



Management Board's Report of Activities of

DOM DEVELOPMENT S.A. CAPITAL GROUP

in the first half of 2015

CONTENTS

APPROVAL BY THE MANAGEMENT BOARD OF THE MANAGEMENT BOARD'S REPORT OF ACTIVITIES OF DOM DEVELOPMENT S.A. CAPITAL GROUP IN THE FIRST HALF OF 2015.....	2
INTRODUCTION	3
1. STRUCTURE AND ACTIVITIES OF DOM DEVELOPMENT S.A. CAPITAL GROUP	3
1.1. Group's Structure	3
1.2. Activities of the Company and the Group	3
2. BASIS FOR THE DRAFTING OF THE FINANCIAL STATEMENTS.....	4
3. BASIC ECONOMIC AND FINANCIAL FIGURES DISCLOSED IN THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS OF THE GROUP FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2015	4
3.1. Selected data from the consolidated income statement.....	4
3.2. Selected data from the consolidated balance sheet, assets.....	4
3.3. Selected data from the consolidated balance sheet, liabilities	5
4. MATERIAL EVENTS AND DESCRIPTION OF COMPANY'S ACTIVITIES IN THE FIRST HALF OF 2014	5
5. CURRENT AND FUTURE DEVELOPMENT PROJECTS.....	6
6. FINANCE MANAGEMENT.....	6
6.1. Assets financing structure	6
6.2. Consolidated cash flows	7
7. DESCRIPTION OF SIGNIFICANT RISK FACTORS AND FACTORS IMPORTANT FOR DEVELOPMENT OF THE COMPANY AND DOM DEVELOPMENT S.A. CAPITAL GROUP	7
7.1. Macroeconomic factors	7
7.2. Availability of mortgages	7
7.3. Foreign exchange risk.....	8
7.4. Concentration of operations in the Warsaw market.....	8
7.5. Opportunity to purchase land for new projects	8
7.6. Administrative decisions.....	8
8. THE MANAGEMENT BOARD AND THE SUPERVISORY BOARD	9
8.1. Composition of the Management Board of the Group's parent company as at 30 June 2015	9
8.2. Composition of the Supervisory Board of the Group's parent company as at 30 June 2015	9
9. LIST OF SHAREHOLDERS	9
10. SHAREHOLDING IN THE DOM DEVELOPMENT S.A. AND SHARE OPTIONS	10
11. FORECASTS.....	10
12. PROCEEDINGS BEFORE COURT, ARBITRATION OR PUBLIC ADMINISTRATION AUTHORITY	10
13. TRANSACTIONS WITH RELATED ENTITIES	10



**APPROVAL BY THE MANAGEMENT BOARD OF THE MANAGEMENT BOARD'S REPORT OF
ACTIVITIES OF DOM DEVELOPMENT S.A. CAPITAL GROUP IN THE FIRST HALF OF 2015**

This Management Board's report of activities of Dom Development S.A. Capital Group in the first half of 2015 was drafted and approved by the Management Board of the Company on 25 August 2015.

Jarosław Szanajca,
President of the Management Board

Janusz Zalewski,
Vice President of the Management Board

Małgorzata Kolarska,
Vice President of the Management Board

Janusz Stolarczyk,
Member of the Management Board

Terry R. Roydon,
Member of the Management Board

INTRODUCTION

The joint stock company Dom Development S.A. (the "Company", the "parent company") is the parent company of Dom Development S.A. Capital Group (the "Group"). 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. The registered office of the Company is in Warsaw (00-078 Warsaw, pl. Piłsudskiego 3).

Dom Development was established in 1995 by a group of international investors and Polish management staff joined it in November 1996. Participation of the international investors guaranteed implementation of Western European experience and standards as regards housing developments in the market where the Group operates.

The Company is a majority-owned subsidiary of Dom Development B.V. with its registered office in the Netherlands. As at 30 June 2015 the Company was controlled by Dom Development B.V. which held 59.45% of the Company's shares.

1. STRUCTURE AND ACTIVITIES OF DOM DEVELOPMENT S.A. CAPITAL GROUP

1.1. Group's Structure

The Group's structure and the Company's interest in the share capital of the entities comprising the Group as at 30 June 2015 is presented in the table below:

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

1.2. Activities of the Company and the Group

The main area of activity of the companies operating within the Group is the construction and sale of residential real estate. The Group conducts its activities mainly in Warsaw and its vicinity, and Wrocław. The development projects of the Group are usually executed directly by Dom Development S.A. For projects carried through special purpose vehicles, Dom Development S.A. supervises the execution of the construction investments and sales.

In the six-month period ended 30 June 2015:

- the Group did not discontinue any of its activities;
- The Group did not make any material capital investments within the framework of the Capital Group. All free cash was invested by the companies operating within the Group in short term bank deposits.
- No material changes were made to the structure of Dom Development S.A. Capital Group.

2. BASIS FOR THE DRAFTING OF THE FINANCIAL STATEMENTS

The interim condensed consolidated financial statements have been prepared on the assumption that the companies operating within the Group will continue as a going concern in the foreseeable future.

Polish law requires the Group to prepare its interim condensed consolidated financial statements in accordance with IFRS, applicable to interim financial reporting as adopted by the European Union (EU) (IAS 34). At this particular time, due to the endorsement of IFRS by the EU and the activities of the Group, there are no differences in the IFRS policies applied by the Group and IFRS that have been endorsed by the EU.

The interim condensed consolidated financial statements have been prepared in accordance with IFRS applicable in the interim financial reporting (IAS 34) and all applicable IFRS that have been adopted by the EU.

The interim condensed consolidated financial statements are drafted based on the same accounting policies as for the consolidated financial statements of the Group for the year ended 31 December 2014, except for the following amendments to existing standards and new interpretations that are effective for annual periods beginning on 1 January 2015 which are described in note 7.3 of the interim condensed consolidated financial statements.

3. BASIC ECONOMIC AND FINANCIAL FIGURES DISCLOSED IN THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS OF THE GROUP FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2015

3.1. Selected data from the consolidated income statement

	(in thousand PLN)		Change
	H1 2015	H1 2014	
Sales revenue	230 295	361 620	(36%)
Gross profit on sales	56 454	53 662	5%
Selling costs	23 173	20 107	15%
General administrative expenses	23 986	23 040	4%
Operating profit	7 472	11 847	(37%)
EBITDA / sales revenue ratio	4.1%	3.7%	12.4%
Net profit	5 136	10 948	(53%)
Earnings per share (PLN)	0.21	0.44	(52%)

3.2. Selected data from the consolidated balance sheet, assets

	(in thousand PLN)		Change
	30.06.2015	31.12.2014	
Total assets	1 858 628	1 606 257	16%
Fixed assets	14 018	13 150	7%
Current assets, including:	1 844 610	1 593 107	16%
Inventory	1 516 938	1 231 538	23%
Trade and other receivables	24 042	5 541	334%
Other current assets	3 370	3 224	5%
Cash and cash equivalents and short-term financial assets	300 260	352 804	(15%)

3.3. Selected data from the consolidated balance sheet, liabilities

	(in thousand PLN)		Change
	30.06.2015	31.12.2014	
Total equity and liabilities	1 858 628	1 606 257	16%
Share capital	24 771	24 770	-
Shareholders' equity	807 687	858 271	(6%)
Total liabilities	1 050 941	747 986	41%
Long-term liabilities	415 943	317 648	31%
Short-term liabilities	634 998	430 338	48%

4. MATERIAL EVENTS AND DESCRIPTION OF COMPANY'S ACTIVITIES IN THE FIRST HALF OF 2014

In the six-month period ended 30 June 2015 the Group continued its development activities, being the construction and sale of residential real estates. The construction works are conducted in the general contractor system, and the works are contracted to specialized third-party building companies.

There are several development projects that are simultaneously conducted by the Group. The Management Board of the Company regularly reviews and gives its opinion on:

- current projects during their implementation in relation to both, the progress of construction works, and current and anticipated sales revenue,
- the best possible manner in which the plots of land from the land-bank may be used,
- the potential plots of land which may be purchased for further development projects to be carried out in the following years, also in major Polish cities other than Warsaw,
- optimization of financing of the Group's operating activities.

In the first half of 2015 the following material changes in the portfolio of the Group's investments under construction took place:

Projects where construction commenced in the first half of 2015:

Project	Standard	Number of apartments	Number of commercial units
Saska Apartamenty nad Jeziorem, phase 3	Popular	236	none
Dom Pod Zegarem	Popular	226	9
Wille Lazurowa	Popular	164	2
Studio Mokotów	Popular	319	10
Osiedle Przyjaciół, phase 1	Popular	115	1
Osiedle Przyjaciół, phase 2	Popular	88	1
Żoliborz Artystyczny, phase 8	Popular	218	none

Projects where construction was completed in the first half of 2015:

Project	Standard	Number of apartments	Number of commercial units
Saska Apartamenty nad Jeziorem, phase 1	Popular	162	10
Oaza, phase 3 (Wrocław)	Popular	218	16
Wilno II, phase 1	Popular	168	15

5. CURRENT AND FUTURE DEVELOPMENT PROJECTS

As at 30 June 2015, the projects under development account for 3 727 apartments in total. In addition, new development projects for 5 762 apartments in total are defined and planned by the Group.

6. FINANCE MANAGEMENT

6.1. Assets financing structure

	(in thousand PLN)		Change
	30.06.2015	31.12.2014	
Total assets	1 858 628	1 606 257	15.7%
Shareholders' equity	807 687	858 271	(5.9%)
Total liabilities	1 050 941	747 986	40.5%
Long-term liabilities	415 943	317 648	30.9%
Short-term liabilities	634 998	430 338	47.6%
Long-term loans and bonds	370 000	268 000	38.1%
Short-term loans and bonds	-	126 000	-
<u>Leverage ratios</u>			
Equity ratio			
<i>shareholders' equity / total assets</i>	43.5%	53.4%	(18.7%)
Debt to equity ratio			
<i>total liabilities / shareholders' equity</i>	130.1%	87.2%	49.3%
Debt to assets ratio			
<i>total liabilities / total assets</i>	56.5%	46.6%	21.4%
Interest bearing debt to equity ratio			
<i>interest bearing liabilities (including accrued interest) / shareholders' equity</i>	46.2%	46.3%	(0.2%)
Net interest bearing debt to equity ratio			
<i>interest bearing liabilities (including accrued interest) less cash and cash equivalents, and bank deposits with a maturity of over 3 month / shareholders' equity</i>	9.1%	5.2%	73.0%
<u>Liquidity ratios</u>			
Current ratio			
<i>current assets / short-term liabilities less deferred income</i>	6.39	5.71	11.7%
Quick ratio			
<i>current assets less inventory / short-term liabilities less deferred income</i>	1.13	1.30	(12.5%)
Cash ratio			
<i>cash and cash equivalents / short-term liabilities less deferred income</i>	1.04	1.27	(17.9%)

The Company and the entire Group were in good financial standing in the six-month period ended 30 June 2015. The liquidity ratios of the Group are sufficient to guarantee safe and efficient operations.

Also the equity ratio and the financial leverage ratios (debt ratio and debt to equity ratio) as calculated at 30 June 2015, demonstrate with a high likelihood that the Group will be able to pay its liabilities.

6.2. Consolidated cash flows

	(in thousand PLN)		Change
	H1 2015	H1 2014	
Cash and cash equivalents – opening balance	318 341	322 250	(1.2%)
Net cash flow from operating activities	(45 794)	50 706	na.
Net cash flow from investing activities	27 304	(3 056)	na.
Net cash flows from financing activities	(24 000)	(84 180)	na.
Cash and cash equivalents – closing balance	275 851	285 720	(3.5%)

7. DESCRIPTION OF SIGNIFICANT RISK FACTORS AND FACTORS IMPORTANT FOR DEVELOPMENT OF THE COMPANY AND DOM DEVELOPMENT S.A. CAPITAL GROUP

Significant risk factors and threats to the business activity conducted by the Company and the Group in the second half of 2015 as identified by the Management Board are presented below.

7.1. Macroeconomic factors

The Group's business activities are significantly affected by global developments, and in particular by their impact on the Polish economy. The business activities of the Group are affected by the following macroeconomic factors which have an impact on the state of the Polish economy: GDP, level of investment, household income, interest rates, inflation, unemployment, the condition of the real estate development and construction industries, and the real estate market.

The favourable economic situation that continued in the first half of 2015 has been supporting the residential market. Further improvement in the developer's market may be expected in the second half of the year as a result of low interest rates, industrial production growth, labour market stabilization, good GDP forecasts and good consumer sentiment.

7.2. Availability of mortgages

The historically low interest rates that have been observed since July 2013 have had a measurable impact on the availability of mortgages. On the other hand, pursuant to Recommendation S issued by the Polish Financial Supervision Authority (*Komisja Nadzoru Finansowego*, KNF) at least a 10% deposit (own contribution) is required from 1 January 2015 when purchasing a property. The impact of this recommendation on the mortgage market has been growing thus limiting purchasing capacity of customers. The minimum deposit will be gradually increased to reach 20% of the property value in 2017.

The effects of Recommendation S were slightly mitigated amongst customers in the popular segment by the *Mieszkanie dla Młodych (Apartment for the Young)* programme that was introduced at the beginning of 2014. In the first half of 2015 the price limit set for Warsaw allowed for the participation in the programme of low-end purchase transactions in the popular segment. As the terms and conditions of this governmental support has been approaching the conditions prevailing in the market the *Mieszkanie dla Młodych (Apartment for the Young)* programme had a major positive impact on the capital city primary market. The higher eligibility price limits for Warsaw in the last quarter of 2014 significantly contributed to the growth in the sales of the apartments under the programme. The price limit set for Wrocław was however considerably below market prices. This limited the positive impact of the governmental support on the availability of mortgages. The improved impact of the governmental support depends on price limits that qualify apartments for the programme.

7.3. Foreign exchange risk

Pursuant to Recommendation S issued by the KNF, from 1 July 2014 banks are required to provide mortgages to retail customers only in the currency of their income. The mortgage-related exchange risk has been eliminated in this way.

A great deal of foreign currency loans are mortgages. This brings about the risk of borrower insolvency, and therefore more apartments seized by the banks are put on the market, where a decline in demand from potential buyers who are not able to obtain such loans is observed.

Past foreign currency loans that were taken at lower exchange rates than they are at present due to PLN depreciation against EUR or CHF, sometimes exceed the real value of the properties bought that constitute security for the mortgages. As the overall situation in the residential market improves, the disproportion between the value of the properties and the mortgage liability should gradually diminish.

7.4. Concentration of operations in the Warsaw market

The Company's and the Group's present and planned activity is concentrated in the Warsaw market. This makes the Company's results highly dependent on the situation in this market. However, it can be assumed that in the long-term this will be the most dynamic residential real estate market in Poland, and the Company as well as the Group already have a well-established position and therefore the possibility of further development.

Dom Development S.A. Capital Group has been developing its branch in Wrocław since 2011. The projects currently in progress comprise 365 units in two locations. A further expansion of the Group's operations in major cities in Poland is also considered.

7.5. Opportunity to purchase land for new projects

The future success of the Company and the Group is founded on the ability to continually and effectively acquire attractive land for new development projects at the right times and competitive prices. This will allow the generation of satisfactory project contributions. As there is limited supply of land in attractive locations and with clear legal status the ability to acquire new land is major competitive advantage in the real estate development market.

The observed growth in the demand for land is reflected in the increased scale of residential projects. Developers must constantly replenish their land banks to be able to keep the volume and quality of the offer. As a result the competition intensifies in the land market and it is more difficult to acquire new land. The Management Board of the Company focuses on securing attractive land for new projects so that the Group has broad and diversified land bank to ensure its successful operations for at least two years ahead.

7.6. Administrative decisions

The nature of real estate development projects requires a number of licenses, permits and arrangements to be obtained by the Company and the Group at every stage of the development process. Despite significant caution applied in the project execution schedules there is always a risk of delay in their obtaining, challenges to decisions which have already been issued (also due to appeals with no consequences for appellants) or even failure to obtain them. All these affect the ability to conduct and complete the executed and planned projects.

Risk management in Dom Development S.A. Capital Group takes place through a formalized process of periodic identification, review and assessment of risk factors. The objective of this process is to set relevant procedures and processes for identified risks. The implementation of those procedures and processes is aimed at eliminating or reducing the risk to which the Company and the Group are exposed. The fundamental activity adopted by the Group so as to reduce the exposure to market risks is proper assessment of

potential and control of current development projects based on investment models and decision-making procedures developed in the Company. The adherence to such procedures is closely monitored by the Management Board of the Company.

8. THE MANAGEMENT BOARD AND THE SUPERVISORY BOARD

8.1. Composition of the Management Board of the Group's parent company as at 30 June 2015

Jarosław Szanajca, President of the Management Board
Janusz Zalewski, Vice President of the Management Board
Małgorzata Kolarska, Vice President of the Management Board
Janusz Stolarczyk, Member of the Management Board
Terry Roydon, Member of the Management Board

8.2. Composition of the Supervisory Board of the Group's parent company as at 30 June 2015

Grzegorz Kiełpsz, Chairman of the Supervisory Board
Markham Dumas, Vice Chairman of the Supervisory Board
Marek Moczulski, Vice Chairman of the Supervisory Board
Michael Cronk, Member of the Supervisory Board
Mark Spiteri, Member of the Supervisory Board
Włodzimierz Bogucki, Member of the Supervisory Board
Krzysztof Grzyliński, Member of the Supervisory Board

9. LIST OF SHAREHOLDERS

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 the day of drafting of this Management Board's Report of Activities of the Group in the first half of 2015 are presented in the table below.

	Status as at the date of drafting of this report				Change in the period from publication of the financial statements for the three-month period ended 31.03.2015
	Shares	% of capital	Number of votes at the GSM	% of votes at the GSM	Shares
Dom Development B.V.	14 726 172	59.45	14 726 172	59.45	-
Jarosław Szanajca	1 534 050	6.19	1 534 050	6.19	-
Aviva Powszechne Towarzystwo Emerytalne Aviva BZ WBK SA *)	1 313 383	5.30	1 313 383	5.30	no data
Grzegorz Kiełpsz	1 280 750	5.17	1 280 750	5.17	-

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

10. SHAREHOLDING IN THE DOM DEVELOPMENT S.A. AND SHARE OPTIONS

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 the date of drafting of this Management's Report of Activities of the Group in the first half of 2015 are presented in the table below.

Status as at the date of preparing of these financial statements			Change in the period from publication of the interim financial statements for the three-month period ended 31.03.2015	
	Shares	Share options	Total	
The Management Board				
Jarosław Szanajca	1 534 050	-	1 534 050	-
Janusz Zalewski	311 000	92 534	403 534	-
Małgorzata Kolarska	6 500	-	6 500	-
Janusz Stolarczyk	105 200	28 597	133 797	-
Terry Roydon	58 500	11 767	70 267	-
The Supervisory Board				
Grzegorz Kielpsz	1 280 750	-	1 280 750	-
Mark Spiteri	500	2 330	2 830	-

11. FORECASTS

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

12. PROCEEDINGS BEFORE COURT, ARBITRATION OR PUBLIC ADMINISTRATION AUTHORITY

As of 30 June 2015 there was no individual proceeding before any court, authority competent for arbitration or public administration body, concerning the liabilities or receivables of the Company or any of its subsidiaries, the value of which would be at least 10% of the Company's shareholders' equity.

As of 30 June 2015 there were not two or more proceedings before any court, authority competent for arbitration or public administration body, concerning the liabilities or receivables, the value of which would be at least 10% of the Company's shareholders' equity.

As of 30 June 2015, the Company was a party to proceedings concerning liabilities and receivables, the total value of which was approx. PLN 18 815 thousand, including the total value of proceedings concerning liabilities at approx. PLN 17 714 thousand and the total value of proceedings concerning receivables at approx. PLN 1 100 thousand.

The proceedings involving the companies operating within the Group have no significant impact on the Group's activity.

13. TRANSACTIONS WITH RELATED ENTITIES

All transactions made by the Company or its subsidiaries with related entities are based on the arm's length principle.

Transactions with the related entities are presented in note 7.17 to the interim condensed consolidated financial statements for the period ended 30 June 2015.