



Management Board Report of Activities of
DOM DEVELOPMENT S.A. CAPITAL GROUP
in the first half of 2016



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**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 2016**

This Management Board's report of activities of Dom Development S.A. Capital Group in the first half of 2016 was drafted and approved by the Management Board of the Company on 23 August 2016.

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 development 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 2016 the Company was controlled by Dom Development B.V. which held 59.42% 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 2016 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
Vratislavia Dom Development sp. z o.o.	Poland	100%	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 their construction and sales.



In the six-month period ended 30 June 2016:

- 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.
- Vratislavia Dom Development Sp. z o.o. with its registered office in Wrocław was registered on 22 March 2016. The Company holds 100% interest in this entity This is the effect of a decision by the Company's Management Board to continue operations in Wrocław through a separate subsidiary, which will be in charge of new projects that are yet to be commenced. This change is intended to increase operational flexibility and efficiency, as well as the profitability of the Group's operations in Wrocław. This change to the Group's structure did not significantly affect the operations of the Company and the Group in the first half of 2016. The Management Board of the company expects a gradual organic growth in the operational scale of Vratislavia Dom Development Sp. z o.o., and thus in its impact on the financial results of the Group.

2. BASIS FOR THE DRAFTING OF THE INTERIM CONDENSED 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 2015, except for the following amendments to existing standards and new interpretations that are effective for annual periods beginning on 1 January 2016 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 2016

3.1. Selected data from the consolidated income statement

	(in thousand PLN)		Change
	H1 2016	H1 2015	
Sales revenue	367 715	230 295	60%
Gross profit on sales	79 859	56 454	41%
Selling costs	22 856	23 173	(1)%
General administrative expenses	25 525	23 986	6%
Operating profit	30 577	7 472	309%
EBITDA / sales revenue ratio	9.0%	4.1%	118%
Net profit	23 521	5 136	358%
Earnings per share (PLN)	0.95	0.21	352%

3.2. Selected data from the consolidated balance sheet, assets

	(in thousand PLN)		Change
	30.06.2016	31.12.2015	
Total assets	2 030 738	1 752 953	16%
Fixed assets	19 354	18 710	3%
Current assets, including:	2 011 384	1 734 243	16%
Inventory	1 620 758	1 478 660	10%
Trade and other receivables	34 158	27 528	24%
Other current assets	3 559	2 668	33%
Cash and cash equivalents and short-term financial assets	352 909	225 387	57%

3.3. Selected data from the consolidated balance sheet, liabilities

	(in thousand PLN)		Change
	30.06.2016	31.12.2015	
Total equity and liabilities	2 030 738	1 752 953	16%
Share capital	24 782	24 771	0%
Shareholders' equity	826 555	883 425	(6)%
Total liabilities	1 204 183	869 528	38%
Long-term liabilities	253 227	432 147	(41)%
Short-term liabilities	950 956	437 381	117%

4. MATERIAL EVENTS AND DESCRIPTION OF GROUP'S ACTIVITIES IN THE FIRST HALF OF 2016

In the six-month period ended 30 June 2016 the Group continued its development activities, being the construction and sale of residential real estates. The construction works are conducted through the general contractor system, and the works are contracted to specialized third-party building companies.

There are over twenty 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,
- potential plots of land which may be purchased for further development projects to be carried out in the following years, including plots in major Polish cities other than Warsaw and Wrocław,
- optimization of financing of the Group's operating activities.

In the first half of 2016 the following material changes in the portfolio of the Group's projects under construction took place:

Projects where construction commenced in the first half of 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
Total:		1 715	60

Projects where construction was completed in the first half of 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
Apartamenty Saska nad JezioremI, phase 3	Popular	236	0
Total:		780	18

5. CURRENT AND FUTURE DEVELOPMENT PROJECTS

As at 30 June 2016, the projects under development account for 3 935 units (apartments and retail units) in total. New development projects for 6 734 units in total are defined and planned by the Group.

6. FINANCE MANAGEMENT

6.1. Assets financing structure

	(in thousand PLN)		Change
	30.06.2016	31.12.2015	
Total assets	2 030 738	1 752 953	16%
Shareholders' equity	826 555	883 425	(6)%
Total liabilities	1 204 183	869 528	38%
Long-term liabilities	253 227	432 147	(41)%
Short-term liabilities	950 956	437 381	117%
Long-term loans and bonds	200 000	370 000	(46)%
Short-term loans and bonds	150 000	-	-
<u>Leverage ratios</u>			
Equity ratio			
<i>shareholders' equity / total assets</i>	40.7%	50.4%	(19)%
Debt to equity ratio			
<i>total liabilities / shareholders' equity</i>	145.7%	98.4%	48%
Debt to assets ratio			
<i>total liabilities / total assets</i>	59.3%	49.6%	20%
Interest bearing debt to equity ratio			
<i>interest bearing liabilities (including accrued interest) / shareholders' equity</i>	42.7%	42.3%	1%
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>	0.1%	16.8%	(100)%
<u>Liquidity ratios</u>			
Current ratio			
<i>current assets / short-term liabilities less deferred income</i>	4.13	8.57	(52)%
Quick ratio			
<i>current assets less inventory / short-term liabilities less deferred income</i>	0.80	1.26	(36)%
Cash ratio			
<i>cash and cash equivalents / short-term liabilities less deferred income</i>	0.68	1.10	(38)%

The Company and the entire Group were in good financial standing in the six-month period ended 30 June 2016. The liquidity ratios of the Group are sufficient to guarantee safe and efficient operations.

In addition, the equity ratio and the financial leverage ratios (debt ratio and debt to equity ratio), as calculated at 30 June 2016, demonstrate with a high likelihood that the Group will be able to pay its liabilities.

The increase in the debt to equity ratio as at 30 June 2016 relative to the end of the previous year is mainly a result of dividends paid by the Company on 6 July 2016 and growth in the deferred income, where mainly customers' deposits on account of the purchase of units and parking spaces are recognised up until they are handed over to the buyer and are recognized in the income statement.

6.2. Consolidated cash flows

	(in thousand PLN)		Change
	H1 2016	H1 2015	
Cash and cash equivalents – opening balance	221 640	318 341	(30)%
Net cash flow from operating activities	130 189	(45 794)	(384)%
Net cash flow from investing activities	(3 399)	27 304	(112)%
Net cash flows from financing activities	(19 536)	(24 000)	(19)%
Cash and cash equivalents – closing balance	328 894	275 851	19%

7. DESCRIPTION OF MAJOR RISK FACTORS AND THREATS TO THE BUSINESS ACTIVITY OF THE COMPANY AND THE GROUP IN THE SECOND HALF OF 2016

Significant risk factors and threats to the business activity conducted by the Company and the Group in the second half of 2016 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 continued improvement in the economic situation in the first half of 2016 has supported the residential market. Despite uncertainty as to the future state of the global economy, the very healthy situation in the Polish labour market and continued historically low interest rates provide favourable conditions for the development sector.

7.2. Availability of mortgages

In the first half of 2016 a limited availability of mortgages was observed. This was mostly a result of the so called bank tax and increased margins on mortgages, higher deposits of up to 15% of the value of the property, and a depletion of resources of the government's program Mieszkanie dla Młodych (Homes for the Young).

The introduction of a tax on bank assets from 1 February 2016 was accompanied by a restriction in the granting of loans and an increase in the margins for new mortgages. It should be emphasised however that the cost of a PLN mortgage remains close to the record minimum despite the higher margins due to historically low interest rates .

The Management Board of the Company is of the opinion that the deposit increase up to 15% of the property value has not notably affected the demand. This is probably related to the fact that the range offered by the Group is predominantly high-end units and many Dom Development S.A. Capital Group customers buy apartments for cash (approx. 40% of all transactions in Q2 2016) or with relatively low debt finance. There is no reliable data on the share of cash transactions in the housing market, although it may be expected that their share in Dom Development S.A. transactions is significantly above average. In view of the above, the demand for apartments offered by the Group is not highly sensitive to an increase in the required minimum deposit.

The termination of the Mieszkanie dla Młodych programme has not significantly affected the demand for apartments offered by the Company and the Group either. This might be related to the fact that the flats in the popular segment that are eligible for the subsidies are not the dominant segment in the range offered by the Company and the Group. In the opinion of the Management Board the subsidies under the Mieszkania

dla Młodych programme were not a prevailing factor for flat purchase decisions, because the beneficiaries have mainly been people who meet their basic housing needs and decide to buy their own place if so permitted by their creditworthiness.

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. The Management Board is of the opinion that the foreign exchange risk has not been a significant factor affecting the housing market in the current economic situation.

7.4. Concentration of operations in the Warsaw market

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

The strength of the labour market as demonstrated by the historically low unemployment at the end of H1 2016 (8.8%) causes a lot of people to migrate to major cities, especially to Warsaw, which is not only an administrative capital of Poland, but also the Polish business hub. Labour migration is an important source of housing demand with high potential for the future, in particular in the capital market.

Dom Development S.A. Capital Group has also been operating in the Wrocław market since 2011. A further expansion of the Group's operations in major cities in Poland is also being considered.

7.5. Opportunity to purchase land for new projects

The future success of the Group is founded on the ability to continually and effectively acquire attractive land for new development projects at the right times and at 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 maintain 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. Large capital resources and a very experienced land purchase team are the foundations of the Company's and the Group's competitive advantage in the market. The Management Board of the Company focuses on securing attractive land for new projects so that the Group has a 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 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.

The Group has many years of experience in the implementation of real estate development projects which allows it to minimize the risks associated with the operations that depend on administrative decisions. The timely launch of successive projects and the relatively short time between land purchase and the start of construction may serve as evidence of high competence in this area.

7.7. Risk Management

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 Company so as to reduce the exposure to market risks is proper assessment of potential projects and control of current projects based on investment models and decision-making procedures developed in the Group. The adherence to such procedures is closely monitored by the Management Board of the Company.

8. FACTORS THAT IMPACT THE RESULTS ACHIEVED BY THE GROUP IN AT LEAST THE NEXT SIX MONTH'S PERSPECTIVE

The most important factors that may impact the financial situation of the Group in at least the next six month's perspective are:

- The economic trend in the residential market where the Group operates,
- The impact of the worldwide financial situation on the Polish economy and banking system,
- The availability of mortgages, and in particular the convenience of their terms for potential customers,
- Achieving the planned sales volume in terms of quantity and value,
- The timely delivery of construction works in line with the schedules by the construction companies completing individual projects of the Group in the general contractor system,
- Availability of external finance (loans, bonds) for real estate developers,
- No sudden changes in the legal and tax regulations that may influence market demand for products offered by the Company in an uncontrolled manner,
- Maintaining a stable political situation and creation of a positive economic climate by the government and local authorities.

9. THE MANAGEMENT BOARD AND THE SUPERVISORY BOARD

9.1. Composition of the Management Board of the Group's parent company as at 30 June 2016

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

9.2. Composition of the Supervisory Board of the Group's parent company as at 30 June 2016

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

10. 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 of the Company ("GSM") as at the day of drafting of this Management Board Report of Activities of the Group in the first half of 2016 are presented in the table below.

	Status as at the date of preparing of this report				Change in the period from publication of the financial statements for the three-month period ended 31.03.2016
	Shares	% of capital	Number of votes at the GSM	% of votes at the GSM	Shares
Dom Development B.V.	14 726 172	59.42	14 726 172	59.42	-
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.

11. 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 2016 are presented in the table below.

	Status as at the date of preparing of this report			Change in the period from publication of the financial statements for the three-month period ended 31.03.2016	
	Shares	Share options	Total	Shares	Share options
The Management Board					
Jarosław Szanajca	1 534 050	-	1 534 050	-	-
Janusz Zalewski	311 000	69 000	380 000	-	-
Małgorzata Kolarska	6 500	-	6 500	-	-
Janusz Stolarczyk	105 200	16 830	122 030	-	-
Terry Roydon	58 500	-	58 500	-	-
The Supervisory Board					
Grzegorz Kielpsz	1 280 750	-	1 280 750	-	-
Mark Spiteri	900	-	900	-	-

12. FORECASTS

The Management Board of Dom Development S.A. does not publish any financial forecasts concerning either the Parent Company or the Group.

13. PROCEEDINGS BEFORE COURT, ARBITRATION OR PUBLIC ADMINISTRATION AUTHORITY

As of 30 June 2016 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 2016 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 2016, the Company was a party to proceedings concerning liabilities and receivables, the total value of which was approx. PLN 26 518 thousand, including the total value of proceedings concerning liabilities at approx. PLN 25 003 thousand and the total value of proceedings concerning receivables at approx. PLN 1 514 thousand.

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

14. 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 2016.