DOM DEVELOPMENT S.A.

FINANCIAL STATEMENTS
FOR THE YEAR ENDED

31 DECEMBER 2016

Prepared in accordance
with the International Financial Reporting Standards

CONTENTS

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

These financial statements for the year ended on 31 December 2016, comprising:

- balance sheet prepared as at 31 December 2016 with the balance of assets and liabilities in the amount of PLN 1 978 252 thousand;
- income statement for the period from 1 January 2016 to 31 December 2016 with a net profit of PLN 127 740 thousand;
- statement of comprehensive income for the period from 1 January 2016 to 31 December 2016 with a total net comprehensive income of PLN 128 073 thousand;
- statement of changes in shareholders' equity in the period from 1 January 2016 to 31 December 2016 with the balance of shareholders' equity in the amount of PLN 931 129 thousand as at 31 December 2016;
- cash flow statement for the period from 1 January 2016 to 31 December 2016 with the PLN 412 335 thousand net cash and cash equivalents as at 31 December 2016;
- additional notes to the financial statements.

were prepared and approved by the Management Board of the Company on 27 February 2017.

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. BALANCE SHEET

ASSETS	Note	31.12.2016	31.12.2015
Fixed assets			
Intangible assets	7.6	3 923	3 504
Tangible fixed assets	7.7	6 973	7 032
Investments in subsidiaries, associates and jointly controlled entities	7.9	151 108	50
Long-term receivables	7.10	1 523	1 523
Other long-term assets		7 413	6 651
Total fixed assets		**170 940**	**18 760**
Current assets			
Inventory	7.11	1 360 371	1 478 660
Trade and other receivables	7.12	9 231	27 674
Other current assets	7.13	2 612	2 668
Short-term financial assets	7.14	22 763	3 747
Cash and cash equivalents	7.15	412 335	217 201
Total current assets		**1 807 312**	**1 729 950**
Total assets		**1 978 252**	**1 748 710**

EQUITY AND LIABILITIES	Note	31.12.2016	31.12.2015
Shareholders' equity			
Share capital	7.16	24 782	24 771
Share premium	7.17	234 986	234 534
Other capital (supplementary capital)		542 696	517 466
Reserve capital from valuation of share options	7.45	-	25 126
Reserve capital from valuation of cash flow hedges		415	82
Reserve capital from reduction of share capital		510	510
Unappropriated profit		127 740	80 647
Total shareholders' equity		**931 129**	**883 136**
Liabilities			
Long-term liabilities			
Loans, long-term portion	7.20	-	100 000
Bonds, long-term portion	7.21	260 000	270 000
Deferred tax provision	7.23	17 023	20 064
Long-term provisions	7.24	14 346	11 354
Other long-term liabilities	7.25	34 369	30 729
Total long-term liabilities		**325 738**	**432 147**
Short-term liabilities			
Trade payables, tax and other liabilities	7.26	219 827	186 752
Loans, short-term portion	7.20	-	-
Bonds, short-term portion	7.21	120 000	-
Accrued interest on loans and bonds	7.22	3 897	3 403
Corporate income tax payables	7.33	23 057	1 150
Short-term provisions	7.27	5 546	7 112
Deferred income	7.28	349 058	235 010
Total short-term liabilities		**721 385**	**433 427**
Total liabilities		**1 047 123**	**865 574**
Total equity and liabilities		**1 978 252**	**1 748 710**

(all amounts in thousands PLN unless stated otherwise)

3. INCOME STATEMENT

	Note	Year ended 31.12.2016	Year ended 31.12.2015
Sales revenue	**7.35**	1 161 973	904 206
Cost of sales	**7.36**	(890 824)	(700 248)
Gross profit on sales		**271 149**	**203 958**
Selling costs	**7.36**	(47 389)	(45 645)
General administrative expenses	**7.36**	(57 500)	(49 235)
Other operating income	**7.38**	3 290	3 645
Other operating expenses	**7.39**	(10 581)	(10 453)
Operating profit		**158 969**	**102 270**
Financial income	**7.40**	2 430	1 994
Financial costs	**7.41**	(3 172)	(3 829)
Profit before tax		**158 227**	**100 435**
Income tax	**7.33**	(30 487)	(19 788)
Net profit		**127 740**	**80 647**
Earnings per share:			
Basic (PLN)	**7.32**	**5.16**	**3.26**
Diluted (PLN)	**7.32**	**5.15**	**3.25**

(all amounts in thousands PLN unless stated otherwise)

4. STATEMENT OF COMPREHENSIVE INCOME

	Year ended	
	31.12.2016	**31.12.2015**
Net profit	**127 740**	**80 647**
Other comprehensive income		
Net change to cash flow hedges	411	101
Income tax	(78)	(19)
Other net comprehensive income	**333**	**82**
Total net comprehensive income	**128 073**	**80 729**

(all amounts in thousands PLN unless stated otherwise)

5. CASH FLOW STATEMENT

	Note	Year ended 31.12.2016	31.12.2015
Cash flow from operating activities			
Profit before tax		**158 227**	**100 435**
Adjustments:			
Depreciation		5 396	4 409
(Profit)/loss on foreign exchange differences		20	56
(Profit)/loss on investments		(28)	32
Interest cost/(income)		17 665	17 749
Changes in the operating capital			
Changes in provisions		1 425	(2 540)
Changes in inventory		112 997	(252 296)
Changes in receivables		18 442	(22 013)
Changes in short-term liabilities, excluding loans and bonds		13 872	51 812
Changes in prepayments and deferred income		113 616	80 198
Other adjustments		(20)	(56)
Cash flow generated from operating activities		**441 612**	**(22 214)**
Interest received		3 636	5 769
Interest paid		(15 639)	(18 938)
Income tax paid		(11 699)	(8 341)
Net cash flow from operating activities		**417 910**	**(43 724)**
Cash flow from investing activities			
Cash flow from investing activities		200	-
Proceeds from the sale of intangible assets and tangible fixed assets		428	226
Proceeds from borrowings granted		210	215
Bank deposits with a maturity over three months (made and/or closed)		-	29 999
Acquisition of intangible and tangible fixed assets		(5 765)	(6 157)
Acquisition of financial assets		(151 258)	(1 005)
Net cash flow from investing activities		**(156 185)**	**23 278**
Cash flows from financing activities			
Proceeds from issue of shares (exercise of share options)		3 952	-
Proceeds from contracted loans	**7.20**	100 000	80 000
Commercial papers issued	**7.21**	110 000	100 000
Repayment of loans and borrowings	**7.20**	(200 000)	(104 000)
Redemption of commercial papers	**7.21**	-	(100 000)
Dividends paid	**7.19**	(80 543)	(55 735)
Net cash flow from financing activities		**(66 591)**	**(79 735)**
Increase / (decrease) in net cash and cash equivalents		**195 134**	**(100 181)**
Cash and cash equivalents – opening balance	**7.15**	**217 201**	**317 382**
Cash and cash equivalents – closing balance	**7.15**	**412 335**	**217 201**

(all amounts in thousands PLN unless stated otherwise)

6. 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)	Total shareholders' equity
Balance as at 1 January 2016	**24 771**	**234 534**	**517 466**	**510**	**82**	**25 126**	**80 647**	**883 136**
Share capital increase by exercising share options (note 7.16, 7.17)	11	452	-	-	-	-	-	**463**
Transfer of profit to supplementary capital	-	-	104	-	-	-	(104)	**-**
Payment of dividends to shareholders	-	-	-	-	-	-	(80 543)	**(80 543)**
Creation of reserve capital from the valuation of the share options (note 7.44)	-	-	25 126	-	-	(25 126)	-	**-**
Net profit for the reporting period	-	-	-	-	-	-	127 740	**127 740**
Other net comprehensive income for the reporting period	-	-	-	-	333	-	-	**333**
Balance as at 31 December 2016	**24 782**	**234 986**	**542 696**	**510**	**415**	**0**	**127 740**	**931 129**

	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)	Total shareholders' equity
Balance as at 1 January 2015	**24 770**	**234 520**	**517 379**	**510**	**0**	**25 126**	**55 822**	**858 127**
Share capital increase by exercising share options (note 7.16, 7.17)	1	14	-	-	-	-	-	**15**
Transfer of profit to supplementary capital	-	-	87	-	-	-	(87)	**-**
Payment of dividends to shareholders	-	-	-	-	-	-	(55 735)	**(55 735)**
Creation of reserve capital from the valuation of the share options	-	-	-	-	-	-	-	**-**
Net profit for the reporting period	-	-	-	-	-	-	80 647	**80 647**
Other net comprehensive income for the reporting period	-	-	-	-	82	-	-	**82**
Balance as at 31 December 2015	**24 771**	**234 534**	**517 466**	**510**	**82**	**25 126**	**80 647**	**883 136**

7. ADDITIONAL NOTES TO THE FINANCIAL STATEMENTS

7.1. General information about Dom Development S.A.

The joint stock company Dom Development S.A. (the "Company") is the parent company of Dom Development S.A. Capital Group (the "Group"). The registered office of the Company is in Warsaw (00-078 Warsaw, Pl. Piłsudskiego 3). The Company has been 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 Company 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 2016, Dom Development B.V. controlled 59.42% of the Company's shares and was a parent company for Dom Development S.A.

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

The Company conducts its activities in the territory of Poland in compliance with the Code of Commercial Companies and Partnerships and its term of operations is unlimited.

In the twelve-month period ended 31 December 2016 the Company did not discontinue any of its activities.

7.2. Basis for the preparing of the financial statements

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

The financial statements have been prepared on the assumption that the Company 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 Company are known as at the date of the approval of these financial statements.

The Polish zloty is the functional currency for the Company. These financial statements are stated in Polish zloty (PLN). Financial data included in the financial statements are expressed in thousands of PLN unless stated otherwise.

The Company has also prepared consolidated financial statements for Dom Development S.A. Capital Group for the twelve-month period ended 31 December 2016. These statements were approved by the Management Board of the Company on 27 February 2017.

7.3. Compliance statement

Polish law requires the Company to prepare its 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 Company, in the context of accounting policies applied by the Company 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 2016.

These 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").

These financial statements are prepared based on the same accounting principles (policies) as for the financial statements of the Company for the year ended 31 December 2015, except for the following amendments to existing standards and new interpretations that are effective for annual periods beginning on 1 January 2016:

- Amendments to IAS 19 *Defined benefit plans*: *Employee contributions* (published on 21 November 2013),
- Improvements resulting IFRS reviews 2010-2012 (published on 12 December 2013),
- Amendments to IFRS 11 *Accounting for Acquisitions of Interests in Joint Operations* (published on 6 May 2014),
- Amendments do IAS 16 and IAS 38 *Clarification of Acceptable Methods of Depreciation and Amortisation* (published on 12 May 2014),
- Amendments to IAS 16 and IAS 41 *Agriculture: Bearer Plants* (published on 30 June 2014),
- Amendments to IAS 27 *Equity Method in Separate Financial Statements* (published on 12 August 2014),
- Improvements resulting IFRS reviews 2012-2014 (published on 25 September 2014),
- Amendments to IAS 1 *Disclosure Initiative* (published on 18 December 2014).
- Amendments to IFRS 10, IFRS 12 and IAS 28 *Investment Entities*: *Applying of the Consolidation Exception* (published on 18 December 2014).

The introduced amendments and new standards were scrutinized by the Company and they do not materially affect the Company's financial position, operating results or the scope of information presented in these 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) – effective for annual periods beginning on or after 1 January 2018,
- 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,
- 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) – effective for annual periods beginning on or after 1 January 2018,
- 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) – endorsement of these amendments have been deferred indefinitely by the EU – effective date deferred indefinitely by IASB,
- IFRS 16 *Leases* (published on 13 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 2019,
- Amendments to IFRS 4 *Application of IFRS 9 Financial Instruments* with IFRS 4 *Insurance contracts* (published on 12 September 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 2018,
- 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,
- Clarifications to IFRS 15 *Revenue from Contracts with Customers* (published on 12 April 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 2018,
- Amendments to IFRS 2 *Classification and Measurement of Share-based Payment Transactions* (published on 20 June 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 2018.

- *Improvements resulting from IFRS reviews 2014-2016* (published on 8 December 2016) – not endorsed by the EU until the date of approval of these financial statements – Improvements to IFRS 12 are effective for annual periods beginning on or after 1 January 2017, and Improvements to IFRS 1 and IAS 28 are effective for annual periods beginning on or after 1 January 2018,
- Interpretation IFRIC 22 *Foreign Currency Transactions and Advance Consideration* (published on 8 December 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 2018,
- Amendments to IAS 40: *Transfer of Investment Property* (published on 8 December 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 2018.

The Management Board is verifying effect of the above standards on the Company's financial position, operating results or the scope of information presented in the Company's financial statements and no significant changes are expected.

7.4. Significant accounting policies

Investments in subsidiaries, associates and jointly controlled entities

Shares in subsidiaries, associates and jointly controlled entities are stated at historical acquisition cost less impairment write downs.

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, which is immediately recognised in the income statement. The write down may also relate to the property, for which an inherent risk of postponement is associated with the development process.

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 Company: 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 Company has 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 Company 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" - 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 Company'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 Company 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.

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.

(all amounts in thousands PLN unless stated otherwise)

7.6. Intangible assets

	Other intangible assets	Computer software	Total
GROSS VALUE			
Balance as at 1 January 2015	**3 741**	**4 157**	**7 898**
Increments	2 343	688	3 031
(Disposals)	(55)	(24)	(79)
Balance as at 31 December 2015	**6 029**	**4 821**	**10 850**
Increments	2 662	671	3 333
(Disposals)	(45)	-	(45)
Balance as at 31 December 2016	**8 646**	**5 492**	**14 138**
DEPRECIATION			
Balance as at 1 January 2015	**2 100**	**3 205**	**5 305**
Increments	1 474	646	2 120
(Disposals)	(55)	(24)	(79)
Balance as at 31 December 2015	**3 519**	**3 827**	**7 346**
Increments	2 175	732	2 907
(Disposals)	(38)	-	(38)
Balance as at 31 December 2016	**5 656**	**4 559**	**10 215**
NET VALUE			
as at 31 December 2015	**2 510**	**994**	**3 504**
as at 31 December 2016	**2 990**	**933**	**3 923**

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 2016 there were no circumstances that would require the Company to create revaluation write downs for its intangible assets.

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

No collaterals have been established on intangible assets.

(all amounts in thousands PLN unless stated otherwise)

7.7. Tangible fixed assets

TANGIBLE FIXED ASSETS	31.12.2016	31.12.2015
Tangible fixed assets, including:		
- plants and equipment	734	690
- vehicles	3 913	4 114
- other tangible fixed assets	2 326	2 228
Total tangible fixed assets	**6 973**	**7 032**

TANGIBLE FIXED ASSETS	Land and buildings	Vehicles	Equipment and other tangible fixed assets	Total
GROSS VALUE				
Balance as at 1 January 2015	**-**	**7 379**	**7 819**	**15 198**
Increments	-	1 869	1 295	3 164
(Disposals)	-	(1 191)	(606)	(1 797)
Balance as at 31 December 2015	**-**	**8 057**	**8 508**	**16 565**
Increments	-	1 398	1 376	2 774
(Disposals)	-	(1 301)	(742)	(2 043)
Balance as at 31 December 2016	**-**	**8 154**	**9 142**	**17 296**
ACCUMULATED DEPRECIATION				
Balance as at 1 January 2015	**-**	**3 807**	**5 105**	**8 912**
Increments	-	1 265	1 023	2 288
(Disposals)	-	(1 129)	(538)	(1 667)
Balance as at 31 December 2015	**-**	**3 943**	**5 590**	**9 533**
Increments	-	1 379	1 110	2 489
(Disposals)	-	(1 081)	(618)	(1 699)
Balance as at 31 December 2016	**-**	**4 241**	**6 082**	**10 323**
NET VALUE				
as at 31 December 2015	**-**	**4 114**	**2 918**	**7 032**
as at 31 December 2016	**-**	**3 913**	**3 060**	**6 973**

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

As at 31 December 2016 there were no circumstances that would require the Company to create revaluation write downs for its tangible fixed assets.

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 the Company is 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. Investments in subsidiaries, associates and jointly controlled entities

INTEREST IN SUBSIDIARIES, ASSOCIATES AND JOINTLY CONTROLLED ENTITIES	Status as at 31.12.2016				Status as at 31.12.2015			
	Company's interest (%)	Value of total investment	Value of impairment write down	Net investment carrying value	Company's interest (%)	Value of total investment	Value of impairment write down	Net investment carrying value
Fort Mokotów sp. z o.o., under liquidation	49%	1 960	1 960	**0**	49%	1 960	1 960	**0**
Dom Development Grunty spółka z o.o.	46%	24	24	**0**	46%	24	24	**0**
Dom Development Morskie Oko sp. z o.o., under liquidation	100%	50	-	**50**	100%	50	-	**50**
Dom Development Wrocław sp. z o.o.	100%	14 647	-	**14 647**	-	-	-	**-**
Fort Mokotów Inwestycje sp. z o.o., under liquidation*)	100%	136 411	-	**136 411**	-	-	-	**-**
Total				**151 108**				**50**

*) The costs incurred by the Company in connection with the purchase of shares in FMI has been included in the carrying value of the FMI investment; these costs increased item "value of shares at purchase price".

- Fort Mokotów sp. z o.o., under liquidation

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 2016 and as at 31 December 2015.

- Dom Development Grunty spółka z o.o.

The Company holds 46.00% of the share capital in Dom Development Grunty spółka z o.o., a company operating within the Group and dealing with real estate purchase transactions. The nominal value of the shares in this entity disclosed in the Company's balance sheet is PLN 24 thousand. Due to negative accumulated financial results presented by the company as at 31 December 2016 and 31 December 2015, and based on the Company's Management assessment, it was necessary to make revaluation write downs for the total value of the shares.

- Dom Development Morskie Oko sp. z o.o., under liquidation

The Company holds 100.00% of the share capital in Dom Development Morskie Oko spółka z o.o., under liquidation. The nominal value of the shares owned by the Company in this entity is PLN 50 thousand and equals the historical amount paid for the shares. As at 31 December 2016 and 31 December 2015, the carrying value of these shares equals the purchase price paid.

- Fort Mokotów Inwestycje sp. z o.o., under liquidation

On 28 July 2016, the Company purchased 100% of the shares in Fort Mokotów Inwestycje sp. z o.o. (hereinafter "FMI") for PLN 129 353 thousand, thus it indirectly acquired the perpetual usufruct right to the land in Warsaw owned by FMI. Due to the nature of the transaction, this purchase was disclosed in the consolidated financial statements of the Dom Development S.A. Capital Group as purchase of assets rather than purchase of an enterprise. The value of the shares was increased by the costs incurred in connection with the purchase of shares.

Along with the purchase of shares, on 28 July 2016, the Company took up 4 250 newly issued shares with PLN 1 000 nominal value each, and paid them up in cash. These funds were almost entirely intended for the repayment of the loan of the company.

The Company does not intend to carry out operations through FMI. This project will be implemented through the Company. FMI was put into liquidation on 16 September 2016.

(all amounts in thousands PLN unless stated otherwise)

- Dom Development Wrocław sp. z o.o. (formerly Vratislavia Dom Development sp. z o.o.)

This company was registered on 22 March 2016. On 9 March 2016, subscribed capital in the amount of PLN 4 000 thousand was paid up. All of the capital has been subscribed by Dom Development S.A.
In 2016, the Company made two repayable additional contributions to the share capital: on 27 June in the amount of PLN 8 645 thousand and on 8 December 2016 in the amount of PLN 2 000 thousand.
The scope of operations of this company involves real estate development projects in the Wrocław area.

7.10. Long-term receivables

As at 31 December 2016 and 31 December 2015, the Company disclosed long-term receivables in the amount of PLN 1 523 thousand and PLN 1 523 thousand respectively. As at 31 December 2016 and 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. 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	**31.12.2016**	**31.12.2015**
Advances on deliveries	**40 046**	**22 347**
including: at purchase prices/production costs	40 215	22 516
write down to the net realisable value	(169)	(169)
Semi-finished goods and work in progress	**1 060 476**	**1 127 277**
including: at purchase prices/production costs	1 082 276	1 138 213
write down to the net realisable value	(21 800)	(10 936)
Finished goods	**259 849**	**329 036**
including: at purchase prices/production costs	268 172	334 691
write down to the net realisable value	(8 323)	(5 655)
Total	**1 360 371**	**1 478 660**

INVENTORY REVALUATION WRITE DOWNS	**01.01- - 31.12.2016**	**01.01- - 31.12.2015**
Opening balance	**16 760**	**15 699**
Increments	15 744	9 782
Decrease	(2 212)	(8 721)
Closing balance	**30 292**	**16 760**

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

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	**31.12.2016**	**31.12.2015**
Carrying value of inventory used to secure liabilities	300 000	205 494
Mortgages: Value of mortgages established to secure real estate purchase agreements	-	4 200
Value of mortgages established to secure loan agreements (cap)	300 000	300 000

(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- -31.12.2016	01.01- -31.12.2015
Preparatory works	992	573

7.12. Trade and other receivables

TRADE AND OTHER RECEIVABLES	31.12.2016	31.12.2015
Trade receivables	5 277	3 842
Receivables from related entities	171	170
Tax receivables	2 567	13 706
Other receivables	1 216	9 956
Total	**9 231**	**27 674**

The tax receivables incorporate VAT receivables in the amount of PLN 2 567 thousand and PLN 13 706 thousand as at 31 December 2016 and 31 December 2015 respectively.

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

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

AGING STRUCTURE OF TRADE RECEIVABLES	31.12.2016	31.12.2015
Up to 3 months	4 752	3 273
From 3 to 6 months	109	79
From 6 months to 1 year	235	297
Over 1 year	2 611	2 703
Gross trade receivables	**7 707**	**6 352**
Receivables revaluation write downs	(2 430)	(2 510)
Net trade receivables	**5 277**	**3 842**

The write downs fully relate to overdue trade receivables.

CHANGE IN THE WRITE DOWNS FOR TRADE AND OTHER RECEIVABLES	01.01- -31.12.2016	01.01- -31.12.2015
Opening balance	**3 975**	**4 034**
a) Additions	2	-
b) Disposals	(547)	(59)
Closing balance	**3 430**	**3 975**

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	31.12.2016	31.12.2015
Deferred costs	1 995	2 267
Accrued financial income on deposits	617	401
Total	**2 612**	**2 668**

7.14. Short-term financial assets

SHORT-TERM FINANCIAL ASSETS	31.12.2016	31.12.2015
Bank deposits with a maturity over three months	49	48
Cash in open-end residential escrow accounts	21 483	3 496
Cash in other escrow accounts	1 231	203
Total	**22 763**	**3 747**

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 Company 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 Company's customers as advances for the sale of products which is deposited in open-end residential 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 residential 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	31.12.2016	31.12.2015
Cash in hand and at bank	4 032	5 887
Short-term deposits	408 280	211 272
Other	23	42
Total	**412 335**	**217 201**

7.16. Share capital

Description of changes to the share capital in the Company in the period from 1 January until 31 December 2016

Change in the reporting period	Share capital		Share premium
	Number of shares	Value at the nominal value	
Balance as at 31.12.2015	**24 771 272**	**24 771**	**234 534**
Change	11 320	11	452
Balance as at 31.12.2016	**24 782 592**	**24 782**	**234 986**

(all amounts in thousands PLN unless stated otherwise)

On 21 March 2016 the Management Board of the Company adopted a resolution to increase the Company's share capital by issuing 10 320 U series ordinary bearer shares with the nominal value of PLN 1.00 each and 1 000 V series ordinary bearer shares with the nominal value of PLN 1.00 each, as a part of the authorised capital from the then current amount of PLN 24 771 272.00 up to PLN 24 782 592.00, that is by PLN 11 320.00. The U series and V series shares were issued in a private placement procedure addressed to participants in Management Share Option Programme II. On 17 May 2016, this increase of the Company's share capital was registered by the District Court for the capital city of Warsaw in Warsaw, 12th Commercial Division of the National Court Register. 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 1 June 2016.

Moreover, on 5 December 2016 the Management Board of Dom Development S.A. adopted a resolution to increase the share capital by issuing 85 830 W series ordinary bearer shares as a part of the authorised capital from the then current amount of PLN 24 782 592 up to PLN 24 868 422, that is by PLN 85 830. The W series shares were issued in a private placement procedure addressed to participants in Management Share Option Programme II. These shares were registered by the District Court for the capital city of Warsaw in Warsaw, 12th Commercial Division of the National Court Register on 10 January 2017. In the Company balance sheet as at 31 December 2016 these shares were not disclosed in the share capital, and the payments in the amount of PLN 3 488 thousand for the subscription of these shares were disclosed as “short-term liabilities”.

SHARE CAPITAL (STRUCTURE) AS AT 31.12.2016								
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
U	Bearer	-	-	10 320	10 320	cash	17.05.2016	01.06.2016
V	Bearer	-	-	1 000	1 000	cash	17.05.2016	01.06.2016
Total number of shares				**24 782 592**				
Total share capital					**24 782 592**			
Nominal value per share = PLN 1								

(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 2016.

	Status as at 31 December 2016			
	Shares	**% of capital**	**Number of votes at the GSM**	**% of votes at the GSM**
Dom Development B.V.	14 726 172	59.42	14 726 172	59.42
Jarosław Szanajca	1 454 050	5.87	1 454 050	5.87
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) has been presented as per the latest notice dated 11.07.2011 received by the Company from Aviva PTE Aviva BZ WBK S.A.

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 2016.

	Status as at 31 December 2016		
	Shares	**Share options**	**Total**
The Management Board			
Jarosław Szanajca	1 454 050	-	1 454 050
Janusz Zalewski*)	281 000	-	281 000
Małgorzata Kolarska	6 500	-	6 500
Janusz Stolarczyk **)	105 200	-	105 200
Terry Roydon	58 500	-	58 500
The Supervisory Board			
Grzegorz Kiełpsz	1 280 750	-	1 280 750
Mark Spiteri	900	-	900

*) On 7 December 2016, as a part of exercise of share options, Mr Janusz Zalewski subscribed for 69,000 of shares. These shares were registered on 10 January 2017. The shareholding of Mr Janusz Zalewski in Dom Development S.A. as at the day of the approval of these statements is 350 000 shares.

*) On 6 December 2016, as a part of exercise of share options, Mr Janusz Stolarczyk subscribed for 16 830 of shares. These shares were registered on 10 January 2017. The shareholding of Mr Janusz Stolarczyk in Dom Development S.A. as at the day of the approval of these statements is 122 030 shares.

7.17. Share premium

In the twelve-month period ended 31 December 2016, the value of the item "Share premium" changed by PLN 452 thousand as a result of the increase of the share capital, described in note 7.16.

The value of the share premium was PLN 234 986 thousand and PLN 234 534 thousand as at 31 December 2016 and 31 December 2015 respectively.

7.18. Additional information on shareholders' equity

As at 31 December 2016 and 31 December 2015 the Company's shares were not owned by any of its subsidiaries.

In the twelve-month period ended 31 December 2016 and 2015 the Company did not hold any treasury shares.

(all amounts in thousands PLN unless stated otherwise)

7.19. Dividend and profit distribution

On 2 June 2016, the Ordinary General Meeting of the Shareholders of the Company resolved to appropriate PLN 80 543 424.00 from the Company's profit for 2015 to dividends. This implies the payment of PLN 3.25 per share. While the amount of PLN 103 942.31 was allocated to the increase of the Company's supplementary capital.

The dividend day was set at 22 June 2016 and the dividend payment day was set at 6 July 2016. The dividend was paid out in accordance with the adopted resolution.

In the preceding year, PLN 55 735 362.00 was appropriated to dividends and the dividend payment amounted to PLN 2.25 per share, while PLN 86 610.22 was allocated to the increase of the Company's supplementary capital.

7.20. Loans

Description of material changes in the twelve-month period ended 31 December 2016

In the twelve-month period ended 31 December 2016 the Company did not enter into any new credit facility agreements. Total loan liabilities decreased by PLN 100 million in the period concerned. The structure of these liabilities in terms of their maturity has been presented in the table below.

LOANS DUE WITHIN		31.12.2016	31.12.2015
Less than 1 year		-	-
More than 1 year and less than 2 years		-	30 000
More than 2 years and less than 5 years		-	70 000
Over 5 years			-
Total loans		**-**	**100 000**
including:	long-term	-	100 000
	short-term	-	-

As at 31 December 2016 and 31 December 2015 all the loans taken by the Company were expressed in Polish zloty.

BANK LOANS AS AT 31.12.2016						
Bank	**Registered office**	**Loan amount as per agreement**	**Currency**	**Outstanding loan amount (less accrued interest)**	**Currency**	**Due date**
mBank	Warsaw	50 000*)	PLN	-	PLN	03.02.2017
mBank	Warsaw	50 000*)	PLN	-	PLN	21.05.2019
PKO BP SA	Warsaw	100 000*)	PLN	-	PLN	26.07.2019
Total bank loans				**-**	**PLN**	

*) Revolving loan in the credit facility account

In the "Loans" item the Company states the nominal value of loan 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 loans is correlated to the WIBOR interest rate, the Company's Management Board estimates that the fair value of the loans taken by the Company approximately equals their book value, including accrued interest.

(all amounts in thousands PLN unless stated otherwise)

7.21. Bonds

BONDS	31.12.2016	31.12.2015
Nominal value of the bonds issued, long-term portion	260 000	270 000
Nominal value of the bonds issued, short-term portion	120 000	-
Nominal value of the bonds issued	**380 000**	**270 000**

In the "Bonds" item the Company 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 2016

On 15 November 2016, the Company issued 110 000 unsecured bearer bonds with the nominal value of PLN 1 000 each and the aggregate nominal value of PLN 110 million. The maturity date for these bonds is 15 November 2021. 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.

BONDS ISSUED AS AT 31 December 2016				
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
VI	15.11.2016	110 000	PLN	15.11.2021
	Total:	**380 000**	**PLN**	

7.22. Accrued interest on loans and bonds

ACCRUED INTEREST ON LOANS AND BONDS	31.12.2016	31.12.2015
Accrued interest on bonds	3 897	3 403
Accrued interest on loans	-	-
Total accrued interest on loans and bonds	**3 897**	**3 403**

(all amounts in thousands PLN unless stated otherwise)

7.23. Deferred tax assets and provisions

Deferred tax is the outcome of the following items:

	Balance sheet		Income statement / Statement of comprehensive income	
	31.12.2016	**31.12.2015**	**01.01-31.12.2016**	**01.01-31.12.2015**
Deferred tax provision				
Foreign exchange differences	1	5	(4)	(10)
Accrued interest	117	76	41	(91)
Discounting of liabilities	793	533	260	120
Result on the sale of units – without legal ownership transfer agreements	25 945	24 028	1 917	10 663
Capitalised financial costs	3 441	4 555	(1 114)	(33)
Other	2	4	(2)	2
Total deferred tax provision	**30 299**	**29 201**	**1 098**	**10 651**
Deferred tax assets				
Foreign exchange differences	-	-	-	-
Inventory revaluation	5 723	3 152	2 571	202
Receivables revaluation write downs and other provisions	178	193	(15)	7
Provision for employee benefits	3 298	2 306	992	282
Provision for other costs	4 102	3 406	696	(221)
Financial costs	-	-	-	-
Valuation of financial assets	(30)	75	(105)	(10)
Other	5	5	-	-
Total deferred tax assets	**13 276**	**9 137**	**4 139**	**260**
Deferred tax expense concerning income statement			**(3 119)**	**10 372**
Deferred tax expense concerning other net comprehensive income			**78**	**19**
Deferred tax provision shown in the balance sheet, net	**17 023**	**20 064**		

7.24. Long-term provisions

LONG-TERM PROVISIONS	31.12.2016	31.12.2015
Provision for repair costs, long-term portion	13 875	10 934
Provision for retirement benefits	471	420
Total	**14 346**	**11 354**

LONG-TERM PROVISIONS – CHANGES	01.01--31.12.2016	01.01--31.12.2015
Opening balance	**11 354**	**12 040**
Provisions created in the financial year	4 193	3 630
Provisions used/reversed in the financial year	(1 201)	(4 316)
Closing balance	**14 346**	**11 354**

(all amounts in thousands PLN unless stated otherwise)

7.25. Other long-term liabilities

OTHER LONG-TERM LIABILITIES	31.12.2016	31.12.2015
Guarantee retentions, long-term portion	31 157	28 650
Other	3 212	2 079
Closing balance	**34 369**	**30 729**

7.26. Trade payables, tax and other liabilities

TRADE PAYABLES, TAX AND OTHER LIABILITIES Other long-term liabilities	31.12.2016	31.12.2015
Trade payables, including guarantee retentions (short-term portion)	157 982	145 209
Tax liabilities	4 754	1 551
Accrued costs	57 048	39 857
Company Social Benefits Fund	43	135
Total liabilities	**219 827**	**186 752**
Accrued costs structure	**57 048**	**39 857**
- estate construction costs	40 087	27 749
- employee costs	13 368	9 423
- rent for office space	410	628
- other	3 183	2 057

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.

	31.12.2016	31.12.2015
Guarantee retentions, short-term portion	32 357	29 804
Guarantee retentions, long-term portion	31 157	28 650
Total guarantee retentions	**63 514**	**58 454**

7.27. Short-term provisions

SHORT-TERM PROVISIONS	31.12.2016	31.12.2015
Provision for repair costs, short-term portion	4 625	3 644
Provision for disputes	921	3 468
Total	**5 546**	**7 112**

SHORT-TERM PROVISIONS – CHANGES	01.01- -31.12.2016	01.01- -31.12.2015
Opening balance	**7 112**	**8 967**
Provisions created in the financial year	4 625	3 644
Provisions used/reversed in the financial year	(6 191)	(5 499)
Closing balance	**5 546**	**7 112**

(all amounts in thousands PLN unless stated otherwise)

7.28. Deferred income

DEFERRED INCOME	31.12.2016	31.12.2015
Deferred income related to the payments received from customers for the purchase of products, not yet included as income in the income statement	349 052	234 994
Other	6	16
Total	**349 058**	**235 010**

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	31.12.2016	31.12.2015
FINANCIAL ASSETS		
Long-term receivables	1 523	1 523
Trade and other receivables	6 493	13 798
Receivables from related entities	171	170
Total borrowings and receivables	**8 187**	**15 491**
Other	23	42
Financial assets valued at their fair value through the income statement (designated for trading)		
Cash in hand and at bank	4 032	5 887
Short-term deposits	408 280	211 272
Short-term financial assets	22 763	3 747
Maximum credit risk exposure	**443 285**	**236 439**
FINANCIAL LIABILITIES		
Loans	-	100 000
Own bonds issued	383 897	273 403
Trade payables, accrued and other liabilities	249 399	215 795
Financial liabilities valued at amortised cost	**633 296**	**589 198**

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

7.31. Financial risk management

The Company 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 Company'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 Company uses foreign currency derivatives (forward and swap) to hedge its significant F/X transactions.

As at 31 December 2016 and 31 December 2015, the Company 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 Company 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 Company does not have fixed rate loans or bonds. Currently, the Company has medium-term and long-term variable interest rate loans and bonds which results in the cash flow risk exposure.

Furthermore, the Company 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 Company 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	31.12.2016	31.12.2015
Financial assets	435 075	220 906
Financial liabilities	383 897	373 403
Net total	**51 178**	**(152 497)**

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 2016 and 31 December 2015 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 2016				
Variable interest rate assets	1 175	(1 175)	1 175	(1 175)
Variable interest rate liabilities*	(1 037)	1 037	(1 037)	1 037
Net sensitivity	**138**	**(138)**	**138**	**(138)**
31 December 2015				
Variable interest rate assets	596	(596)	596	(596)
Variable interest rate liabilities*	(1 008)	1 008	(1 008)	1 008
Net sensitivity	**(412)**	**412**	**(412)**	**412**

* 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 Company's main financial assets, and represent its highest exposure to credit risk in relation to financial assets.

The Company'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 Company 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 Company against the credit risk.

Credit risk is not highly concentrated in the Company. 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 Company, i.e. the sale of apartments, retail units and garages, 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 Company will not be able to pay its financial liabilities when they become due. The Company'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 Company's reputation.

(all amounts in thousands PLN unless stated otherwise)

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

	Total	0 – 6 months	6 – 12 months	1 – 2 years	2 – 5 years
31 December 2016					
Loans	-	-	-	-	-
Own bonds issued	415 320	125 180	4 810	58 233	227 097
Trade and other payables	249 399	204 011	8 754	6 464	30 170
Total	664 719	329 191	13 564	64 697	257 267
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	220 932	179 222	8 355	7 307	26 048
Total	**627 914**	**186 363**	**15 496**	**166 166**	**259 889**

The Company 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 Company 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 Company.

For the years ended 31 December 2016 and 2015 the return on equity (calculated as net profit to the annual average value of shareholders' equity) amounted to 14.1% and 9.3%, respectively. In that period, the average weighted cost of interest on the Company's debt amounted to 4.2% in 2016 and 4.5% in 2015.

As at 31 December 2016 and 2015 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 (5.9)% and 16.9% respectively.

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

The Company is not a subject to any external capital requirements, except for the legal regulations of the Code of Commercial Companies.

(all amounts in thousands PLN unless stated otherwise)

7.32. Earnings per share

CALCULATION OF BASIC AND DILUTED EARNINGS PER SHARE	01.01-31.12.2016	01.01-31.12.2015
Basic earnings per share		
Profit for calculation of the basic earnings per share	127 740	80 647
The weighted average number of ordinary shares of the Company for the calculation of basic earnings per share	24 778 324	24 771 234
Basic earnings per share (PLN)	**5.16**	**3.26**
Diluted earnings per share		
Profit for calculation of the diluted earnings per share	127 740	80 647
Potential diluting shares related to the Management Share Option Programme	21 980	29 441
The weighted average number of ordinary shares of the Company for the calculation of diluted earnings per share	24 800 304	24 800 675
Diluted earnings per share (PLN)	**5.15**	**3.25**

As the Company 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--31.12.2016	01.01--31.12.2015
Current income tax	33 606	9 416
Deferred tax	(3 119)	10 372
Total	**30 487**	**19 788**

The corporate income tax payables of the Company as at 31 December 2016 and 2015 was PLN 23 057 thousand and PLN 1 150 thousand, respectively.

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 Company is presented in the table below.

RECONCILIATION	01.01--31.12.2016	01.01--31.12.2015
Gross profit before tax	**158 227**	**100 435**
As per 19% tax rate	30 063	19 083
Permanent differences not subject to the current and deferred tax in the financial statements (except for cost of the management options)	424	705
Tax effect of management options permanently not being a tax deductible cost	-	-
Actual income tax expense	**30 487**	**19 788**
Effective tax rate:	**19.27%**	**19.70%**

(all amounts in thousands PLN unless stated otherwise)

Regulations concerning value added tax, corporate income tax and social security contributions are subject to frequent change. These frequent changes result in a lack of reference points, incoherent interpretations and the scarcity of applicable case law. The regulations in force are also riddled with ambiguities, which gives rise to contradictory opinions regarding the interpretation of tax regulations, both among government authorities and business entities.

Tax settlements and other activities (such as customs or foreign currency matters) may be audited by competent authorities, which have the right to impose substantial penalties and fines; any additional tax imposed as a result of an audit carries a hefty interest rate. Accordingly, the tax risk is higher in Poland than in other countries with a more mature tax system.

Consequently, notwithstanding the fact that the Company's tax policies have been very cautious and conservative, it is unlikely but not impossible that the figures presented and disclosed in the financial statements may be subject to change in the future as a result of a final decision of a tax audit authority.

Starting from 15 July 2016, General Anti-Avoidance Rules (GAAR) have been introduced to the Polish Tax Code. The purpose of the GAAR is to prevent the establishment and exploitation of artificial legal schemes aimed at the avoidance of paying taxes in Poland. The GAAR defines tax avoidance as an arrangement whose main purpose is to obtain a tax advantage that defeats, in the given circumstances, the object or purpose of a tax regulation. According to the GAAR, such an arrangement may not result in a tax advantage if it was artificial. Any occurrence of: (i) the division of a transaction into several steps without a valid reason, (ii) the employment of an intermediary despite the absence of an economic or commercial reason to do so, (iii) elements that offset or cancel out one another and/or (iv) any other arrangements similar to those mentioned above may be deemed a premise of an artificial arrangement that is subject to the GAAR provisions. These new regulations will require the courts to exercise a significantly higher degree of consideration when assessing the tax effects of a transaction.

The GAAR provision shall apply to transactions made following its entry into force and to those transactions that were made prior to the entry into force of the GAAR provision but in respect of which tax advantages have been obtained following the entry into force of the GAAR provision. The introduction of the above mentioned regulations will allow Polish tax audit authorities to question the taxpayers' legal arrangements and understandings such as the restructuring and reorganisation of a group.

7.34. Segment reporting

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

7.35. Operating income

REVENUE BREAKDOWN	01.01-31.12.2016	01.01-31.12.2015
Sales of finished goods	1 118 101	887 752
Sales of services	18 921	13 654
Sales of goods (land)	24 951	2 800
Total	**1 161 973**	**904 206**

(all amounts in thousands PLN unless stated otherwise)

7.36. Operating costs

OPERATING COSTS	01.01-31.12.2016	01.01-31.12.2015
Cost of sales		
Cost of finished goods sold	(832 342)	(682 851)
Cost of services sold	(21 662)	(15 136)
Cost of goods sold	(22 384)	(1 200)
Inventory write down to the net realisable value	(14 436)	(1 061)
Total cost of sales	**(890 824)**	**(700 248)**
Selling costs, and general administrative expenses		
Selling costs	(47 389)	(45 645)
General administrative expenses	(57 500)	(49 235)
Total selling costs, and general administrative expenses	**(104 889)**	**(94 880)**
Selling costs, and general administrative expenses by kind		
Depreciation	(5 396)	(4 409)
Cost of materials and energy	(10 885)	(13 881)
External services	(29 199)	(24 881)
Taxes and charges	(117)	(147)
Remuneration	(48 380)	(41 609)
Social security and other benefits	(5 407)	(5 192)
Other prime costs	(5 505)	(4 761)
Total selling costs, and general administrative expenses by kind	**(104 889)**	**(94 880)**

7.37. Payroll costs

PAYROLL COST AND AVERAGE EMPLOYMENT (including the management)	01.01-31.12.2016	01.01-31.12.2015
Individual personnel categories (number of staff)	**163**	**150**
White-collar workers	163	150
Blue-collar workers		
General remuneration elements, including:	**53 787**	**46 801**
Remuneration	48 380	41 609
Social security and other benefits	5 407	5 192

7.38. Other operating income

OTHER OPERATING INCOME	01.01-31.12.2016	01.01-31.12.2015
Revenues from contractual penalties, arrangements and compensations	354	441
Reversal of provision for costs	2 533	2 715
Other	403	489
Total	**3 290**	**3 645**

(all amounts in thousands PLN unless stated otherwise)

7.39. Other operating expenses

OTHER OPERATING EXPENSES	01.01-31.12.2016	01.01-31.12.2015
Provision for penalties and arrangements	51	918
Donations	467	208
Provision for other costs	261	1 026
Bad debt written down	309	685
Cost of repairs and defects (including change in provision)	8 766	7 224
Costs of discontinued projects	356	-
Other	371	392
Total	**10 581**	**10 453**

7.40. Financial income

FINANCIAL INCOME	01.01-31.12.2016	01.01-31.12.2015
Interest on bank deposits and borrowings (non-capitalized part of interest)	994	1 284
Other interest	1 436	659
Foreign exchange differences	-	51
Total	**2 430**	**1 994**

7.41. Financial costs

FINANCIAL COSTS	01.01-31.12.2016	01.01-31.12.2015
Interest on loans and bonds (non-capitalized part of interest)	2 629	3 131
Other interest	27	17
Commissions and fees	246	349
Foreign exchange differences	11	-
Cost from discounting receivables and payables	250	328
Valuation of long-term investments (CAP options)	9	4
Total	**3 172**	**3 829**

7.42. Interest cost

INTEREST COST	01.01-31.12.2016	01.01-31.12.2015
Financial costs (interest) capitalised under work in progress*)	10 129	10 866
Financial costs (interest) disclosed in the income statement	2 656	3 147
Total interest costs	**12 785**	**14 013**

*) 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 2016 and 2015, 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**	**01.01-31.12.2016**	**01.01-31.12.2015**
Woodsford Consulting Limited	Consulting services as per the agreement dated 27 June 2007 as annexed	1 834	1 835
M&M Usługi Doradcze M. Kolarski	Consulting services	136	427
Hansom Property Company Limited	Other	250	262
Hansom Property Company Limited	Consulting services as per the agreement dated 2 January 2001 as annexed	261	295
Kirkley Advisory Limited	Other	124	125
Kirkley Advisory Limited	Consulting services as per the agreement dated 1 March 2012	-	84
Fort Mokotów Inwestycje sp. z o.o., under liquidation	Other	180	-
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	322	194
Dom Development Wrocław sp. z o.o. (formerly Vratislavia Dom Development sp. z o.o.)	Other	8	-
Małgorzata Kolarska, Vice President of the Management Board	Performance under the specific work contract	2 360	-

DOM DEVELOPMENT S.A. AS A SELLER OF GOODS OR SERVICES			
Counterparty	**Transaction description**	**01.01-31.12.2016**	**01.01-31.12.2015**
Fort Mokotów sp. z o.o., under liquidation	Repair services as per the agreement dated 22 July 2005	96	118
Dom Development Grunty sp. z o.o.	Other	6	6
Dom Development Morskie Oko sp. z o.o., under liquidation	Other	5	5
Fort Mokotów Inwestycje sp. z o.o., under liquidation	Other	15	-
Dom Development Wrocław sp. z o.o. (formerly Vratislavia Dom Development sp. z o.o.)	Other	201	-

DOM DEVELOPMENT S.A. AS A LENDER			
Counterparty	**Transaction description**	**01.01-31.12.2016**	**01.01-31.12.2015**
Dom Development Grunty sp. z o.o.	Repayment received for a portion of the borrowing	200	200
Dom Development Grunty sp. z o.o.	Interest accrued on the borrowing	10	15

(all amounts in thousands PLN unless stated otherwise)

DOM DEVELOPMENT S.A. AS A SUBSCRIBER FOR SHARES IN SHARE CAPITAL OF SUBSIDIARIES:

Counterparty	Transaction description	01.01-31.12.2016	01.01-31.12.2015
Dom Development Wrocław sp. z o.o. (formerly Vratislavia Dom Development sp. z o.o.)	Share capital contribution *)	4 000	-
Dom Development Wrocław sp. z o.o. (formerly Vratislavia Dom Development sp. z o.o.)	Additional contribution to the share capital *)	10 645	-
Fort Mokotów Inwestycje sp. z o.o., under liquidation	Share capital increase	4 250	-

*) Share capital contribution and additional contribution to the share capital of the Dom Development Wrocław sp. z o.o. Subsidiary (formerly Vratislavia Dom Development sp. z o.o.) has been recognised in the balance sheet under "Investments in subsidiaries, associates and jointly controlled entities".

DOM DEVELOPMENT S.A. AS A DIVIDEND PAYER

Counterparty	Transaction description	01.01-31.12.2016	01.01-31.12.2015
Dom Development B.V.	Dividend paid	47 860	33 134

DOM DEVELOPMENT S.A. AS A PAYER OF PREPAYMENT UNDER THE AGENCY AGREEMENT

Counterparty	Transaction description	01.01-31.12.2016	01.01-31.12.2015
Dom Development Grunty sp. z o.o.	(net) prepayment for the purchase of land under the agency agreement	14 009	-

DOM DEVELOPMENT S.A. AS A LAND BUYER UNDER AN AGENCY AGREEMENT

Counterparty	Transaction description	01.01-31.12.2016	01.01-31.12.2015
Dom Development Grunty sp. z o.o.	(net) purchase of land under the agency agreement	7 512	814

DOM DEVELOPMENT S.A. AS A LAND SELLER UNDER A SALE AGREEMENT

Counterparty	Transaction description	01.01-31.12.2016	01.01-31.12.2015
Dom Development Wrocław sp. z o.o. (formerly Vratislavia Dom Development sp. z o.o.)	sale of freehold with the rights to the design	8 859	-

(all amounts in thousands PLN unless stated otherwise)

BALANCES WITH RELATED ENTITIES – balances as in the books of the Company				
	Receivables from related entities		Liabilities to related entities	
Entity	31.12.2016	31.12.2015	31.12.2016	31.12.2015
Total balance	**29 342**	**1 570**	**2 203**	**269**
Subsidiaries	**29 332**	**1 547**	**1 988**	**-**
Dom Development Morskie Oko sp. z o.o., under liquidation additional contributions to the share capital	1 147	1 147	-	-
Dom Development Grunty sp. z o.o.	17 431	400	-	-
Dom Development Wrocław sp. z o.o. (formerly Vratislavia Dom Development sp. z o.o.) additional contributions to the share capital	10 645	-	-	-
Dom Development Wrocław sp. z o.o. (formerly Vratislavia Dom Development sp. z o.o.)	95	-	1 988	-
Fort Mokotów Inwestycje sp. z o.o., under liquidation	14	-	-	-
Jointly controlled entities	**10**	**23**	**-**	**-**
Fort Mokotów sp. z o.o., under liquidation	10	23	-	-
Other entities	**-**	**-**	**215**	**269**
M&M Usługi Doradcze M. Kolarski	-	-	5	41
Woodsford Consulting Limited	-	-	210	205
Kirkley Advisory Limited	-	-	-	23

In 2016, the Company did not enter into any transactions with the Management Board or Supervisory Board members.

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

7.44. Incentive Plan – Management Option Programmes

As at 31 December 2016 there was no active Management Option Programme at the Company any more. On 10 December 2016, the maturity date for last active tranche of options granted in previous years under Management Option Programme II expired.

The Supervisory Board of Dom Development S.A. granted all the options under the above mentioned programme in the years 2006-2011. 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. These write downs were at the same time accounted for as the equity in the "reserve capital from valuation of share options".

Grant of new share options

In the twelve-month period ended 31 December 2016 the Company did not grant any new share options.

Exercise of the share options

On 21 March 2016, the Management Board adopted a resolution on the increase of share capital in the Company by issuing 10 320 U series ordinary bearer shares and 1 000 V series ordinary bearer shares series. The U series and V series shares were issued in a private placement procedure addressed to participants in Management Share Option Programme II. These shares were registered by the District Court for the capital city of Warsaw on 17 May 2016 (this was described in note 7.16).

On 5 December 2016, the Management Board of the Company adopted a resolution on the increase of share capital in the Company by issuing 85 830 W series ordinary bearer shares. The shares were issued in a private placement procedure addressed to participants in Management Share Option Programme II. These shares were registered by the District Court for the capital city of Warsaw on 10 January 2017 (this was described in note 7.16).

(all amounts in thousands PLN unless stated otherwise)

Expiry of share options

In the twelve-month period ended 31 December 2016 the number of share options eligible to participate in Management Option Programme II was reduced by 53 260 options as a result of expiry of the subscription period under the last tranche of this programme on 10 December 2016.

Cost of Management Option Programmes accounted for in the income statement and the balance sheet

In the twelve-month periods ended 31 December 2016 and 2015 no sums related to the management options granted were accounted for in the income statement and in the reserve capital from valuation of share options.

As a result of the expiry of the last active tranche of the management options, the Management Board of the Company decided to transfer all funds of reserve capital from the valuation of share options, in the amount of PLN 25 126 thousand, to "Other capital (supplementary capital)".

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

SHARE OPTIONS		01.01-31.12.2016	01.01-31.12.2015
Unexercised options at the beginning of the period	**Number of options**	**150 410**	**260 651**
	Total exercise price	**6 116**	**6 746**
Options granted in the period	Number of options	-	-
	Total option exercise value	-	-
Options expired in the period	Number of options	53 260	109 241
	Total option exercise value	2 164	615
Options exercised in the period	Number of options	97 150	1 000
	Total option exercise value	3 952	15
	Weighted average exercise price per share (PLN per share)	40.68	14.91
Unexercised options at the end of the period	**Number of options**	**-**	**150 410**
	Total exercise price	**-**	**6 116**
Exercisable options at the beginning of the period	Number of options	150 410	164 185
	Total exercise price	6 116	6 650
Exercisable options at the end of the period	Number of options	-	150 410
	Total exercise price	-	6 116

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

Remuneration for key executives	01.01-31.12.2016	01.01-31.12.2015
1. The Management Board		
Remuneration	6 713	6 117
including payments from profit	-	-
Non-pay benefits	83	54
Total remuneration	**6 796**	**6 171**
2. The Supervisory Board		
Remuneration	1 409	1 158

The composition of the Management Board and the Supervisory Board as at 31 December 2016 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	31.12.2016	31.12.2015
Guarantees	111	111
Sureties	-	-
Total	**111**	**111**

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

COLLATERALS FOR LIABILITIES	31.12.2016	31.12.2015
Promissory notes, including:		
– promissory notes as an additional guarantee for PKO BP bank in respect of claims arising from the granted loan	100 000	100 000
– promissory notes as other guarantees	-	-
Total	**100 000**	**100 000**

7.47. Material court cases as at 31 December 2016

As at 31 December 2016 the Company was 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 2016.

As at 31 December 2016 the Management Board of Dom Development S.A. was composed of 5 members:

Jarosław Szanajca, President of the Management Board

Janusz Zalewski, Vice President of the Management Board

(all amounts in thousands PLN unless stated otherwise)

Małgorzata Kolarska, Vice President of the Management Board

Janusz Stolarczyk, Member of the Management Board

Terry R. Roydon, Member of the Management Board.

The Supervisory Board

No changes in the composition of the Management Board took place in 2016.

As at 31 December 2016 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 2016 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 2016 until 31 December 2016:

Project	Standard	Number of apartments	Number of commercial units
Ursynovia (Anody), phase 1	Popular	72	7
Ursynovia (Anody), phase 2	Popular	111	0
Premium, phase 2	Popular	236	0
Palladium, phase 1	Popular	214	0
Saska III	Popular	347	12
Osiedle pod Różami, phase 3	Popular	47	3
Żoliborz Artystyczny, phase 5	Popular	117	9
Żoliborz Artystyczny, phase 6	Popular	125	12
Żoliborz Artystyczny, phase 7	Popular	127	13
Wilno III, phase 2	Popular	125	4
Moderna, phase 2	Popular	194	0
Klasyków Wille Miejskie, phase 2	Popular	204	0
Wille Taneczna	Popular	119	0
Wilno III, phase 3	Popular	111	0
Apartamenty Włodarzewska 30	Popular	114	9
Moderna, phase 4	Popular	189	0
Premium, phase 3	Popular	134	0
Amsterdam, phase 1	Popular	53	7
Total		**2 639**	**76**

(all amounts in thousands PLN unless stated otherwise)

In the period from 1 January 2016 to 31 December 2016, the construction under the Aura project, phase 2 was commenced within the Dom Development S.A. Capital Group (in Dom Development Wrocław Sp. z o.o.) with 172 apartments.

Projects where the construction was completed in the period from 1 January 2016 until 31 December 2016:

Project	Standard	Number of apartments	Number of commercial units
Klasyków Wille Miejskie, phase I	Popular	231	4
Aura, phase Ib	Popular	64	0
Wilno II, phase 2	Popular	249	14
Apartementy Saska nad Jeziorem, phase 3	Popular	236	0
Wille Lazurowa	Popular	164	2
Osiedle Przyjaciół, phase 1	Popular	115	1
Osiedle Przyjaciół, phase 2	Popular	88	1
Dom Pod Zegarem	Popular	226	9
Żoliborz Artystyczny, phase 8	Popular	218	0
Żoliborz Artystyczny, phase 9	Popular	162	0
Wilno II, phase 3	Popular	185	4
Studio Mokotów	Popular	319	10
Total		**2 257**	**45**

7.50. Material post-balance sheet events

On 5 January 2017, the Company was granted the exclusive right until 30 June 2017 to negotiate the acquisition by the Company of a portion of the Capital Group of Euro Styl Spółka z ograniczoną odpowiedzialnością spółka komandytowa and an exclusive right to the "Euro Styl" brand and logo. Euro Styl is a company that is operating in the housing development segment in the Tricity market.

This exclusive right was vested to the Company based on a non-binding offer. The final terms and conditions of the potential transaction are to be set in the course of ongoing negotiations, and they are highly dependent on the results of due diligence. The objective of the Company is to enter the Tricity market by the acquisition and continuation of operations of one of the market leaders in the Tricity housing market Tricity; in 2016, Euro Styl sold 661 units, and in the previous year 535 units.

7.51. Approval of the financial statements for 2015

On 2 June 2016 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 2015, the Management's report of activities of Dom Development S.A. in 2015 and the consolidated financial statements of Dom Development S.A. Capital Group for the year ended on 31 December 2015 and the Management's report of activities of Dom Development S.A. Capital Group in 2015, as presented by the Management Board. The Ordinary General Shareholders Meeting gave a vote of approval for the Management Board for the year 2015.

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.

(all amounts in thousands PLN unless stated otherwise)

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 2016 and 31 December 2015 broken up by services, is presented in the table below:

SERVICES	01.01--31.12.2016	01.01--31.12.2015
– Obligatory audit of annual and review of semi-annual financial statements	244	263
– Training	29	-
– Other services	70	2
Total	**343**	**265**

7.54. Selected financial data translated into EURO

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

SELECTED DATA FROM THE BALANCE SHEET	31.12.2016 thousand EURO	31.12.2015 thousand EURO
Total current assets	408 524	405 949
Total assets	447 164	410 351
Total shareholders' equity	210 472	207 236
Long-term liabilities	73 630	101 407
Short-term liabilities	163 062	101 708
Total liabilities	236 692	203 115
PLN/EURO exchange rate as at the balance sheet date	***4.4240***	***4.2615***

SELECTED DATA FROM THE INCOME STATEMENT	01.01--31.12.2016 thousand EURO	01.01--31.12.2015 thousand EURO
Sales revenue	265 551	216 069
Gross profit on sales	61 967	48 738
Operating profit	36 330	24 438
Profit before tax	36 160	24 000
Net profit	29 193	19 271
Average PLN/EURO exchange rate for the reporting period	***4.3757***	***4.1848***