



Management Board's Report of Activities of

DOM DEVELOPMENT S.A. CAPITAL GROUP

in the first half of 2018



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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 2018**

This Management Board's report of activities of Dom Development S.A. Capital Group in the first half of 2018 was prepared and approved by the Management Board of the Company on 23 August 2018.

The Management Board of the Company represents that this report of activities of Dom Development S.A. Capital Group presents a true view of the development, achievements and situation of the Group, including the description of key threats and risks.

Jarosław Szanajca,
President of the Management Board

Janusz Zalewski,
Vice President of the Management Board

Małgorzata Kolarska,
Vice President of the Management Board

Mikołaj Konopka,
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 S.A. 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 23 August 2018 the Company was controlled by Dom Development B.V. which held 56.70% of the Company's shares.

1. STRUCTURE 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 2018 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 Grunty sp. z o.o.	Poland	46%	100%	full consolidation
Dom Development Kredyty sp. z o.o.	Poland	100%	100%	full consolidation
Dom Development Morskie Oko sp. z o.o. w likwidacji	Poland	100%	100%	full consolidation
Dom Development Wrocław sp. z o.o.	Poland	100%	100%	full consolidation
Dom Land sp. z o.o.	Poland	-	-	full consolidation
Euro Styl S.A.*)	Poland	100%	100%	full consolidation
Euro Styl Development sp. z o.o.*)	Poland	100%	100%	full consolidation
Mirabelle Investments sp. z o.o.	Poland	100%	100%	full consolidation
Dom Construction sp. z o.o.	Poland	100%	100%	full consolidation

*) Euro Styl S.A. is the parent company of the Euro Styl S.A. Capital Group, with non-controlling interests held by Euro Styl Development sp. z o.o. As a result of the acquisition of both these companies, Dom Development S.A. has full control over the Euro Styl S.A. Capital Group.

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 Tricity with their surroundings, and Wrocław.

The development projects of the Group in Warsaw are carried out directly by Dom Development S.A. The construction of some development projects in the Warsaw market is run under a general contracting system

with the execution contracted to professional third-party building companies. From the first half of 2018, the investment projects of the Company have been carried out by Dom Construction sp. z o.o., which runs construction through the engagement of specialised subcontractors for specific types of construction works.

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 the Wrocław market 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 carried out by Euro Styl S.A. or through special purpose vehicles owned by the Euro Styl S.A. Capital Group ("Euro Styl Group"). The implementation of these projects and the 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 2018:

- The Group did not discontinue any of its activities.
- Establishment of Dom Construction sp. z o.o.

In the first quarter of 2018, the Management Board of Dom Development S.A. decided to diversify the manner of developing projects by the Company. Dom Development S.A. projects have been developed by a third-party general contractor up until now. The Company intends to make use of the expertise and experience of Euro Styl S.A., a Tricity developer acquired in June 2017, which through its in-house contractor company has been successfully developing its projects. Dom Development S.A. will progressively introduce the development of projects with its own resources. Eventually, this is to complement the existing model of cooperation with third-party general contractors.

The subsidiary company Dom Development Construction sp. z o.o. (current name: Dom Construction sp. z o.o.) was established on 13 March 2018, with 100% shares held by Dom Development S.A. The share capital of this company is PLN 100 thousand and has been paid up in full. This company was registered with the National Court Register (KRS) on 11 April 2018. Dom Construction sp. z o.o. started operating activities in the second quarter of 2018. On 16 May 2018, Dom Development S.A. and Dom Construction sp. z o.o. signed a contract concerning the development, under a general contractorship model, of the "Żoliborz Artystyczny" residential project with 1,266 apartments at Rydygiera street in Warsaw. As at the date of this report, the construction of stage I with 273 apartments has started, which is scheduled for completion in the third quarter of 2020. The above contract was announced by the Management Board of the Company in current report no. 23/2018 of 16 May 2018.

The Management Board is of the opinion that the change in the manner of project development will allow it the current efficiency of the Company's operations to be sustained.

- Completion of winding up of Fort Mokotów sp. z o.o., w likwidacji (under liquidation)
The joint venture Fort Mokotów Inwestycje sp. z o.o., w likwidacji (under liquidation) was wound up on 26 April 2018. As a result of the liquidation the Company received cash in the amount of PLN 484 thousand. The nominal value of the shares owned by the Company at PLN 1 960 thousand was reduced by the share revaluation write down, which on the date of winding up of the company and as at 31 December 2017 was PLN 1 960 thousand.
- 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 PREPARATION OF THE INTERIM 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 2017, except for the following amendments to existing standards and new interpretations that are effective for annual periods beginning on 1 January 2018 which are described in note 7.3 of the interim condensed consolidated financial statements.

3. SELECTED FINANCIAL DATA AND AN INDICATION OF THE FACTORS AND EVENTS OF MATERIAL IMPACT ON THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2018

3.1. Selected data from the consolidated income statement

	(in thousand PLN)		Change
	H1 2018	H1 2017	
Sales revenue	639 193	435 516	47%
Gross profit on sales	178 909	116 352	54%
Selling costs	35 272	28 944	22%
General administrative expenses	44 344	27 306	62%
Operating profit	95 352	57 330	66%
EBITDA / sales revenue ratio	15.7%	13.9%	1.8 p.p.
Net profit	76 302	47 969	59%
Earnings per share (PLN)	3.06	1.93	59%

In the first half of 2018, the Group recognized sales revenue of PLN 639 193 thousand, which means a 47% increase year to year. The increase resulted primarily from the recognition of the results of the Euro Styl S.A. Capital Group that was incorporated into the Group in June 2017 and the 40% increase, in comparison to the first half of 2017, in the number of units delivered to customers of Dom Development S.A. and Dom Development Wrocław sp. z o.o.

Gross profit on sales in the first half of 2018 increased by 54% compared to the corresponding period of the last year. The higher increase of gross profit compared to the sales revenue corresponds to an increase in gross sales margin from 26.7% to 28.0%. This is a very good result, achieved mainly through an increase in sales prices, which in the case of projects nearing completion outpaced the increase of construction costs.

The 22% increase in the cost of sales resulted from an increase in the scale of operations of the Group. The increase in the general administrative costs by 62% for the compared periods also resulted from the increase in the scale of operations of the Company: primarily from the recognition of the costs incurred by the Euro Styl S.A. Capital Group in the consolidated income statement of the Group for the first half of 2018 and the

expenditures related to the development of Dom Construction sp z o.o. and the costs of the management options programme in the amount of PLN 2 892 thousand that did not occur in 2017. The incorporation of the Euro Styl S.A. Capital Group into the Group has caused permanent increase of scale and operations of the Group and consequential increase in costs of sales and general administrative costs. The costs incurred for the development of Dom Construction sp. z o.o., which were one-off costs, and the costs of the management options programme may be recognized in financial results over the subsequent years. Detailed information on the Company's management options programme can be found in note 7.18 to the Interim condensed consolidated financial statements for the six-month period ended 30 June 2018.

The increase rate for the costs of sale and general administrative costs was lower than the increase rate for the gross profit, resulting in the Company recording a 66% and 59% increase in operating profit and the net profit respectively.

3.2. Selected data from the consolidated balance sheet, assets

	(in thousand PLN)		Change
	30.06.2018	31.12.2017	
Total assets	2 608 115	2 390 395	9%
Fixed assets	31 362	30 785	2%
Current assets, including:	2 576 753	2 359 610	9%
Inventory	2 073 955	1 989 052	4%
Trade and other receivables	17 448	34 942	(50)%
Other current assets	5 364	3 971	35%
Cash and cash equivalents and short-term financial assets	479 402	331 159	45%

Structure of the Group's assets has not materially changed as compared to the figures as at the end of 2017. Decreased trade receivables primarily resulted from the reduced VAT receivables. Increased cash and short-term financial assets by 35% in the first half of 2018 primarily resulted from operating activities, and the consolidated net cash flows from operating activities of the Group in the first six months of 2018 were PLN 207 465 thousand.

3.3. Selected data from the consolidated balance sheet, liabilities

	(in thousand PLN)		Change
	30.06.2018	31.12.2017	
Total equity and liabilities	2 608 115	2 390 395	9%
Share capital	24 968	24 868	<1%
Shareholders' equity	894 312	1 002 326	(11)%
Total liabilities	1 713 803	1 388 069	23%
Long-term liabilities	387 529	410 701	(6)%
Short-term liabilities	1 326 274	977 368	36%

The structure of the Group's liabilities did not change significantly in the first half of 2018. The decrease in equity and the increase in short-term liabilities and, consequently, in total liabilities, is the result of allocation of PLN 189 760 thousand to the dividend payment to the shareholders in the Company, which took place on 4 July 2018.

3.4. Selected data from the consolidated cash flow statement

	(in thousand PLN)		Change
	H1 2018	H1 2017	
Cash and cash equivalents – opening balance	279 653	414 310	(33)%
Net cash flow from operating activities	207 465	208 911	(1)%
Net cash flow from investing activities	(5 532)	(200 647)	(97)%
Net cash flows from financing activities	(96 711)	(122 099)	(21)%
Cash and cash equivalents – closing balance	384 875	300 475	28%

The Group opened the first half of 2018 with consolidated cash reserves of PLN 279 653 thousand and closed that period with cash reserves of PLN 384 875 thousand, recording an increase of 38%. Net operating cash flows were PLN 207 465 thousand, to which contributed mostly an increase in deferred income and accrued income resulting from the value of apartments sold and not yet delivered to customers and the progress of construction.

Compared to the first half of 2017, the Group's investment cash flows changed significantly, which was connected to a one-off event, namely the acquisition of Euro Styl S.A. Capital Group in June 2017.

The cash outflows related to financial activities recognised in the first half of 2018 are attributable mostly to the repayment of a bank loan of PLN 50 000 thousand PLN and the redemption of bonds with the nominal value of PLN 50 000 thousand in the first quarter of 2018.

4. FINANCIAL MANAGEMENT - RATIO ANALYSIS OF DEBT AND LIQUIDITY OF THE GROUP

	(in thousand PLN)	
	30.06.2018	31.12.2017
<u>Leverage ratios</u>		
Equity ratio		
<i>shareholders' equity / total assets</i>	34.3%	41.9%
Liabilities to equity ratio		
<i>total liabilities / shareholders' equity</i>	191.6%	138.5%
Liabilities to assets ratio		
<i>total liabilities / total assets</i>	65.7%	58.1%
Interest bearing debt to equity ratio		
<i>interest bearing liabilities (including accrued interest) / shareholders' equity</i>	33.1%	39.5%
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>	-20.5%	6.5%
<u>Liquidity ratios</u>		
Current ratio		
<i>current assets / short-term liabilities less deferred income</i>	5.25	5.77
Quick ratio		
<i>current assets less inventory / short-term liabilities less deferred income</i>	1.02	0.91
Cash ratio		
<i>cash and cash equivalents / short-term liabilities less deferred income</i>	0.78	0.68

The Company and the Group were in good financial standing in the six-month period ended 30 June 2018. The liquidity ratios of the Company and 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 2018, 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 2018 compared to the end of last year resulted mainly from a decrease in equity and the corresponding increase in liabilities by PLN 189 760 thousand, i.e. the value of liabilities arising from the dividend paid to the shareholders of Dom Development S.A. on 4 July 2018.

5. MATERIAL EVENTS AND DESCRIPTION OF GROUP'S ACTIVITIES IN THE FIRST HALF OF 2018

In the six-month period ended 30 June 2018 the Group continued its development activities, being the construction and sale of residential real estates.

The most important event for the Group was contracting some of the property development projects in Warsaw to a subsidiary - Dom Construction sp. z o.o., which is described in Note 1.2 to this report.

There are approximately fifty 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 by the Company and the Group,
- 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, Tricity and Wrocław,
- optimization of financing of the Group's operating activities.

In the first half of 2018 the following material changes in the portfolio of the Group's investments under construction took place:

Projects where the construction commenced in the first half of 2018:

Project	Company	Standard	Number of apartments	Number of commercial units	Started in
Cybernetyki 17, phase 3	Dom Development S.A.	Popular	240	-	Q1 2018
Regaty, phase 2	Dom Development S.A.	Popular	198	2	Q1 2018
Amsterdam, phase 3	Dom Development S.A.	Popular	188	14	Q1 2018
Apartamenty Dolny Mokotów	Dom Development S.A.	Apartments	148	5	Q1 2018
Studio Arte	Dom Development Wrocław Sp. z o.o.	Apartments	51	1	Q1 2018
Spektrum, building D	Euro Styl S.A.	Apartments	152	5	Q1 2018
Spektrum, building C	Euro Styl S.A.	Apartments	64	11	Q1 2018
Rezydencje Marina Mokotów	Dom Development S.A.	Apartments	91	6	Q2 2018
Apartamenty Marina Mokotów	Dom Development S.A.	Popular	215	7	Q2 2018
Żoliborz Artystyczny, phase 10	Dom Development S.A.	Popular	261	12	Q2 2018
Port Żerań, phase 2	Dom Development S.A.	Popular	330	-	Q2 2018
Idylla 1	Dom Development Wrocław Sp. z o.o.	Popular	83	-	Q2 2018
Mezzo, building B1	Euro Styl S.A.	Popular	82	-	Q2 2018
Mezzo, building B2	Euro Styl S.A.	Popular	76	-	Q2 2018
Idea, building 8	Euro Styl S.A.	Apartments	38	-	Q2 2018
Beauforta, building B4	Euro Styl S.A.	Popular	18	3	Q2 2018
Beauforta, building B5	Euro Styl S.A.	Popular	36	-	Q2 2018
Beauforta, building B6	Euro Styl S.A.	Popular	27	-	Q2 2018
Beauforta, building B7	Euro Styl S.A.	Popular	24	3	Q2 2018
Total			2 322	69	

Projects where the construction was completed in the first half of 2018:

Project	Company*	Standard	Number of apartments	Number of commercial units	Completed in
Premium 3 (phase 2, stage 1)	Dom Development S.A.	Popular	134	-	Q1 2018
Apartamenty Włodarzewska 30	Dom Development S.A.	Popular	114	9	Q1 2018
Moderna, phase 4	Dom Development S.A.	Popular	189	-	Q1 2018
Klasyków Wille Miejskie 2, phase 2	Dom Development S.A.	Popular	204	-	Q1 2018
Aura 2	Dom Development Wrocław Sp. z o.o.	Popular	172	-	Q1 2018
Idea building 4	Euro Styl S.A.	Apartments	31	-	Q1 2018
Amsterdam, phase 1	Dom Development S.A.	Popular	53	7	Q2 2018
Forma, phase 1	Dom Development S.A.	Popular	89	6	Q2 2018
Futura Park, building 09	Euro Styl S.A.	Popular	39	3	Q2 2018
Impuls, building D	Euro Styl S.A.	Popular	146	7	Q2 2018
Total			1 171	32	

* The projects allocated to Euro Styl S.A. also include investments developed by entities from the Euro Styl S.A. Capital Group

6. CURRENT AND FUTURE DEVELOPMENT PROJECTS OF THE GROUP

As at 30 June 2018, the projects under development account for 6 409 units (apartments and retail units) in total. The new development projects for 7 078 units in total are defined and planned by the Group.

7. DESCRIPTION OF MAJOR RISK FACTORS AND THREATS TO THE BUSINESS ACTIVITY OF THE COMPANY AND THE GROUP IN THE SECOND HALF OF 2018

Significant risk factors and threats to the business activity conducted by the Company and the Group in the second half of 2018 as identified by the Management Board are presented below.

7.1. Macroeconomic factors

The Company's and 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 investments, household income, interest rates, inflation, unemployment, the condition of the real estate development and construction industries, and the real estate market.

The economic situation in the first half of 2018 was conducive to the property development sector. The key macroeconomic factors driving the demand in the housing market were a high increase in wages and historically low unemployment rate, which resulted in historically high consumer confidence, quantified by the Main Statistical Office of Poland as the current consumer confidence index.

Traditionally, also the historically low interest rates supported the real property market. In the opinion of the Management Board, signals from the Monetary Policy Council indicate that interest rates can be expected to remain at the present level and, therefore, the conditions conducive to the residential market can be expected to continue in the second half of 2018 and in the following year.

The situation in the property development sector in the first half of 2018 resulted from very strong demand supported by the factors described above combined with the factors limiting the supply. Among those, one of the main issues for property developers was the situation in the construction industry, as building contractors have been facing very significant workforce shortages, especially with regard to skilled workforce, and an increase in contractor costs. The condition of general contractors may negatively affect the activities of the

Company and of the Group through possible delays to the projects or increases to construction costs. In response to the problems of the construction sector, in the first half of 2018, the Management Board of the Company established Dom Construction sp. z o.o., which has become the general contractor for some of the Company's projects.

7.2. Availability of mortgages

Following over five years of stabilisation on the mortgage loan market, the year 2018 brought a significant increase in the number of newly granted loans. The availability of mortgage loans in the first six months of 2018 was high, as margins remained fairly stable and relatively low, interest rates remaining at the historically low level and the household disposable income increased along with the wages. The rate of wage increase exceeded the increase in real property prices, resulting in high accessibility of apartments, and customers in the face of a very good situation on the labour market have applied for mortgage loans in increasing numbers. In the opinion of the Management Board of the Company, the availability of mortgage loans will continue to be a factor that drives the demand for apartments also in the second half of 2018.

7.3. Foreign exchange risk

Pursuant to Recommendation S issued by the KNF, from 1 July 2014 banks, and from 22 July 2017 also other financial institutions which may provide mortgages, are required to provide them 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.

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 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. Operations in the Warsaw, Tricity and Wrocław markets

The Group operates in three geographical markets: Warsaw, Tricity and Wrocław. The Warsaw market is core market for the Group which to a large extent makes the results of the Group dependant on the situation prevailing in this market. The operations in Warsaw are carried out through the Company, i.e. Dom Development S.A. In the opinion of the Management Board, the Warsaw market can be expected to remain the largest and best residential real estate market in Poland in the long term, and the Group already has a well-established position and therefore the possibility of further development.

Warsaw, Tricity and Wrocław are regions with strong economies and favourable demographics. GDP per capita and the average wage in those cities exceed significantly the national average and the unemployment rate is around the natural unemployment rate. All three markets are large business and academic centres, among which Warsaw is the leader, as the national administration and business centre with 250 thousand of college students. In the opinion of the Management Board, the Poland's capital has a very strong population growth potential, which, together with the poor quality of the existing housing stock and a large number of undeveloped plots within the city limits, make it a highly prospective market in the long term. However, the current difficulties with obtaining administrative permits and with the availability and legal status of real estate on the Warsaw market constitute a major operational challenge for property developers. In the opinion of the Management Board, those difficulties will continue in the second half of 2018. Dom Development S.A., however, has been an unquestionable leader of the

Warsaw market for more than twenty years. The in-depth knowledge of local circumstances is one of the main competitive advantages of the Company, owing to which the Company does very well in comparison to its competitors in the current market.

Moreover, the Group has been operating also in Wrocław since 2011, and from 8 June 2017 also in Tricity, which the Company perceives as a market with high potential. The Management Board expects increasing diversification of operating activities between those three markets and, consequently, an increase in the participation of Dom Development Wrocław sp. z o.o. and Euro Styl S.A. in the consolidated financial results of the Group.

A 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 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. 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 Company 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 companies within 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 obtainment, 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 depending on administrative decisions. The timely launch of successive projects and the relatively short time between the land purchase and the start of construction may serve as evidence of high competence in this area.

Obtaining necessary administrative permits has been difficult over the last quarters, in particular in Warsaw. The Management Board of the Company does not expect significant changes in this regard in the second half of 2018. Owing to the supply of good quality land as well as experience and organizational agility, the investment plans of the Company and Group for the first half of 2018 have been implemented. The Management Board of the Company expects the plans of the Company and Group to be implemented as scheduled also in the second half of the year.

In the second half of 2018 and in the incoming years, the Special Housing Act or the Act on the facilitation of preparation and implementation of residential development projects and accompanying projects, can have a positive impact on the availability of land and on the process of implementation of property development projects. The legislators expect the new provisions of law to increase the pool of land available for residential

projects and to shorten the time required for obtaining the permits required for the start of the project. In the opinion of the Management Board of the Company, the Special Housing Act might have a palpable, positive impact on the activities of the Company and of the Group, however the extent of the impact of the new regulation is currently difficult to estimate.

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 and control of current development 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 in at least the next six months 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 the 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,
- Maintaining the stable political situation and creating 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 2018

Jarosław Szanajca, President of the Management Board

Janusz Zalewski, Vice President of the Management Board

Małgorzata Kolarska, Vice President of the Management Board

Mikołaj Konopka, Member of the Management Board

Terry R. Roydon, Member of the Management Board

9.2. Composition of the Supervisory Board of the Group's parent company as at 30 June 2018

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

Dorota Podedworna-Tarnowska, 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 preparing of this Management Board's Report of Activities of the Group in the first half of 2018 are presented in the table below.

	Status as at the date of preparing of this report				Change in the period from publication of the quarterly financial statements for the three-month period ended 31.03.2018
	Shares	% of capital	Number of votes at the GSM	% of votes at the GSM	Shares
Dom Development B.V.	14 155 941	56.70	14 155 941	56.70	(43 938)
Jarosław Szanajca	1 454 050	5.82	1 454 050	5.82	-
Aviva Otwarty Fundusz Emerytalny Aviva BZ WBK SA *)	1 313 383	5.26	1 313 383	5.26	no data
Grzegorz Kiełpsz	1 280 750	5.13	1 280 750	5.13	-

*) 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 preparing of this Management's Report of Activities of the Group in the first half of 2018 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 31.03.2018	
	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	131 500	400 000	531 500	-	-
Mikołaj Konopka	1 292	-	1 292	-	-
Terry R. 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 Company or the Group.

13. PROCEEDINGS BEFORE COURT, ARBITRATION OR PUBLIC ADMINISTRATION AUTHORITY

As of 30 June 2018, 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 2018, 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 2018, the Company was a party to proceedings concerning liabilities and receivables, the total value of which was approx. PLN 32 466 thousand, including the total value of proceedings concerning liabilities at approx. PLN 30 713 thousand and the total value of proceedings concerning receivables at approx. PLN 1 753 thousand.

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 2018.

15. SURETYSHIPS AND GUARANTEES GRANTED

The total value of suretyships and guarantees granted by the Company and its subsidiaries within the Group is not significant compared to the scale of operations of the Company and the Group.

Information of conditional liabilities of the companies within the Group are presented in note 7.19 to the interim condensed consolidated financial statements for the period ended 30 June 2018.