Management Board Report of Activities of

DOM DEVELOPMENT S.A. CAPITAL GROUP

in the first half of 2017

Warsaw, 23 August 2017

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APPROVAL BY THE MANAGEMENT BOARD OF THE MANAGEMENT BOARD REPORT OF ACTIVITIES OF DOM DEVELOPMENT S.A. CAPITAL GROUP IN THE FIRST HALF OF 2017

This Management Board report of activities of Dom Development S.A. Capital Group in the first half of 2017 was prepared and approved by the Management Board of the Company on 23 August 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

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 23 August 2017 the Company was controlled by Dom Development B.V. which held 57.65% 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 2017 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
Dom Land sp. z o.o.	Poland	0%	0%	full consolidation
Dom Development Wrocław sp. z o.o.	Poland	100%	100%	full consolidation
Euro Styl S.A.*	Poland	100%	100%	full consolidation
Euro Styl 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

* the companies acquired in the first half of 2017 (see section 1.2)

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 operates in three regions of Poland. These are: Warsaw and the Tricity, with their surroundings, and Wrocław.

The development projects of the Group in Warsaw are predominantly carried out directly by Dom Development S.A. For projects carried out through special purpose vehicles, Dom Development S.A. supervises the execution of the construction of projects and their sales. The development projects of the Group in Wrocław are carried out directly by Dom Development Wrocław Sp. z o.o. The construction-related part of development projects in both these markets is run under a general contracting system with the execution contracted to professional third-party building companies.

The development projects in the Tricity market are mostly carried out through special purpose vehicles owned by the Euro Styl S.A. Capital Group ("Euro Styl Group"). The implementation of these projects and sales is supervised by Euro Styl S.A. The projects of the Euro Styl Group (the construction-related part) are run by Euro Styl Construction Sp. z o.o., an SPV operating within the Euro Styl Group which is involved in the management of construction activities by hiring specialised subcontractors for individual types of building works.

In the six-month period ended 30 June 2017:

- The Group did not discontinue any of its activities;
- Acquisition of Euro Styl S.A. Capital Group
  On 8 June 2017, the Company acquired 100% of the shares in Euro Styl S.A. with its registered office in Gdańsk and 100% of the shares in the share capital of Euro Styl Development sp. z o.o. with its registered office in Gdańsk for the aggregate amount of PLN 260 million (the "Transaction"). As a result of the Transaction, Dom Development S.A. controls the Euro Styl S.A. Capital Group that is a residential developer in the market of the Tricity and its vicinity.
- Fort Mokotów Inwestycje sp. z o.o, under liquidation, was wound up on 19 May 2017.
  As a result the perpetual usufruct right to the land and cash of FMI were transferred to the Company. This liquidation did not have any significant impact on the operations of the Group.
- The Group did not make any other 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.

2. BASIS FOR THE PREPARING OF THE CONDENSED CONSOLIDATED 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 prepared based on the same accounting policies as for the consolidated financial statements of the Group for the year ended 31 December 2016, except for the following amendments to existing standards and new interpretations that are effective for annual periods beginning on 1 January 2017 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 2017

3.1. Selected data from the consolidated income statement

	(in thousand PLN)		Change
	H1 2017	**H1 2016**	
Sales revenue	435 516	367 715	18%
Gross profit on sales	116 352	79 859	46%
Selling costs	28 944	22 856	27%
General administrative expenses	27 306	25 525	7%
Operating profit	57 330	30 577	87%
EBITDA / sales revenue ratio	13.9%	9.0%	54%
Net profit	**47 969**	**23 521**	**104%**
Earnings per share (PLN)	1.93	0.95	103%

3.2. Selected data from the consolidated balance sheet, assets

	(in thousand PLN)		Change
	30.06.2017	**31.12.2016**	
Total assets	2 288 393	1 977 292	16%
Fixed assets	27 541	20 510	34%
Current assets, including:	2 260 852	1 956 782	16%
Inventory	1 870 592	1 507 595	24%
Trade and other receivables	20 206	9 347	116%
Other current assets	4 800	2 767	73%
Cash and cash equivalents and short-term financial assets	365 254	437 073	(16)%

3.3. Selected data from the consolidated balance sheet, liabilities

	(in thousand PLN)		Change
	30.06.2017	**31.12.2016**	
Total equity and liabilities	2 288 393	1 977 292	16%
Share capital	24 868	24 782	0%
Shareholders' equity	855 137	929 461	(8)%
Total liabilities	1 433 256	1 047 831	37%
Long-term liabilities	294 736	325 309	(9)%
Short-term liabilities	1 138 520	722 522	58%

4. MATERIAL EVENTS AND DESCRIPTION OF GROUP'S ACTIVITIES IN THE FIRST HALF OF 2017

In the six-month period ended 30 June 2017 the Group continued its development activities, being the construction and sale of residential real estate.

The most important event for the Group was the acquisition of Euro Styl S.A., which is a real estate developer operating in the Tricity area and the parent company of the Euro Styl Group. Through this acquisition the Group has extended its territorial scope covering a very promising market with high potential for the Company. The purpose of the acquisition for the Group has been to establish its presence in the Tricity market where the Euro Styl Group operates, and ensure a significant increase in the consolidated revenues and profits of the Company in a short period of time. This acquisition transaction and the structure of the Euro Styl Group has been described in detail in the condensed consolidated financial statements in note 7.1.

There are over thirty five 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, and also in major Polish cities other than Warsaw, the Tricity and Wrocław,
- optimization of financing of the Group's operating activities.

In the first half of 2017 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 2017:

Project	Standard	Number of apartments	Number of commercial units
Wilno VI, phase 1	Popular	300	9
Premium, phase 4	Popular	248	0
Premium, phase 5	Popular	109	4
Osiedle Forma, phase 1	Popular	89	6
Osiedle Forma, phase 2	Popular	192	7
Amsterdam, phase 2	Popular	307	7
Cybernetyki 17, phase 1	Popular	145	1
Cybernetyki 17, phase 2	Popular	236	11
Moderna, phase 3	Popular	163	24
Wille Lazurowa, phase 2	Popular	102	0
Idea building 4*	Apartments	31	0
Nowy Horyzont building 11*	Popular	38	0
Nowy Horyzont building 12*	Popular	38	0
Osiedle Viridis building A1*	Popular	32	0
Osiedle Viridis building A2*	Popular	42	0
Scena Apartamenty*	Apartments	55	6
Total:		**2 127**	**75**

*Projects of Euro Styl S.A.

Projects where construction was completed in the first half of 2017:

Project	Standard	Number of apartments	Number of commercial units
Premium, phase 1	Popular	191	15
Osiedle Przyjaciół, phase 3	Popular	93	2
Apartamenty Mokotów nad Skarpą	Popular	183	1
Moderna, phase 1	Popular	167	4
Idea building 1*	Apartments	86	2
Brama Żuław buildings B and C*	Popular	63	0
Nowe Morskie buildings C1, C1A, C1B, C2*	Popular	63	0
Total:		**846**	**24**

*Projects of Euro Styl S.A.

5. CURRENT AND FUTURE DEVELOPMENT PROJECTS

As at 30 June 2017, the projects under development account for 5 945 units (apartments and retail units) in total. The new development projects for 8 306 units in total are defined and planned by the Group.

6. FINANCE MANAGEMENT

6.1. Assets financing structure

	(in thousand PLN)		Change
	30.06.2017	31.12.2016	
Total assets	2 288 393	1 977 292	16%
Shareholders' equity	855 137	929 461	(8)%
Total liabilities	1 433 256	1 047 831	37%
Long-term liabilities	294 736	325 309	(9)%
Short-term liabilities	1 138 520	722 522	58%
Long-term loans and bonds	210 000	260 000	(19)%
Short-term loans and bonds	50 000	120 000	(58)%
Leverage ratios			
Equity ratio *shareholders' equity / total assets*	37.4%	47.0%	(21)%
Liabilities to equity ratio *total liabilities / shareholders' equity*	167.6%	112.7%	49%
Liabilities to assets ratio *total liabilities / total assets*	62.6%	53.0%	18%
Interest bearing debt to equity ratio *interest bearing liabilities (including accrued interest) / shareholders' equity*	30.6%	41.3%	(26)%
Net interest bearing debt to equity ratio *interest bearing liabilities (including accrued interest) less cash and cash equivalents, and bank deposits with a maturity of over 3 month / shareholders' equity*	(12.2)%	(6.0)%	103%
Liquidity ratios			
Current ratio *current assets / short-term liabilities less deferred income*	4.97	5.24	(5)%
Quick ratio *current assets less inventory / short-term liabilities less deferred income*	0.86	1.20	(29)%
Cash ratio *cash and cash equivalents / short-term liabilities less deferred income*	0.66	1.11	(40)%

The Company and the entire Group were in good financial standing in the six-month period ended 30 June 2017. 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 2017, 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 2017 relative to the end of the previous year is mainly a result of growth in deferred income, where customers' deposits on account of the purchase of units and parking spaces are disclosed up until they are handed over to the buyer and are recognized in the income statement as " sales revenue".

The acquisition of Euro Style Group (see section 1.2) that took place in June 2017 and expenses on the account of redemption of commercial papers reduced the liquidity ratios, specifically the "quick ratio" and "cash ratio".

6.2. Consolidated cash flows

	(in thousand PLN)		Change
	H1 2017	**H1 2016**	
Cash and cash equivalents – opening balance	414 310	221 640	87%
Net cash flow from operating activities	208 911	130 189	60%
Net cash flow from investing activities	(200 647)	(3 399)	5803%
Net cash flows from financing activities	(122 099)	(19 536)	525%
Cash and cash equivalents – closing balance	300 475	328 894	(9)%

The negative cash flow from net investment activities was predominantly affected by the acquisition of Euro Styl Group, as described in section 1.2.

The negative cash flows from net financing activities was predominantly affected by expenses on the account of redemption of commercial papers.

7. DESCRIPTION OF MAJOR RISK FACTORS AND THREATS TO THE BUSINESS ACTIVITY OF THE COMPANY AND THE GROUP IN THE SECOND HALF OF 2017

Significant risk factors and threats to the business activity conducted by the Company and the Group in the second half of 2017 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 2017 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 low interest rates provide favourable conditions for the development sector.

7.2. Availability of mortgages

The act on mortgage loans and loan brokers supervision was of some concern in the first half of 2017. The early concerns as to inadequate preparation of crediting institutions proved premature as this act was implemented seamlessly. The entry into force of these new regulations does not cause any additional problems associated with the obtaining of a loan.

The Management Board of the Company is of the opinion that the increase in deposit up to 20% of a property value has not notably affected demand. This is probably related to the fact that the ranges offered by the Group are predominantly high-end units and many of the Dom Development S.A. Capital Group customers buy apartments for cash (approx. 40% of all transactions in Q2 2017) or with a relatively low level of debt finance. The demand for apartments offered by the Group is not therefore highly sensitive to an increase in the required minimum deposit. Another factor that that did not cause any change is the possibility to insure half of the required deposit for a payment of 10% of the required funds.

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 insignificant in the range offered by the Company and the Group. In the opinion of the Management Board the subsidies under the *Mieszkanie dla Młodych* programme were not a prevailing factor for flat purchase decisions, because the beneficiaries were mainly 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

From 1 July 2014, in accordance with Recommendation S by the Polish Financial Supervision Authority (KNF, Komisja Nadzoru Finansowego), banks, and from 22 July 2017 also other institutions which may provide mortgages, are required to extend such loans only in the currency of the customer's 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 has been observed.

The historic foreign currency loans that were taken at lower exchange rates than they are at present (due to PLN depreciation against EUR or CHF) often exceed the real value of the properties bought that constitute security for 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. Operations in the Warsaw, Tricity and Wrocław markets

The Group focuses its operations predominantly in the Warsaw, Tricity and Wrocław markets. The Warsaw market is a core market for the Group which to a large extent makes the results of the Group dependant on the situation prevailing in this market. However, it can be assumed that in the long-term this will continue to be the largest and the most attractive 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 continuously low unemployment at the end of H1 2017 (6.3% for the Masovian Province, 2.5% for Warsaw) prompts considerable migration 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.

The Dom Development S.A. Capital Group since 2011 has also been operating in Wrocław, and from 8 June 2017 in the Tricity, which the Company perceives as a market with high potential.

Further expansion of the Group operations in major cities in Poland is 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, control 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 WILL IMPACT THE RESULTS ACHIEVED BY THE GROUP IN AT LEAST THE NEXT SIX MONTHS

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

- The economic trend in the residential markets 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 their convenient terms for potential customers,
- Achieving the planned sales volume in terms of quantity and value,
- The timely delivery of construction works in line with schedules by the construction companies completing individual projects of the Group,
- 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,
- Maintenance of the stable political situation and the 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 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 Roydon, Member of the Management Board

9.2. Composition of the Supervisory Board of the Group's parent company as at 30 June 2017

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 preparation of this Management Board Report of Activities of the Group in the first half of 2017, are presented in the table below.

	Status as at the date of preparation of this report				Change in the period from publication of the quarterly financial statements for the three-month period ended 31.03.2017
	Shares	% of capital	Number of votes at the GSM	% of votes at the GSM	Shares
Dom Development B.V.	14 335 879	57.65	14 335 879	57.65	(390 293)
Jarosław Szanajca	1 454 050	5.85	1 454 050	5.85	-
Aviva Otwarty Fundusz Emerytalny Aviva BZ WBK SA *)	1 313 383	5.28	1 313 383	5.28	no data
Grzegorz Kiełpsz	1 280 750	5.15	1 280 750	5.15	-

*) The 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.

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 preparation of this Management Board Report of Activities of the Group in the first half of 2017 are presented in the table below.

	Status as at the date of preparation of this report			Change in the period from publication of the financial statements for the three-month period ended 31.03.2017	
	Shares	Share options	Total	Shares	Share options
The Management Board					
Jarosław Szanajca	1 454 050	-	1 454 050	-	-
Janusz Zalewski	350 000	-	350 000	-	-
Małgorzata Kolarska	31 500	-	31 500	25 000	-
Janusz Stolarczyk	122 030	-	122 030	-	-
Terry Roydon	58 500	-	58 500	-	-
The Supervisory Board					
Grzegorz Kiełpsz	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 2017 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 its subsidiaries, the value of which would be at least 10% of the Company's shareholders' equity.

As of 30 June 2017 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 2017, the Company was a party to proceedings concerning liabilities and receivables, the total value of which was approx. PLN 28.4 million, including the total value of proceedings concerning liabilities at approx. PLN 26.9 million and the total value of proceedings concerning receivables at approx. PLN 2.2 million.

The proceedings involving the companies operating within the Group have no significant impact on the Company's and 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 2017.