judgement and basis for estimates

In addition to the accounting estimations, when applying the accounting policies in relation to the issues described below, the most significant was the professional judgement and the assumptions made by the management.

### Budgets of the construction projects

The decision to purchase real estate (land) is based upon analysis, where the so called "purchase budget" is the major component. This budget is prepared to assess the future profitability of projects. The budgets for these construction projects are updated based on management's best knowledge and experience from when the real estate is purchased. The budgets for all construction projects are verified and updated when necessary, at least once every three months. Updated project budgets are the basis for:

- verification of their profitability and any potential inventory impairment write down,
- preparation of financial forecasts, annual budgets and medium term plans.

### Recognition of revenue from the sale of products

The revenue from the sale of real estate (housing units, commercial space, etc.) is recognised at the moment when control over the real estate is transferred to the buyer of said real estate together with the transfer of significant risks and rewards typical to the ownership rights. According to the Company's judgement this occurs at the moment of handover of the real estate to the buyer, which is based on a handover document signed by both parties and subject to the condition that the buyer has made 100% payment of the sale price for the real estate.

## 7.6. Intangible assets

| | Other intangible assets | Computer software | Total |
|---|---|---|---|
| **GROSS VALUE** | | | |
| **Balance as at 1 January 2014** | **1 977** | **3 147** | **5 124** |
| Additions | 1 764 | 1 010 | 2 774 |
| (Disposals) | - | - | - |
| **Balance as at 31 December 2014** | **3 741** | **4 157** | **7 898** |
| Additions | 2 343 | 688 | 3 031 |
| (Disposals) | (55) | (24) | (79) |
| **Balance as at 31 December 2015** | **6 029** | **4 821** | **10 850** |
| | | | |
| **DEPRECIATION** | | | |
| **Balance as at 1 January 2014** | **1 325** | **2 610** | **3 935** |
| Additions | 775 | 595 | 1 370 |
| (Disposals) | - | - | - |
| **Balance as at 31 December 2014** | **2 100** | **3 205** | **5 305** |
| Additions | 1 474 | 646 | 2 120 |
| (Disposals) | (55) | (24) | (79) |
| **Balance as at 31 December 2015** | **3 519** | **3 827** | **7 346** |
| | | | |
| **NET VALUE** | | | |
| as at 31 December 2014 | **1 641** | **952** | **2 593** |
| as at 31 December 2015 | **2 510** | **994** | **3 504** |

Intangible assets are depreciated throughout their estimated economic useful lives, which for computer software is 2-3 years on average. There are no intangible assets with an undefined useful life.

As at 31 December 2015 there were no circumstances that would require the Group to create revaluation write downs for its intangible assets.

(all amounts in thousands PLN unless stated otherwise)

The costs of depreciating intangible assets were disclosed in selling costs and general administrative expenses.

No collaterals have been established on intangible assets.

## 7.7. Tangible fixed assets

| TANGIBLE FIXED ASSETS | 31.12.2015 | 31.12.2014 |
|---|---|---|
| **Tangible fixed assets, including:** | | |
| - plants and equipment | 690 | 682 |
| - vehicles | 4 114 | 3 572 |
| - other tangible fixed assets | 2 227 | 2 032 |
| **Total tangible fixed assets** | **7 032** | **6 286** |

| TANGIBLE FIXED ASSETS | Land and buildings | Vehicles | Equipment and other tangible fixed assets | Total |
|---|---|---|---|---|
| **GROSS VALUE** | | | | |
| **Balance as at 1 January 2014** | **8** | **6 877** | **6 522** | **13 407** |
| Additions | - | 2 067 | 1 532 | 3 599 |
| (Disposals) | - | (1 565) | (235) | (1 800) |
| **Balance as at 31 December 2014** | **8** | **7 379** | **7 819** | **15 206** |
| Additions | - | 1 869 | 1 295 | 3 164 |
| (Disposals) | - | (1 191) | (606) | (1 797) |
| **Balance as at 31 December 2015** | **8** | **8 057** | **8 508** | **16 573** |
| | | | | |
| **ACCUMULATED DEPRECIATION** | | | | |
| **Balance as at 1 January 2014** | **8** | **4 311** | **4 398** | **8 717** |
| Additions | - | 975 | 894 | 1 869 |
| (Disposals) | - | (1 479) | (187) | (1 666) |
| **Balance as at 31 December 2014** | **8** | **3 807** | **5 105** | **8 920** |
| Additions | - | 1 265 | 1 023 | 2 288 |
| (Disposals) | - | (1 129) | (538) | (1 667) |
| **Balance as at 31 December 2015** | **8** | **3 943** | **5 590** | **9 541** |
| | | | | |
| **NET VALUE** | | | | |
| as at 31 December 2014 | - | **3 572** | **2 714** | **6 286** |
| as at 31 December 2015 | **-** | **4 114** | **2 918** | **7 032** |

The additions to tangible fixed assets are the result of tangible fixed assets purchased.

No collaterals have been established on fixed assets.

All tangible fixed assets were owned by the Company on the balance sheet date.

## 7.8. Lease

As at the balance sheet date companies operating within the Group are not a party (as a lessee) to lease agreements relating to fixed assets which are recorded in the books as financial lease.

The Company is a party to the lease agreement for office space and parking places for the purpose of its headquarters in Warsaw (operating lease). The agreement was entered into for a period of seven years and will expire on 15 November 2018. The rent is determined in Euro and is indexed on an annual basis by the Consumer Price Index.

(all amounts in thousands PLN unless stated otherwise)

## 7.9. Investment in the joint venture

The Company holds 49.00% of the share capital in Fort Mokotów sp. z o.o., under liquidation (a joint venture). The nominal value of the shares owned by the Company in the joint venture is PLN 1 960 thousand and equals the historical amount paid for the shares less the share revaluation write down, namely PLN 1 960 thousand as at 31 December 2015 and as at 31 December 2014.

## 7.10. Long-term receivables

As at 31 December 2015 and 31 December 2014, the Group disclosed long-term receivables in the amount of PLN 1 523 thousand and PLN 1 626 thousand respectively. As at 31 December 2015 the long-term receivables included refundable deposits in the amount of PLN 1 329 thousand and other long-term receivables amounting to PLN 194 thousand. As at 31 December 2014 the long-term receivables included refundable deposits in the amount of PLN 1 537 thousand and other long-term receivables amounting to PLN 89 thousand. All these receivables are denominated in PLN.

There is no need to create a write down revaluating the value of long-term receivables.

## 7.11. Inventory

| INVENTORY | 31.12.2015 | 31.12.2014 |
|---|---|---|
| **Advances on deliveries** | **22 347** | **56 193** |
| including: at purchase prices/production costs | 22 516 | 56 362 |
| write down to the net realisable value | (169) | (169) |
| **Semi-finished goods and work in progress** | **1 127 277** | **1 000 418** |
| including: at purchase prices/production costs | 1 138 213 | 1 012 737 |
| write down to the net realisable value | (10 936) | (12 319) |
| **Finished goods** | **329 036** | **174 927** |
| including: at purchase prices/production costs | 334 691 | 178 138 |
| write down to the net realisable value | (5 655) | (3 211) |
| **Total** | **1 478 660** | **1 231 538** |

| INVENTORY REVALUATION WRITE DOWNS | 01.01- - 31.12.2015 | 01.01- - 31.12.2014 |
|---|---|---|
| **Opening balance** | **15 699** | **15 824** |
| Increments | 9 782 | 3 966 |
| Decrease | (8 721) | (4 091) |
| **Closing balance** | **16 760** | **15 699** |

The value of inventory revaluation write downs have resulted from the impairment tests and analysis performed by the Group.

The methodology of inventory impairment reviews has been described in note 7.4 "Significant accounting policies".

| CARRYING VALUE OF INVENTORY USED TO SECURE THE PAYMENT OF LIABILITIES AND VALUE OF THE MORTGAGES ESTABLISHED | 31.12.2015 | 31.12.2014 |
|---|---|---|
| Carrying value of inventory used to secure liabilities | 205 494 | 168 889 |
| **Mortgages:**<br>Value of mortgages established to secure real estate purchase agreements | 4 200 | 8 400 |
| Value of mortgages established to secure loan agreements (cap) | 300 000 | 306 000 |

(all amounts in thousands PLN unless stated otherwise)

### Preparatory works

If there is no certainty as to the possibility of purchasing land for a potential project, the costs of preparatory works associated with the project are disclosed as costs in the Company's income statement during the period in which they occur. Remaining preparatory works are capitalised under work in progress.

The below table presents the cost of preparatory works recognised in the income statement.

| | 01.01- -31.12.2015 | 01.01- -31.12.2014 |
|---|---|---|
| Preparatory works | 573 | 681 |

## 7.12. Trade and other receivables

| TRADE AND OTHER RECEIVABLES | 31.12.2015 | 31.12.2014 |
|---|---|---|
| Trade receivables | 3 842 | 4 217 |
| Receivables from related entities | 23 | 20 |
| Tax receivables | 13 707 | 627 |
| Other receivables | 9 956 | 677 |
| **Total** | **27 528** | **5 541** |

The tax receivables incorporate VAT receivables in the amount of PLN 13 707 thousand and PLN 627 thousand as at 31 December 2015 and 31 December 2014 respectively.

The Group made receivables revaluation write downs, which have been disclosed under "Other operating costs".

The revaluation write downs have been made based on the Group's best knowledge and experience as well as analysis of particular balances.

| AGING STRUCTURE OF TRADE RECEIVABLES | 31.12.2015 | 31.12.2014 |
|---|---|---|
| Up to 3 months | 3 273 | 3 418 |
| From 3 to 6 months | 79 | 96 |
| From 6 months to 1 year | 297 | 1 395 |
| Over 1 year | 2 703 | 2 084 |
| **Gross trade receivables** | **6 352** | **6 993** |
| Receivables revaluation write downs | (2 510) | (2 776) |
| **Net trade receivables** | **3 842** | **4 217** |

The write downs fully relate to overdue trade receivables.

| CHANGE IN THE WRITE DOWNS FOR TRADE AND OTHER RECEIVABLES | 01.01- -31.12.2015 | 01.01- -31.12.2014 |
|---|---|---|
| **Opening balance** | **3 242** | **1 694** |
| a) Additions | - | 1 658 |
| b) Disposals | (267) | (110) |
| **Closing balance** | **2 975** | **3 242** |

As of the balance sheet dates there were no trade or other receivables in foreign currencies.

The costs and revenues associated with the creation and reversal of receivables revaluation write downs are recognised under other operating expenses or other operating income respectively.

(all amounts in thousands PLN unless stated otherwise)

## 7.13. Other current assets

| OTHER CURRENT ASSETS | 31.12.2015 | 31.12.2014 |
|---|---|---|
| Deferred costs | 2 267 | 2 347 |
| Accrued financial income on deposits | 401 | 877 |
| **Total** | **2 668** | **3 224** |

## 7.14. Short-term financial assets

| SHORT-TERM FINANCIAL ASSETS | 31.12.2015 | 31.12.2014 |
|---|---|---|
| Bank deposits with a maturity over three months | 48 | 30 048 |
| Cash in open-end escrow accounts | 3 496 | 4 415 |
| Cash in other escrow accounts | 203 | - |
| **Total** | **3 747** | **34 463** |

Bank deposits with a maturity over three months as of the date when they are made are presented in "Bank deposits with a maturity over three months".

The Group makes bank deposits with various maturity based on current analysis of cash needs and realizable rate of return on deposits offered by banks.

Cash received from the Group's customers as advances for the sale of products which is deposited in open-end escrow accounts until the relevant requirements specified in the "Act on the Protection of Rights of a Dwelling Unit or House Buyer" are met, is presented in "Cash in open-end escrow accounts".

## 7.15. Cash and cash equivalents

Cash and cash equivalents are represented by cash at bank and cash in hand, including short-term bank deposits with up to three months maturity on the date when they are made. The book value of these assets corresponds to their fair value.

| CASH AND CASH EQUIVALENTS | 31.12.2015 | 31.12.2014 |
|---|---|---|
| Cash in hand and at bank | 9 727 | 8 431 |
| Short-term deposits | 211 871 | 309 886 |
| Other | 42 | 24 |
| **Total** | **221 640** | **318 341** |

(all amounts in thousands PLN unless stated otherwise)

## 7.16. Share capital

| SHARE CAPITAL (STRUCTURE) AS AT 31.12.2015 | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Series/ issue | Type of share | Type of preference | Limitation of right to shares | Number of shares | Nominal value of series/issue (PLN) | Capital covered with | Registration date | Right to dividends (from) |
| A | Bearer | - | - | 21 344 490 | 21 344 490 | cash | 12.09.2006 | 12.09.2006 |
| F | Bearer | - | - | 2 705 882 | 2 705 882 | cash | 31.10.2006 | 31.10.2006 |
| H | Bearer | - | - | 172 200 | 172 200 | cash | 14.02.2007 | 14.02.2007 |
| I | Bearer | - | - | 92 700 | 92 700 | cash | 14.02.2007 | 14.02.2007 |
| J | Bearer | - | - | 96 750 | 96 750 | cash | 14.02.2007 | 14.02.2007 |
| L | Bearer | - | - | 148 200 | 148 200 | cash | 14.02.2007 | 14.02.2007 |
| Ł | Bearer | - | - | 110 175 | 110 175 | cash | 12.03.2012 | 07.05.2012 |
| M | Bearer | - | - | 24 875 | 24 875 | cash | 03.10.2012 | 09.11.2012 |
| N | Bearer | - | - | 20 000 | 20 000 | cash | 03.10.2012 | 09.11.2012 |
| O | Bearer | - | - | 26 000 | 26 000 | cash | 05.03.2013 | 17.05.2013 |
| P | Bearer | - | - | 925 | 925 | cash | 31.10.2013 | 23.12.2013 |
| R | Bearer | - | - | 11 000 | 11 000 | cash | 31.10.2013 | 23.12.2013 |
| S | Bearer | - | - | 17 075 | 17 075 | cash | 20.03.2014 | 02.05.2014 |
| T | Bearer | - | - | 1 000 | 1 000 | cash | 14.01.2015 | 27.03.2015 |
| **Total number of shares** | | | | **24 771 272** | | | | |
| **Total share capital** | | | | | **24 771 272** | | | |
| **Nominal value per share = PLN 1** | | | | | | | | |

| SHARE CAPITAL (STRUCTURE) AS AT 31.12.2014 | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Series/ issue | Type of share | Type of preference | Limitation of right to shares | Number of shares | Nominal value of series/issue (PLN) | Capital covered with | Registration date | Right to dividends (from) |
| A | Bearer | - | - | 21 344 490 | 21 344 490 | cash | 12.09.2006 | 12.09.2006 |
| F | Bearer | - | - | 2 705 882 | 2 705 882 | cash | 31.10.2006 | 31.10.2006 |
| H | Bearer | - | - | 172 200 | 172 200 | cash | 14.02.2007 | 14.02.2007 |
| I | Bearer | - | - | 92 700 | 92 700 | cash | 14.02.2007 | 14.02.2007 |
| J | Bearer | - | - | 96 750 | 96 750 | cash | 14.02.2007 | 14.02.2007 |
| L | Bearer | - | - | 148 200 | 148 200 | cash | 14.02.2007 | 14.02.2007 |
| Ł | Bearer | - | - | 110 175 | 110 175 | cash | 12.03.2012 | 07.05.2012 |
| M | Bearer | - | - | 24 875 | 24 875 | cash | 03.10.2012 | 09.11.2012 |
| N | Bearer | - | - | 20 000 | 20 000 | cash | 03.10.2012 | 09.11.2012 |
| O | Bearer | - | - | 26 000 | 26 000 | cash | 05.03.2013 | 17.05.2013 |
| P | Bearer | - | - | 925 | 925 | cash | 31.10.2013 | 23.12.2013 |
| R | Bearer | - | - | 11 000 | 11 000 | cash | 31.10.2013 | 23.12.2013 |
| S | Bearer | - | - | 17 075 | 17 075 | cash | 20.03.2014 | 02.05.2014 |
| **Total number of shares** | | | | **24 770 272** | | | | |
| **Total share capital** | | | | | **24 770 272** | | | |
| **Nominal value per share = PLN 1** | | | | | | | | |

**Description of changes to the share capital in the Company in the period from 1 January until 31 December 2015**

On 14 January 2015 the share capital increase from the current amount of PLN 24 770 272.00 up to PLN 24 771 272.00, that is by PLN 1 000.00, made by the issue of 1 000 T series ordinary bearer shares was registered in the District Court for the capital city of Warsaw, 12th Commercial Division of the National Court Register. The T series shares were issued in a private placement addressed to a participant in Management Option Programme II pursuant to the resolution by the Management Board of Dom Development S.A no. 04/11/14 dated 18 November 2015 to increase the share capital by issuing the T series shares as a part of the authorised capital and to fully deprive the current shareholders of their pre-emptive rights. The ordinary bearer shares were registered in the National Depository for Securities (Krajowy Depozyt Papierów Wartościowych S.A.; KDPW) and were introduced into trading in the regulated market under the standard procedure on 27 March 2015.

(all amounts in thousands PLN unless stated otherwise)

**List of shareholders who hold, directly or indirectly through subsidiaries, at least 5% of the overall number of votes at the General Shareholders Meeting ("GSM") as at 31 December 2015.**

| | Status as at the date of preparing of these financial statements | | | |
|---|---|---|---|---|
| | **Shares** | **% of capital** | **Number of votes at the GSM** | **% of votes at the GSM** |
| Dom Development B.V. | 14 726 172 | 59.45 | 14 726 172 | 59.45 |
| Jarosław Szanajca | 1 534 050 | 6.19 | 1 534 050 | 6.19 |
| Aviva Powszechne Towarzystwo Emerytalne Aviva BZ WBK SA *) | 1 313 383 | 5.30 | 1 313 383 | 5.30 |
| Grzegorz Kiełpsz | 1 280 750 | 5.17 | 1 280 750 | 5.17 |

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

**The shares of Dom Development S.A. or rights thereto (options) owned by the persons performing management and supervisory functions at Dom Development S.A. as at 31 December 2015.**

| | Status as at the date of preparing of these financial statements | | |
|---|---|---|---|
| | **Shares** | **Share options** | **Total** |
| **The Management Board** | | | |
| Jarosław Szanajca | 1 534 050 | - | 1 534 050 |
| Janusz Zalewski | 311 000 | 69 000 | 380 000 |
| Małgorzata Kolarska | 6 500 | - | 6 500 |
| Janusz Stolarczyk | 105 200 | 16 830 | 122 030 |
| Terry Roydon | 58 500 | - | 58 500 |
| **The Supervisory Board** | | | |
| Grzegorz Kiełpsz | 1 280 750 | - | 1 280 750 |
| Mark Spiteri | 500 | - | 500 |

## 7.17. Share premium

In the twelve-month period ended 31 December 2015, the value of the item „Share premium" changed by PLN 14 thousand as a result of the increase of the share capital, described in note 7.16.

The value of the share premium was PLN 234 534 thousand and PLN 234 520 thousand as at 31 December 2015 and 31 December 2014 respectively.

## 7.18. Additional information on shareholders' equity

As at 31 December 2015 and 31 December 2014 the Company's shares were not owned by any of its subsidiaries.

In the twelve-month period ended 31 December 2015 and 2014 the Company did not hold any treasury shares.

(all amounts in thousands PLN unless stated otherwise)

## 7.19. Dividend and profit distribution

On 28 May 2015, the Ordinary General Meeting of the Shareholders of the Company resolved to assign PLN 55 735 362.00 from the Company's profit for 2014 to dividends. This implies the payment of PLN 2.25 per share. While the amount of PLN 86 610.22 was allocated to the increase of the Company's supplementary capital.

The dividend day was set at 18 June 2015 and the dividend payment day was set at 3 July 2015. The dividend was paid out in accordance with the resolution adopted.

In the preceding year, the dividend allocation was PLN 54 494 598.40 (i.e. PLN 54 352 343.33 from the 2013 profit of the Company and PLN 142 255.07 from the supplementary capital), and the dividend payment amounted to PLN 2.20 per share.

## 7.20. Loans

### Description of material changes in the twelve-month period ended 31 December 2015

A notice of termination for the loan agreement dated 18 September 2013 was served by the Company at Alior Bank S.A. on 15 December 2014. The 30 (thirty) day notice period has been lapsing from the date that the written notice of termination was served at Alior Bank S.A. The agreement as stated above expired on 14 January 2015.

On 18 May 2015 the Company and mBank Spółka Akcyjna entered into an agreement for the revolving loan facility in PLN in the amount of up to PLN 50 million to be used to finance current operations of the Company. The term of the Agreement is until 21 May 2019. The loan in the amount of PLN 50 million was drawn at mBank on 30 June 2015.

On 27 July 2015, the Company and PKO Bank Polski Spółka Akcyjna entered into an agreement for the revolving loan facility in PLN in the amount of up to a cap of PLN 100 million to be used to finance current operational liabilities. The term of the Agreement is until 26 July 2019. The loan in the amount of PLN 20 million was drawn on 3 December 2015.

In 2015, the Company prematurely repaid the entire loan at PKO Bank Polski Spółka Akcyjna. This was the premature repayment of the entire instalment in the amount of PLN 26 million as contractually maturing on 31 December 2015 and the entire instalment in the amount of PLN 78 million as contractually maturing on 31 December 2016.

| LOANS DUE WITHIN | | 31.12.2015 | 31.12.2014 |
|---|---|---|---|
| Less than 1 year | | - | 26 000 |
| More than 1 year and less than 2 years | | 30 000 | 78 000 |
| More than 2 years and less than 5 years | | 70 000 | 20 000 |
| Over 5 years | | - | - |
| **Total loans** | | **100 000** | **124 000** |
| including: | long-term | 100 000 | 98 000 |
| | short-term | - | 26 000 |

As at 31 December 2015 and 31 December 2014 all the loans taken by the Company were expressed in Polish zloty.

| BANK LOANS AS AT 31.12.2015 | | | | | | |
|---|---|---|---|---|---|---|
| **Bank** | **Registered office** | **Loan amount as per agreement** | **Currency** | **Outstanding loan amount (less accrued interest)** | **Currency** | **Due date** |
| mBank | Warsaw | 50 000*) | PLN | 30 000 | PLN | 03.02.2017 |
| mBank | Warsaw | 50 000*) | PLN | 50 000 | PLN | 21.05.2019 |
| PKO BP SA | Warsaw | 100 000*) | PLN | 20 000 | PLN | 26.07.2019 |
| **Total bank loans** | | | | **100 000** | **PLN** | |

*) revolving loan in the credit account

In the "Loans" item the Group states the nominal value of the loan liabilities, and the interest charged as at the balance sheet date are presented separately in the item "Accrued interest on loans and bonds".

(all amounts in thousands PLN unless stated otherwise)

Due to the fact that the interest on the loans is correlated to the WIBOR interest rate, the Company's Management Board estimates that the fair value of the loans taken by the Group approximately equals their book value, including accrued interest.

### 7.21. Bonds

| BONDS | 31.12.2015 | 31.12.2014 |
|---|---|---|
| Nominal value of the bonds issued, long-term portion | 270 000 | 170 000 |
| Nominal value of the bonds issued, short-term portion | - | 100 000 |
| **Nominal value of the bonds issued** | **270 000** | **270 000** |

In the "Bonds" item the Group states the nominal value of the bond liabilities, and the interest charged as at the balance sheet date are presented separately in the item "Accrued interest on loans and bonds".

Due to the fact that the interest on the bonds is correlated to the WIBOR interest rate, the Company's Management Board estimates that the fair value of the bonds issued by the Company approximately equals their book value, including accrued interest.

**Core details concerning the bonds issued**

On 5 November 2007, the Company and Bank BPH S.A. (currently Pekao S.A.) signed a Bond Issue Programme Agreement, pursuant to which Dom Development S.A. is allowed to issue mid-term bonds (with a maturity over 1 year and under 7 years) with an aggregate value of no more than PLN 400 million, which is to be construed as the nominal value of all issued and unredeemed bonds on any day during the term of the Programme.

On 5 November 2014, the Company and Pekao S.A. signed an Annex to the Bond Issue Programme Agreement dated 5 November 2007, pursuant to which the period of bond issue programme has been extended by 7 years (until 5 November 2021).

**Description of material changes in the twelve-month period ended 31 December 2015**

On 12 June 2015, the Company issued 10 000 unsecured bearer bonds with the nominal value of PLN 10 000 each and the aggregate nominal value of PLN 100 million. The maturity date for these bonds is 12 June 2020. The issue value equals their nominal value. The interest rate is set at WIBOR 6M plus margin, and will be paid semi-annually. No purpose for the bond issue was specified in the terms of issue.

On 30 June 2015, the Company redeemed 10 000 bearer bonds with the nominal value of PLN 10 000 each and the aggregate nominal value of PLN 100 million as maturing on this date.

The total bond issue liabilities in the twelve-month period ended 31 December 2015 have not changed.

| BONDS ISSUED AS AT 31 DECEMBER 2015 | | | | |
|---|---|---|---|---|
| **Series** | **Issue date** | **Amount** | **Currency** | **Contractual maturity date** |
| III | 02.02.2012 | 120 000 | PLN | 02.02.2017 |
| IV | 26.03.2013 | 50 000 | PLN | 26.03.2018 |
| V | 12.06.2015 | 100 000 | PLN | 12.06.2020 |
| | **Total:** | **270 000** | **PLN** | |

(all amounts in thousands PLN unless stated otherwise)

## 7.22. Accrued interest on loans and bonds

| ACCRUED INTEREST ON LOANS AND BONDS | 31.12.2015 | 31.12.2014 |
|---|---|---|
| Accrued interest on bonds | 3 403 | 3 745 |
| Accrued interest on loans | - | - |
| **Total accrued interest on loans and bonds** | **3 403** | **3 745** |

## 7.23. Deferred tax assets and provisions

Deferred tax is the outcome of the following items:

| | Balance sheet | | Income statement / Statement of comprehensive income | |
|---|---|---|---|---|
| | **31.12.2015** | **31.12.2014** | **01.01-31.12.2015** | **01.01-31.12.2014** |
| **Deferred tax provision** | | | | |
| Foreign exchange differences | 5 | 15 | (10) | 15 |
| Accrued interest | 76 | 167 | (91) | 12 |
| Discounting of liabilities | 533 | 413 | 120 | (60) |
| Result on the sale of units – without legal ownership transfer agreements | 24 028 | 13 365 | 10 663 | 1 641 |
| Capitalised financial costs | 4 555 | 4 588 | (33) | (1 245) |
| Other | 4 | 2 | 2 | - |
| **Total deferred tax provision** | **29 201** | **18 550** | **10 651** | **363** |
| | | | | |
| **Deferred tax assets** | | | | |
| Foreign exchange differences | - | - | - | (30) |
| Inventory revaluation | 3 152 | 2 950 | 202 | (56) |
| Receivables revaluation write downs and other provisions | 193 | 186 | 7 | (151) |
| Provision for employee benefits | 2 306 | 2 024 | 282 | (373) |
| Provision for other costs | 3 406 | 3 627 | (221) | (279) |
| Financial costs | - | - | - | (673) |
| Discounting of receivables | - | - | - | - |
| Valuation of financial assets | 75 | 85 | (10) | 31 |
| Other | 5 | 5 | - | - |
| **Total deferred tax assets** | **9 137** | **8 877** | **260** | **(1 531)** |
| | | | | |
| **Deferred tax expense concerning income statement** | | | **10 372** | **1 889** |
| **Deferred tax expense concerning other net comprehensive income** | | | **19** | **5** |
| **Deferred tax provision shown in the balance sheet, net** | **20 064** | **9 673** | | |

## 7.24. Long-term provisions

| LONG-TERM PROVISIONS | 31.12.2015 | 31.12.2014 |
|---|---|---|
| Provision for repair costs, long-term portion | 10 934 | 11 476 |
| Provision for disputes | - | 263 |
| Provision for retirement benefits | 420 | 564 |
| **Total** | **11 354** | **12 303** |

(all amounts in thousands PLN unless stated otherwise)

| LONG-TERM PROVISIONS – CHANGES | 01.01-<br>-31.12.2015 | 01.01-<br>-31.12.2014 |
|---|---|---|
| **Opening balance** | **12 303** | **13 162** |
| Provisions created in the financial year | 3 630 | 2 781 |
| Provisions used/reversed in the financial year | (4 579) | (3 640) |
| **Closing balance** | **11 354** | **12 303** |

## 7.25. Other long-term liabilities

| OTHER LONG-TERM LIABILITIES | 31.12.2015 | 31.12.2014 |
|---|---|---|
| Guarantee retentions, long-term portion | 28 650 | 22 487 |
| Real estate purchase liabilities | - | 3 502 |
| Other | 2 079 | 1 683 |
| **Closing balance** | **30 729** | **27 672** |

## 7.26. Trade payables, tax and other liabilities

| TRADE PAYABLES, TAX AND OTHER LIABILITIES | 31.12.2015 | 31.12.2014 |
|---|---|---|
| Trade payables, including guarantee retentions (short-term portion) | 148 936 | 112 768 |
| Tax liabilities | 1 595 | 1 329 |
| Accrued costs | 39 857 | 25 388 |
| Company Social Benefits Fund | 135 | 314 |
| **Total liabilities** | **190 523** | **139 799** |
| | | |
| **Accrued costs structure** | **39 857** | **25 388** |
| - estate construction costs | 27 749 | 14 698 |
| - employee costs | 9 423 | 8 172 |
| - rent for office space | 628 | 847 |
| - other | 2 057 | 1 671 |

Trade payables are not interest-bearing liabilities. In addition to the guarantee retentions (as described below), the maturity for the trade payables is from 14 to 90 days.

The table below presents the carrying value of liabilities due to guarantee retentions connected to the execution of real estate development projects. The short-term and long-term portion of these liabilities are disclosed in relevant items of short-term and long-term liabilities.

| | 31.12.2015 | 31.12.2014 |
|---|---|---|
| Guarantee retentions, short-term portion | 29 804 | 20 153 |
| Guarantee retentions, long-term portion | 28 650 | 22 487 |
| **Total guarantee retentions** | **58 454** | **42 640** |

## 7.27. Short-term provisions

| SHORT-TERM PROVISIONS | 31.12.2015 | 31.12.2014 |
|---|---|---|
| Provision for repair costs, short-term portion | 3 644 | 3 826 |
| Provision for disputes | 3 618 | 5 228 |
| **Total** | **7 262** | **9 054** |

| SHORT-TERM PROVISIONS – CHANGES | 01.01- | 01.01- |
|---|---|---|

| | -31.12.2015 | -31.12.2014 |
|---|---|---|
| **Opening balance** | **9 054** | **6 316** |
| Provisions created in the financial year | 3 794 | 8 967 |
| Provisions used/reversed in the financial year | (5 586) | (6 229) |
| **Closing balance** | **7 262** | **9 054** |

## 7.28. Deferred income

| DEFERRED INCOME | 31.12.2015 | 31.12.2014 |
|---|---|---|
| Deferred income related to the payments received from customers for the purchase of products, not settled as income in the income statement | 234 994 | 151 551 |
| Other | 16 | 25 |
| **Total** | **235 010** | **151 576** |

## 7.29. Benefits after employment

The Company does not operate a special employee benefits programme after termination of employment.

## 7.30. Financial assets and liabilities

### Categories of financial assets and liabilities, and maximum credit risk exposure

| FINANCIAL ASSETS AND LIABILITIES | 31.12.2015 | 31.12.2014 |
|---|---|---|
| **FINANCIAL ASSETS** | | |
| Long-term receivables | 1 523 | 1 626 |
| Trade and other receivables | 13 798 | 4 894 |
| Receivables from related entities | 23 | 20 |
| **Total borrowings and receivables** | **15 344** | **6 540** |
| Other | 42 | 24 |
| **Financial assets valued at their fair value through the income statement (designated for trading)** | **42** | **24** |
| | | |
| Cash in hand and at bank | 9 727 | 8 431 |
| Short-term deposits | 211 871 | 309 886 |
| Short-term financial assets | 3 747 | 34 463 |
| **Maximum credit risk exposure** | **240 731** | **359 344** |
| | | |
| **FINANCIAL LIABILITIES** | | |
| Loans | 100 000 | 124 000 |
| Own bonds issued | 273 403 | 273 745 |
| Trade payables, accrued and other liabilities | 219 522 | 165 828 |
| **Financial liabilities valued at amortised cost** | **592 925** | **563 573** |

Fair value of financial assets and liabilities of the Group is not materially different from their carrying value.

## 7.31. Financial risk management

The Group is exposed to the following types of financial risk:

- Market risk (interest rate risk)
- Credit risk
- Liquidity risk

(all amounts in thousands PLN unless stated otherwise)

### Market risk

The market risk is a type of risk which reflects the impact of changes in market prices, such as currency exchange rates, interest rates or prices of capital instruments, on the Group's financial results or the value of financial instruments held.

The market risk generally incorporates risks such as:

- currency risk
- interest rate risk

*Currency risk*

If there are significant foreign currency items, the Group uses foreign currency derivatives (forward and swap) to hedge its significant F/X transactions.

As at 31 December 2015 and 31 December 2014 the Group did not have any significant assets, liabilities and future payments in foreign currencies, therefore there was no need to have hedging currency derivatives.

*Interest rate risk*

The fixed interest rate bank loans expose the Group to the risk of changes in the loan fair value. The variable interest rate loans and borrowings result in the cash flow risk.

The current financing structure implies that the Group does not have fixed rate loans or bonds. Currently, the Group has short-term, medium-term and long-term variable interest rate loans and bonds which results in the cash flow risk exposure.

Furthermore, the Group has short-term bank deposits which bear variable interest, the gains from which depend on the benchmark interest rate change and partially offsets the cash flow risk associated with financing.

As at the balance sheet date the Group did not have fixed interest rate long-term financial instruments.

A great deal of interest rate risk is limited naturally by holding both financial liabilities and financial assets bearing variable interest rate. The interest rate risk exposure of net debt, namely the excess of variable interest rate bearing debt over variable interest rate bearing financial assets is offset by financial instruments such as CAP and IRS transactions.

The structure of variable interest rate financial instruments as at the balance sheet date is as follows:

| **VARIABLE INTEREST RATE INSTRUMENTS** | **31.12.2015** | **31.12.2014** |
|---|---|---|
| Financial assets | 225 345 | 352 780 |
| Financial liabilities | 373 403 | 397 745 |
| **Net total** | **(148 058)** | **(44 965)** |

Interest bearing financial assets, i.e. bank deposits, are disclosed as financial assets. Interest bearing financial liabilities, i.e. loans and own bond, are disclosed as financial liabilities.

*Analysis of financial result sensitivity to interest rate change*

A 100-basis point (bp) change in the interest rate of instruments as at the balance sheet date would increase (decrease) the net assets and income statement (after tax) by the amounts listed in the table below. The analysis prepared for twelve-month periods ended 31 December 2015 and 31 December 2014 assumes that all other variables remain unchanged.

(all amounts in thousands PLN unless stated otherwise)

| | Income statement | | Net assets | |
|---|---|---|---|---|
| | **Increase by 100 bp** | **Decrease by 100 bp** | **Increase by 100 bp** | **Decrease by 100 bp** |
| **31 December 2015** | | | | |
| Variable interest rate assets | 608 | (608) | 608 | (608) |
| Variable interest rate liabilities* | (1 008) | 1 008 | (1 008) | 1 008 |
| **Net sensitivity** | **(400)** | **400** | **(400)** | **400** |
| | | | | |
| **31 December 2014** | | | | |
| Variable interest rate assets | 953 | (953) | 953 | (953) |
| Variable interest rate liabilities* | (1 074) | 1 074 | (1 074) | 1 074 |
| **Net sensitivity** | **(121)** | **121** | **(121)** | **121** |

* The financial costs which are related to loans and bonds, and financial income related to deposits are capitalized by the Company to work-in-progress. These costs (and income) are gradually moved to the income statement together with the manufacturing costs of the inventories sold. It has been assumed in the above analysis that one third of the financial costs and income accrued in a given period are disclosed in the income statement, while the remaining portion is capitalised in the inventory and will be disclosed in the income statement in the following accounting periods.

### Credit risk

Cash at bank, cash in hand, trade receivables and other receivables constitute the Group's main financial assets, and represent its highest exposure to credit risk in relation to financial assets.

The Group's credit risk is mostly related to trade receivables. The amounts presented in the balance sheet are net amounts and include write-downs revaluating bad debts, estimated by the Company's Management Board on the basis of previous experience, specific nature of the operations and analysis of the current economic environment.

Credit risk relating to the liquid funds and derivative financial instruments is limited since the transactions were concluded with reputable banks, enjoying high credit ratings awarded by international rating agencies.

In order to maintain the financial liquidity and the expected level of funds availability the Group has a specialised unit that monitors this aspect. The unit monitors the liquid funds and the forecasted cash flow on a current basis and decides on their allocation in order to maximise the attainable financial income while hedging the Group against the credit risk.

Credit risk is not highly concentrated in the Group. The risk is spread over a large number of partners and customers. Furthermore, it has to be pointed out that the receivables from the main activity of the Group, i.e. the sale of apartments and detached houses, are fully secured because release of the sold product takes place after a buyer has paid the full price as set out in the preliminary sales agreement.

The aging structure of trade receivables has been presented in note 7.12 "Trade and other receivables".

### Liquidity risk

The liquidity risk is the risk that the Group will not be able to pay its financial liabilities when they become due. The Group's objective is to ensure, to the highest possible extent, that its liquidity will always be maintained at a level, which enables paying the liabilities when they become due, without incurring unacceptable losses or facing the risk of compromising the Group's reputation.

The table below presents the total value of future non-discounted cash flows for Group's financial liabilities, broken up by the maturity dates as set out in the contracts:

(all amounts in thousands PLN unless stated otherwise)

| | Total | 0 – 6 months | 6 – 12 months | 1 – 2 years | 2 – 5 years |
|---|---|---|---|---|---|
| **31 December 2015** | | | | | |
| Loans | 108 760 | 1 606 | 1 606 | 32 299 | 73 249 |
| Own bonds issued | 298 222 | 5 535 | 5 535 | 126 560 | 160 592 |
| Trade and other payables | 224 659 | 182 949 | 8 355 | 7 307 | 26 048 |
| **Total** | **631 641** | **190 090** | **15 496** | **166 166** | **259 889** |
| | | | | | |
| **31 December 2014** | | | | | |
| Loans | 132 234 | 2 282 | 28 281 | 81 609 | 20 062 |
| Own bonds issued | 297 750 | 108 100 | 5 100 | 130 200 | 54 350 |
| Trade and other payables | 169 744 | 131 860 | 8 422 | 10 939 | 18 523 |
| **Total** | **599 728** | **242 242** | **41 803** | **222 748** | **92 935** |

The Group manages its liquidity mostly by:

- short-, medium- and long-term planning of cash flow; detailed short-term plans are updated at least once a month,
- selection of appropriate financing sources on the basis of analysis of the Group needs and the market,
- day-to-day monitoring of ratios resulting from agreements with banks,
- diversification of financing sources for the conducted development activity,
- co-operation with stable and reputable financial institutions.

### Capital management

It is fundamental for the policy of the Management Board to maintain a strong capital base in order to secure the trust of investors, creditors and the market as well as to ensure further growth of the Group.

For the years ended 31 December 2015 and 2014 the return on equity (calculated as net profit to the annual average value of shareholders' equity) amounted to 9.3% and 6.5%, respectively. In that period, the average weighted cost of interest on the Company's debt amounted to 4.5% in 2015 and 5.4% in 2014.

As at 31 December 2015 and 2014 the net financial leverage ratio (calculated as the loans and bonds payable less cash and cash equivalents and short-term financial assets divided by equity) amounted to 16.9% and 4.9% respectively.

The Company does not have in place a defined plan of buy-out of the treasury shares.

The companies operating within the Group are not a subject to any external capital requirements, except for the legal regulations of the Code of Commercial Companies and Partnerships.

## 7.32. Earnings per share

| CALCULATION OF BASIC AND DILUTED EARNINGS PER SHARE | 01.01-31.12.2015 | 01.01-31.12.2014 |
|---|---|---|
| **Basic earnings per share** | | |
| Profit for calculation of the basic earnings per share | 80 725 | 55 668 |
| The weighted average number of ordinary shares for the calculation of basic earnings per share | 24 771 234 | 24 766 576 |
| **Basic earnings per share (PLN)** | **3.26** | **2.25** |
| | | |
| **Diluted earnings per share** | | |
| Profit for calculation of the diluted earnings per share | 80 725 | 55 668 |
| Potential diluting shares related to the Management Share Option Programme | 29 441 | 27 009 |
| The weighted average number of ordinary shares for the calculation of diluted earnings per share | 24 800 675 | 24 793 586 |
| **Diluted earnings per share (PLN)** | **3.25** | **2.25** |

(all amounts in thousands PLN unless stated otherwise)

As the Group has no discontinued operations, the earnings per share from the continued operations equal the earnings per share calculated above.

## 7.33. Income tax

| INCOME TAX | 01.01--31.12.2015 | 01.01--31.12.2014 |
|---|---|---|
| Current income tax | 9 449 | 11 610 |
| Deferred tax | 10 372 | 1 889 |
| **Total** | **19 821** | **13 499** |

The difference between the income tax calculated as the product of the gross profit before tax and the statutory tax rate and the actual income tax expense accounted for in the income statement of the Group is presented in the table below.

| RECONCILIATION | 01.01--31.12.2015 | 01.01--31.12.2014 |
|---|---|---|
| **Gross profit before tax** | **100 613** | **69 434** |
| As per 19% tax rate | 19 116 | 13 192 |
| Permanent differences not subject to the current and deferred tax in the financial statements (except for cost of the options) | 705 | 305 |
| Tax effect of management options permanently not being a tax deductible cost | - | 2 |
| **Actual income tax expense** | **19 821** | **13 499** |
| **Effective tax rate:** | **19.70%** | **19.44%** |

The legal regulations relating to VAT, corporate income tax, personal income tax and social insurance premiums are frequently amended due to frequent changes in the tax system. The applicable regulations are often unclear which brings about differences in interpretation from one tax authority to another as well as between tax authorities and tax payers.

The tax and other settlements (such as customs duty or transactions with foreign entities) may be the subject of inspections by the tax authorities or other authorities, which are authorised to impose significant fines. All tax arrears identified in the course of audit are subject to high interest. Tax settlements may be audited at any time within 5 years from the end of the accounting period when they are due. Under these conditions, the tax risk in Poland is considerably higher than in other countries with stable tax systems.

## 7.34. Segment reporting

The Group does not prepare segment reporting as its activities take place within a single segment.

## 7.35. Operating income

| REVENUE BREAKDOWN | 01.01-31.12.2015 | 01.01-31.12.2014 |
|---|---|---|
| Sales of finished goods | 887 752 | 770 760 |
| Sales of services | 13 643 | 12 413 |
| Sales of goods (land) | 2 800 | 1 091 |
| **Total** | **904 195** | **784 264** |

(all amounts in thousands PLN unless stated otherwise)

## 7.36. Operating costs

| OPERATING COSTS | 01.01-31.12.2015 | 01.01-31.12.2014 |
|---|---|---|
| **Cost of sales** | | |
| Cost of finished goods sold | (682 851) | (616 194) |
| Cost of services sold | (15 136) | (15 358) |
| Cost of goods sold | (1 200) | (957) |
| Inventory write down to the net realisable value | (1 061) | 294 |
| **Total cost of sales** | **(700 248)** | **(632 215)** |
| | | |
| **Selling costs, and general administrative expenses** | | |
| Selling costs | (45 645) | (39 797) |
| General administrative expenses | (49 058) | (47 370) |
| **Total selling costs, and general administrative expenses** | **(94 703)** | **(87 167)** |
| | | |
| **Selling costs, and general administrative expenses by kind** | | |
| Depreciation | (4 409) | (3 259) |
| Cost of materials and energy | (13 881) | (13 441) |
| External services | (24 700) | (21 881) |
| Taxes and charges | (150) | (162) |
| Remuneration | (41 609) | (39 255) |
| Social security and other benefits | (5 192) | (4 784) |
| Management Option Programme | - | (13) |
| Other prime costs | (4 762) | (4 372) |
| **Total selling costs, and general administrative expenses by kind** | **(94 703)** | **(87 167)** |

## 7.37. Payroll costs

| PAYROLL COST AND AVERAGE EMPLOYMENT (including the management) | 01.01-31.12.2015 | 01.01-31.12.2014 |
|---|---|---|
| **Individual personnel categories (number of staff)** | **150** | **158** |
| White-collar workers | 150 | 158 |
| Blue-collar workers | | |
| General remuneration elements, including: | **46 801** | **44 039** |
| Remuneration | 41 609 | 39 255 |
| Social security and other benefits | 5 192 | 4 784 |

## 7.38. Other operating income

| OTHER OPERATING INCOME | 01.01-31.12.2015 | 01.01-31.12.2014 |
|---|---|---|
| Revenues from contractual penalties, arrangements and compensations | 441 | 9 590 |
| Reversal of provision for costs | 2 715 | 4 052 |
| Other | 554 | 1 382 |
| **Total** | **3 710** | **15 024** |

(all amounts in thousands PLN unless stated otherwise)

## 7.39. Other operating expenses

| OTHER OPERATING EXPENSES | 01.01-31.12.2015 | 01.01-31.12.2014 |
|---|---|---|
| Provision for penalties and arrangements | 918 | 182 |
| Donations | 208 | 195 |
| Provision for other costs | 1 026 | 506 |
| Provision for disputes and receivables | - | 3 080 |
| Bad debt write downs | 685 | - |
| Cost of repairs and defects (including change in provision) | 7 224 | 6 556 |
| Other | 434 | 368 |
| **Total** | **10 495** | **10 887** |

## 7.40. Financial income

| FINANCIAL INCOME | 01.01-31.12.2015 | 01.01-31.12.2014 |
|---|---|---|
| Interest on bank deposits (non-capitalized part of interest) | 1 273 | 1 654 |
| Other interest | 659 | 3 818 |
| Foreign exchange differences | 51 | 199 |
| Other | - | 1 |
| **Total** | **1 983** | **5 672** |

## 7.41. Financial costs

| FINANCIAL COSTS | 01.01-31.12.2015 | 01.01-31.12.2014 |
|---|---|---|
| Interest on loans and bonds (non-capitalized part of interest) | 3 131 | 3 819 |
| Other interest | 17 | 311 |
| Commissions and fees | 349 | 246 |
| Cost from discounting receivables and payables | 328 | 314 |
| Valuation of long-term investments (CAP options) | 4 | 567 |
| **Total** | **3 829** | **5 257** |

## 7.42. Interest cost

| INTEREST COST | 01.01-31.12.2015 | 01.01-31.12.2014 |
|---|---|---|
| Financial costs (interest) capitalised under work in progress*) | 10 866 | 12 182 |
| Financial costs (interest) disclosed in the income statement | 3 147 | 4 130 |
| **Total interest costs** | **14 013** | **16 312** |

*) The financial costs incurred as a result of the financing of real estate development projects are generally capitalised as work in progress and relate to the costs of interest, commissions and fees on bonds and loans taken for the execution of the projects. This amount consists of the difference between financial costs on the above mentioned sources of financing and financial income obtained as a result of investing free cash into short-term deposits and similar financial instruments.

(all amounts in thousands PLN unless stated otherwise)

## 7.43. Transactions with related entities

In the twelve-month periods ended 31 December 2015 and 2014, the Company was a party to transactions with related entities, as listed below. Descriptions of the transactions have been presented in the tables. In exceptional cases, descriptions of particular agreements or explanations have also been provided.

| DOM DEVELOPMENT S.A. AS A BUYER OF GOODS OR SERVICES | | | |
|---|---|---|---|
| **Counterparty** | **Transaction description** | **01.01-31.12.2015** | **01.01-31.12.2014** |
| Woodsford Consulting Limited | Consulting services as per the agreement dated 27 June 2007 | 1 835 | 1 670 |
| Hansom Property Company Limited | Consulting services as per the agreement dated 31 March 1999 | 295 | 264 |
| Hansom Property Company Limited | Other | 262 | 190 |
| M&M Usługi Doradcze M. Kolarski | Consulting services | 427 | 485 |
| Kirkley Advisory Limited | Consulting services as per the agreement dated 1 March 2012 | 84 | 50 |
| Kirkley Advisory Limited | Other | 125 | 91 |
| Dom Development Grunty sp. z o.o. | Services performed as per the contract of mandate for the activities related to the purchase of land and management thereof | 194 | 479 |

| DOM DEVELOPMENT S.A. AS A SERVICE PROVIDER (SELLER) | | | |
|---|---|---|---|
| **Counterparty** | **Transaction description** | **01.01-31.12.2015** | **01.01-31.12.2014** |
| Fort Mokotów sp. z o.o., under liquidation | Repair services as per the agreement dated 22 July 2005 | 118 | 160 |
| Fort Mokotów sp. z o.o., under liquidation | Other | - | 6 |
| Dom Development Grunty sp. z o.o. | Other | 6 | 6 |
| Dom Development Morskie Oko sp. z o.o., under liquidation | Other | 5 | 5 |

| DOM DEVELOPMENT S.A. AS A LENDER | | | |
|---|---|---|---|
| **Counterparty** | **Transaction description** | **01.01-31.12.2015** | **01.01-31.12.2014** |
| Dom Development Grunty sp. z o.o. | Repayment received for a portion of the borrowing | 200 | 400 |
| Dom Development Grunty sp. z o.o. | Interest accrued on the borrowing | 15 | 45 |

| DOM DEVELOPMENT S.A. AS A DIVIDEND PAYER | | | |
|---|---|---|---|
| **Counterparty** | **Transaction description** | **01.01-31.12.2015** | **01.01-31.12.2014** |
| Dom Development B.V. | Dividends | 33 134 | 32 398 |

(all amounts in thousands PLN unless stated otherwise)

| DOM DEVELOPMENT S.A. AS A LAND BUYER UNDER AN AGENCY AGREEMENT | | | |
|---|---|---|---|
| **Counterparty** | **Transaction description** | **01.01-31.12.2015** | **01.01-31.12.2014** |
| Dom Development Grunty sp. z o.o. | (net) prepayment for or purchase of land under the agency agreement | 814 | 26 994 |

| DOM DEVELOPMENT S.A. AS A LAND SELLER UNDER A SALE AGREEMENT | | | |
|---|---|---|---|
| **Counterparty** | **Transaction description** | **01.01-31.12.2015** | **01.01-31.12.2014** |
| Dom Development Grunty sp. z o.o. | (net) sale of the interest in long-term leasehold of the land | - | 800 |

| BALANCES WITH RELATED ENTITIES – balances as in the books of the Company | | | | |
|---|---|---|---|---|
| **Entity** | **Receivables from related entities** | | **Liabilities to related entities** | |
| | **31.12.2015** | **31.12.2014** | **31.12.2015** | **31.12.2014** |
| **Total balance** | **1 570** | **2 752** | **269** | **7 310** |
| **Subsidiaries** | **1 547** | **2 732** | **-** | **7 160** |
| Dom Development Morskie Oko sp. z o.o., under liquidation additional contributions to the capital | 1 147 | 1 147 | - | - |
| Dom Development Morskie Oko sp. z o.o., under liquidation | - | - | - | - |
| Dom Development Grunty sp. z o.o. | 400 | 1 585 | - | 7 160 |
| **Jointly controlled entities** | **23** | **20** | **-** | **-** |
| Fort Mokotów sp. z o.o., under liquidation | 23 | 20 | - | - |
| **Other entities** | **-** | **-** | **269** | **150** |
| M&M Usługi Doradcze M. Kolarski | - | - | 41 | 48 |
| Woodsford Consulting Limited | - | - | 205 | 102 |
| Holland Park Advisory Limited | - | - | 23 | - |

| DOM DEVELOPMENT AS A SELLER (PLN) | | | |
|---|---|---|---|
| **Transactions with Members of the Management Board** | **Transaction description** | **Transaction date** | **Transaction amount** |
| Janusz Stolarczyk and a person closely related | Agreement for the sale of residential unit with an area of 84.65 sq.m., and a parking place in the Willa na Harfowej project | 26.01.2015 | 736 744.80 |
| Janusz Stolarczyk and a person closely related | Fitout Contract | 26.01.2015 | 76 636.80 |

The transactions with the related entities are based on the arm's length principle.

The transactions stated above also include transactions with subsidiaries and the joint venture that has been eliminated in these consolidated financial statements.

(all amounts in thousands PLN unless stated otherwise)

## 7.44. Incentive Plan – Management Option Programmes

As at 31 December 2015 there were two active Management Option Programmes adopted as part of the Incentive Scheme for the Management staff of the Company.

| Name of the Programme | Options in the programme (number of shares) | Options granted (number of shares) | Options exercised (number of shares) | Options in the programme (number of shares) | Options granted (number of shares) | Options exercised (number of shares) |
|---|---|---|---|---|---|---|
| | 31.12.2015 | | | 31.12.2014 | | |
| Programme II | 726 000 | 726 000 | 211 050 | 726 000 | 726 000 | 210 050 |
| Programme III | - | - | - | 360 000 | 120 000 | - |

### Management Option Programme II

The Management Option Programme II concerns 726 000 shares in Dom Development S.A. ("Programme II"). Under Programme II a few issues of share options with the nominal value of PLN 1.00 each ("Tranche") took place. The option may not be exercised earlier than 3 years and later than 7 years from its grant.

The Supervisory Board of Dom Development S.A. granted all the above mentioned options in the years 2006-2012. The value of each Tranche was calculated each time at the grant date. These values, reduced by the value of expired options, were evenly accounted for in the income statement through the three-year periods i.e. the vesting period. The vesting period was determined individually for each tranche.

### Management Option Programme III

On 13 December 2015, Management Option Programme III expired (as described in section "Expiry of share options" below). No option granted under this programme has been exercised as the material condition that it was dependant on had not been met.

### Grant of new share options

In the twelve-month period ended 31 December 2015 the Company did not grant any new share options.

### Exercise of the share options

On 18 November 2014 the Management Board of Dom Development S.A. adopted a resolution to increase the share capital by issuing 1 000 T series ordinary bearer shares (see note 7.16). The shares were issued in a private placement addressed to a participant in Management Options Programme II. These shares were registered by the District Court for the capital city of Warsaw on 14 January 2015 (this was described in note 7.16).

### Expiry of share options

In the twelve-month period ended 31 December 2015 the number of share options eligible to participate in the Management Option Programme II was reduced by 12 775 options as a result of termination of employment contracts with the persons eligible to participate in the Programme.

In addition to this, in the twelve-month period ended 31 December 2015 the number of share options eligible to participate in the Management Option Programme III was reduced by 96 466 options as a result of expiry of the subscription period under this programme on 13 December 2015.

### Cost of Management Option Programmes accounted for in the income statement

In the twelve-month periods ended 31 December 2015 and 2015 the amounts of PLN 0 thousand and PLN 13 thousand respectively, were accounted for in the income statement for the management options granted and in the reserve capital from valuation of share options.

(all amounts in thousands PLN unless stated otherwise)

**Share options granted and exercisable as at respective balance sheet dates, and changes in the presented periods:**

| SHARE OPTIONS | | 01.01-31.12.2015 | 01.01-31.12.2014 |
|---|---|---|---|
| **Unexercised options at the beginning of the period** | **Number of options** | **260 651** | **417 001** |
| | **Total exercise price** | **6 746** | **22 594** |
| Options granted in the period | Number of options | - | - |
| | Total option exercise value | - | - |
| Options expired in the period | Number of options | 109 241 | 139 275 |
| | Total option exercise value | 615 | 15 593 |
| Options exercised in the period | Number of options | 1 000 | 17 075 |
| | Total option exercise value | 15 | 255 |
| | Weighted average exercise price per share (PLN per share) | 14.91 | 14.91 |
| **Unexercised options at the end of the period** | **Number of options** | **150 410** | **260 651** |
| | **Total exercise price** | **6 116** | **6 746** |
| Exercisable options at the beginning of the period | Number of options | 164 185 | 314 535 |
| | Total exercise price | 6 650 | 22 234 |
| Exercisable options at the end of the period | Number of options | 150 410 | 164 185 |
| | Total exercise price | 6 116 | 6 650 |

Structure of share options granted and not exercised, and not expired as at 31 December 2015:

| Programme | Grant date | Number of options | Exercise price per option (PLN) |
|---|---|---|---|
| Programme II | 10.12.2009 | 149 410 | 40.64 |
| Programme II | 12.07.2011 | 1 000 | 44.16 |
| **Total** | | **150 410** | |

## 7.45. Remuneration of members of the Company's management and supervisory bodies

| Remuneration for key executives | 01.01-31.12.2015 | 01.01-31.12.2014 |
|---|---|---|
| **1. The Management Board** | | |
| Remuneration | 6 117 | 6 828 |
| including payments from profit | - | - |
| Non-pay benefits | 54 | 54 |
| **Total remuneration** | **6 171** | **6 882** |
| **2. The Supervisory Board** | | |
| Remuneration | 1 158 | 1 124 |

The composition of the Management Board and the Supervisory Board as at 31 December 2015 has been presented in note 7.48.

(all amounts in thousands PLN unless stated otherwise)

**Service agreements between members of the management and supervisory bodies and the Company or its subsidiaries defining the benefits to be paid upon termination of the employment contracts**

Members of the Management Board of the Company: Jarosław Szanajca, Janusz Zalewski, Janusz Stolarczyk and Małgorzata Kolarska are employed by the Company on the basis of employment contracts.

Under these contracts, the employment of individual members of the Management Board may be terminated pursuant to the following conditions:

| Full name of the member of the Management Board | Notice period (months) when given by | | Comments | |
|---|---|---|---|---|
| | the Company | the Employee | | |
| Szanajca Jarosław | 8 | 8 | First payment of 50% of 8-times monthly remuneration to be paid after providing a termination notice | The balance of 50% to be paid in 5 equal monthly payments |
| Małgorzata Kolarska | 6 | 6 | No special clauses | |
| Janusz Zalewski | 6 | 6 | No special clauses | |
| Stolarczyk Janusz | 9 | 3 | First payment of 50% of 9-times monthly remuneration to be paid after providing a termination notice | The balance of 50% to be paid in 8 equal monthly payments |

## 7.46. Contingent liabilities

| CONTINGENT LIABILITIES | 31.12.2015 | 31.12.2014 |
|---|---|---|
| Guarantees | 111 | 141 |
| Sureties | - | 367 |
| **Total** | **111** | **508** |

Additionally, some of the Company's liabilities are secured with promissory notes:

| COLLATERALS FOR LIABILITIES | 31.12.2015 | 31.12.2014 |
|---|---|---|
| Promissory notes, including: | | |
| – promissory notes as an additional guarantee for PKO BP bank in respect of claims arising from the granted loan | 100 000 | 210 000 |
| – promissory notes as other guarantees | - | - |
| **Total** | **100 000** | **210 000** |

## 7.47. Material court cases as at 31 December 2015

As at 31 December 2015 the companies operating within the Group were not a party to any material court cases.

## 7.48. Changes in the composition of the Management Board and the Supervisory Board of the Company

**The Management Board**

No changes in the composition of the Management Board took place in 2015.

As at 31 December 2015 the Management Board of Dom Development S.A. was composed of 5 members:

Jarosław Szanajca, President of the Management Board

(all amounts in thousands PLN unless stated otherwise)

Janusz Zalewski, Vice President of the Management Board

Małgorzata Kolarska, Vice President of the Management Board

Janusz Stolarczyk, Member of the Management Board

Terry Roydon, Member of the Management Board

**The Supervisory Board**

No changes in the composition of the Management Board took place in 2015.

As at 31 December 2015 the Supervisory Board of Dom Development S.A. was composed of seven members:

Grzegorz Kiełpsz, Chairman of the Supervisory Board

Markham Dumas, Vice Chairman of the Supervisory Board

Marek Moczulski, Vice Chairman of the Supervisory Board

Mark Spiteri, Member of the Supervisory Board

Michael Cronk, Member of the Supervisory Board

Włodzimierz Bogucki, Member of the Supervisory Board

Krzysztof Grzyliński, Member of the Supervisory Board.

## 7.49. Additional information on the operating activity of the Company

In the twelve-month period ended 31 December 2015 the following material changes in the portfolio of the Company's development investments under construction took place:

Projects where the construction commenced in the period from 1 January 2015 until 31 December 2015:

| Project | Standard | Number of apartments | Number of commercial units |
|---|---|---|---|
| Saska Apartamenty nad Jeziorem, phase 3 | Popular | 236 | - |
| Dom Pod Zegarem | Popular | 226 | 9 |
| Wille Lazurowa | Popular | 164 | 2 |
| Studio Mokotów | Popular | 319 | 10 |
| Osiedle Przyjaciół, phase 1 | Popular | 115 | 1 |
| Osiedle Przyjaciół, phase 2 | Popular | 88 | 1 |
| Żoliborz Artystyczny, phase 8 | Popular | 218 | - |
| Wilno II, phase 3 | Popular | 185 | 4 |
| Moderna, phase 1 | Popular | 167 | 4 |
| Premium, phase 1 | Popular | 191 | 15 |
| Żoliborz Artystyczny, phase 9 | Popular | 162 | - |
| Apartamenty Bukowińska nad Skarpą | Popular | 183 | 1 |
| Osiedle Przyjaciół, phase 3 | Popular | 93 | 2 |

(all amounts in thousands PLN unless stated otherwise)

Projects where the construction was completed in the period from 1 January 2015 until 31 December 2015:

| Project | Standard | Number of apartments | Number of commercial units |
|---|---|---|---|
| Saska Apartamenty nad Jeziorem, phase 1 | Popular | 162 | 10 |
| Oaza, phase 3 (Wrocław) | Popular | 218 | 16 |
| Wilno II, phase 1 | Popular | 168 | 15 |
| Palladium, phase 2 (Akacje 7 I phase 2) | Popular | 245 | 1 |
| Żoliborz Artystyczny, phase 3 | Popular | 228 | - |
| Wilno, phase 2 (stage 2A) | Popular | 149 | 7 |
| Willa Lindego | Popular | 121 | 8 |
| Osiedle Pod Różami | Popular | 107 | 3 |
| Aura, phase Ia (Wrocław) | Popular | 122 | 2 |
| Saska Apartamenty nad Jeziorem, phase 2 | Popular | 224 | 16 |
| Żoliborz Artystyczny, phase 4 | Popular | 222 | 3 |
| Aleja Piastów, phase 1 (Wrocław) | Popular | 90 | 6 |
| Aleja Piastów, phase 2 (Wrocław) | Popular | 81 | - |
| Rezydencja Mokotów | Luxury apartments | 134 | 8 |

## 7.50. Material post-balance sheet events

No material post-balance sheet events took place at the Group.

## 7.51. Approval of the financial statements for 2014

On 28 May 2015 the Ordinary General Shareholders Meeting of Dom Development S.A. approved the financial statements of Dom Development S.A. for the year ended on 31 December 2014, the Management's report of activities of Dom Development S.A. in 2014 and the consolidated financial statements of Dom Development S.A. Capital Group for the year ended on 31 December 2014 and the Management's report of activities of Dom Development S.A. Capital Group in 2014, as presented by the Management Board. The Ordinary General Shareholders Meeting gave a vote of approval for the Management Board for the year 2014.

## 7.52. Forecasts

The Management Board of Dom Development S.A. does not publish any financial forecasts concerning both, the parent company and the Capital Group.

## 7.53. Information on remuneration of the statutory auditor or the entity authorised to audit financial statements

Fee (net, exclusive of VAT) of Ernst & Young Audyt Polska spółka z o.o. spółka komandytowa (limited partnership) that is the entity authorised to audit financial statements of the Company paid or due for the year ended 31 December 2015 and 31 December 2014 broken up by services, is presented in the table below:

| SERVICES | 01.01- -31.12.2015 | 01.01- -31.12.2014 |
|---|---|---|
| – Obligatory audit of annual and review of semi-annual financial statements | 263 | 265 |
| – Other attestation services | - | - |
| – Other services | 2 | 2 |
| **Total** | **265** | **267** |

(all amounts in thousands PLN unless stated otherwise)

## 7.54. Selected financial data translated into EURO

In accordance with the financial reporting requirements the following financial data of the Group have been translated into euro:

| SELECTED DATA FROM THE CONSOLIDATED BALANCE SHEET | 31.12.2015 thousand EURO | 31.12.2014 thousand EURO |
|---|---|---|
| Total current assets | 406 956 | 373 767 |
| Total assets | 411 346 | 376 852 |
| Total shareholders' equity | 207 304 | 201 363 |
| Long-term liabilities | 101 407 | 74 525 |
| Short-term liabilities | 102 635 | 100 964 |
| Total liabilities | 204 042 | 175 489 |
| ***PLN/EURO exchange rate as at the balance sheet date*** | ***4.2615*** | ***4.2623*** |

| SELECTED DATA FROM THE CONSOLIDATED INCOME STATEMENT | 01.01--31.12.2015 thousand EURO | 01.01--31.12.2014 thousand EURO |
|---|---|---|
| Sales revenue | 216 066 | 187 209 |
| Gross profit on sales | 48 735 | 36 295 |
| Operating profit | 24 484 | 16 475 |
| Profit before tax | 24 042 | 16 574 |
| Net profit | 19 306 | 13 352 |
| ***Average PLN/EURO exchange rate for the reporting period*** | ***4.1848*** | ***4.1893*** |