



Management Board's Report of Activities of

DOM DEVELOPMENT S.A. CAPITAL GROUP

in the first half of 2019

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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 2019**

This Management Board's report of activities of Dom Development S.A. Capital Group in the first half of 2019 was prepared and approved by the Management Board of the Company on 21 August 2019.

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 SCOP Poland S.à r.l. with its registered office in Luxembourg. As at 21 August 2019, the Company was controlled by SCOP Poland S.à r.l. which held 56.47% 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 2019 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 |
| M2 Hotel sp. z o.o. | Poland | 100% | 100% | full consolidation |
| M2 Biuro sp. z o.o. | 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 partly 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 and to Dom Construction Sp. z o.o.

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 a specialised subcontractors for individual types of building works.

Dom Development Grunty sp. z o.o. is fully consolidated as its financial and operational policy is managed by members of the management board nominated by Dom Development S.A. The area of activities of this subsidiary is the purchase of real estate to be further developed by the Group. Dom Development S.A. does not have a stake in the Dom Land sp. z o.o., but it controls this company through the persons holding office in the management board of the company. Dom Land sp. z o.o. holds 54% shares in Dom Development Grunty sp. z o.o.

All companies within the Group are established in the territory of Poland under the Code of Commercial Companies, with the unlimited duration.

In the six-month period ended 30 June 2019 the Group did not discontinue any of its activities.

Material changes to the Group structure, including as a result of a merger, acquisition or sale of the companies operating within the capital group, long-term investments, demerger, restructuring or discontinuation of activities, in the six-month period ended 30 June 2019.

Within the six-month period ended 30 June 2019, the Group did not make any other material changes in the structure of investing in subsidiaries, associates and joint ventures.

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 2018, except for the following amendments to existing standards and new interpretations that are effective for annual periods beginning on 1 January 2019 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 INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2019

3.1. Selected data from the consolidated income statement

| | (in thousand PLN) | | Change |
|---------------------------------|-------------------|---------------|------------|
| | H1 2019 | H1 2018 | |
| Sales revenue | 766 841 | 639 193 | 20% |
| Gross profit on sales | 224 344 | 178 909 | 25% |
| Selling costs | 32 857 | 35 272 | (7)% |
| General administrative expenses | 45 347 | 44 344 | 2% |
| Operating profit | 143 453 | 95 352 | 50% |
| EBITDA / sales revenue ratio | 19.7% | 15.7% | 25% |
| Net profit | 115 316 | 76 302 | 51% |
| Earnings per share (PLN) | 4.61 | 3.06 | 51% |

In the first half of 2019, the Group recognized sales revenue of PLN 766 841 thousand, which means a 20% increase year to year. The increase resulted primarily from 15% increase, as compared to the first half of 2018, in the number of apartments delivered to customers of the Group.

Both gross profit on sales and the EBITDA/sales revenue ratio in the first half of 2019 increased by 25% 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 28.0% to 29.3%. This is a very good result, achieved mainly through an increase in sales prices.

The Group reported growth of operating profit and net profit at 50% and 51%, respectively.

3.2. Selected data from the consolidated balance sheet, assets

| | (in thousand PLN) | | Change |
|---|-------------------|------------|--------|
| | 30.06.2019 | 31.12.2018 | |
| Total assets | 2 725 514 | 2 538 953 | 7% |
| Fixed assets | 87 148 | 49 940 | 75% |
| Current assets, including: | 2 638 366 | 2 489 013 | 6% |
| Inventory | 2 335 341 | 2 113 540 | 10% |
| Trade and other receivables | 44 934 | 52 344 | (14)% |
| Other current assets | 10 308 | 5 325 | 94% |
| Cash and cash equivalents and short-term financial assets | 247 636 | 317 380 | (22)% |

Structure of the Group's assets has not materially changed as compared to the figures as at the end of 2018.

A marked increase in fixed assets (by 75%) is a result of significant additions to tangible fixed assets as disclosed in the balance sheet. This increase stems from the Company applying new IFRS 16 "Leases" and from the recognition of the "right of use of office space" (as described in note 7.5 in the interim condensed consolidated financial statements of the Group).

An increase in the value of inventory is both, the result of a substantial number of development projects carried out by the Group and the effect of the Company applying new IFRS 16 "Leases" and the recognition

of "right of perpetual usufruct of land (lease)" as inventory (as described in note 7.6 in the interim condensed consolidated financial statements of the Group).

Cash and short-term financial assets reduced by 22% in the first half of 2019 is largely the result of dividends paid out (PLN 226 869 thousand) June 2019, with PLN 118 150 thousand net consolidated cash flows from operating activities in the first six months of 2019.

3.3. Selected data from the consolidated balance sheet, liabilities

| | (in thousand PLN) | | Change |
|------------------------------|-------------------|------------|--------|
| | 30.06.2019 | 31.12.2018 | |
| Total equity and liabilities | 2 725 514 | 2 538 953 | 7% |
| Share capital | 25 068 | 24 968 | 0% |
| Shareholders' equity | 939 416 | 1 046 542 | (10)% |
| Total liabilities | 1 786 098 | 1 492 411 | 20% |
| Long-term liabilities | 419 707 | 452 272 | (7)% |
| Short-term liabilities | 1 366 391 | 1 040 139 | 31% |

The structure of the Group's liabilities did not change significantly in the first half of 2019.

The decrease in equity is mainly the result of allocation of PLN 226 869 thousand to the dividend payment to the shareholders in the Company, which took place on 26 June 2019.

The increased liabilities stem from the Group applying new IFRS 16 "Leases" (as described in note 7.13 in the interim condensed consolidated financial statements of the Group), which in turn caused the increase in lease liabilities by PLN 127 528 thousand and in deferred income by PLN 120 060 thousand.

3.4. Selected data from the consolidated cash flow statement

| | (in thousand PLN) | | Change |
|---|-------------------|----------|--------|
| | H1 2019 | H1 2018 | |
| Cash and cash equivalents – opening balance | 282 492 | 279 653 | 1% |
| Net cash flow from operating activities | 118 150 | 207 465 | (43)% |
| Net cash flow from investing activities | (8 812) | (5 532) | 59% |
| Net cash flows from financing activities | (184 015) | (96 711) | 90% |
| Cash and cash equivalents – closing balance | 207 815 | 384 875 | (46)% |

The Group opened the first half of 2018 with consolidated cash reserves of PLN 282 492 thousand and closed that period with cash reserves of PLN 207 815 thousand, recording a drop of 26%. This drop is mainly the result of dividends (PLN 226 869 thousand) paid out in June 2019, with PLN 118 150 thousand net cash flows from operating activities.

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

| | (in thousand PLN) | |
|---|-------------------|------------|
| | 30.06.2019 | 31.12.2018 |
| <u>Leverage ratios</u> | | |
| Equity ratio | | |
| <i>shareholders' equity / total assets</i> | 34.5% | 41.2% |
| Liabilities to equity ratio | | |
| <i>total liabilities / shareholders' equity</i> | 190.1% | 142.6% |
| Liabilities to assets ratio | | |
| <i>total liabilities / total assets</i> | 65.5% | 58.8% |
| Interest bearing debt to equity ratio | | |
| <i>interest bearing liabilities (including accrued interest) / shareholders' equity</i> | 46.4% | 37.9% |
| 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> | 20.0% | 7.5% |
| <u>Liquidity ratios</u> | | |
| Current ratio | | |
| <i>current assets / short-term liabilities less deferred income</i> | 4.25 | 5.99 |
| Quick ratio | | |
| <i>current assets less inventory / short-term liabilities less deferred income</i> | 0.49 | 0.90 |
| Cash ratio | | |
| <i>cash and cash equivalents / short-term liabilities less deferred income</i> | 0.33 | 0.68 |

The Company and the Group were in good financial standing in the six-month period ended 30 June 2019.

The liquidity ratios of the Company and the Group are sufficient to guarantee safe and efficient operations.

Also the debt ratios, and specifically the equity ratio and the financial leverage ratios (liabilities to assets and liabilities to equity) as calculated at 30 June 2019, demonstrate with a high likelihood that the Group will be able to pay its liabilities.

The change in the said debt ratios and the reduced liquidity ratios as at 30 June 2019 compared to the figures at the end of 2018 result largely from:

- reduced cash and cash equivalents due to dividends paid out in June 2019,
- the recognition of lease liabilities (specifically the short-term portion) in the balance sheet (see note 3.3), and
- increased short-term portion of loan and bond liabilities (resulting mainly from the maturity of individual bond tranches).

5. MATERIAL EVENTS AND DESCRIPTION OF GROUP'S ACTIVITIES IN THE FIRST HALF OF 2019

In the six-month period ended 30 June 2019 the Group continued its development activities, being the construction and sale of residential real estates.

The most important event for the Group was development of Dom Construction Sp z o.o., a subsidiary, and contracting to it some of the property development projects in Warsaw and Wrocław.

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 2019 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 2019:

| Project | Company | Standard | Number of apartments | Number of commercial units | Started in |
|--|------------------------------------|------------|----------------------|----------------------------|------------|
| Żoliborz Artystyczny, phase 11 | Dom Development S.A. | Popular | 372 | 9 | Q1 2019 |
| Żoliborz Artystyczny, phase 12 | Dom Development S.A. | Popular | 95 | 11 | Q1 2019 |
| Apartamenty Ogródowa | Dom Development S.A. | Apartments | 155 | 5 | Q1 2019 |
| Wilno VI, phase 3/1 | Dom Development S.A. | Popular | 197 | - | Q1 2019 |
| IDEA B10 | Euro Styl S.A. | Popular | 50 | - | Q1 2019 |
| LOCUS B2 | Euro Styl S.A. | Popular | 50 | - | Q1 2019 |
| Apartamenty Polanki | Euro Styl S.A. | Apartments | 9 | - | Q1 2019 |
| Zielony Południk B1 | Euro Styl S.A. | Popular | 24 | - | Q1 2019 |
| Zielony Południk B4 | Euro Styl S.A. | Popular | 21 | - | Q1 2019 |
| Osiedle Beauforta- B2 | Euro Styl S.A. | Popular | 15 | 4 | Q1 2019 |
| Osiedle Beauforta- B3 | Euro Styl S.A. | Popular | 15 | 4 | Q1 2019 |
| Włodarzewska 70/72 | Dom Development S.A. | Popular | 102 | - | Q2 2019 |
| Port Żerań, phase 3 | Dom Development S.A. | Popular | 152 | - | Q2 2019 |
| Apartamenty Księcia Witolda | Dom Development Wrocław Sp. z o.o. | Apartments | 128 | 10 | Q2 2019 |
| Grabiszewska | Dom Development Wrocław Sp. z o.o. | Popular | 59 | 3 | Q2 2019 |
| Idylla 2 | Dom Development Wrocław Sp. z o.o. | Popular | 144 | - | Q2 2019 |
| Osiedle Beauforta – B12 | Euro Styl S.A. | Popular | 27 | - | Q2 2019 |
| Osiedle Beauforta – B13 | Euro Styl S.A. | Popular | 21 | - | Q2 2019 |
| Osiedle CIS | Euro Styl S.A. | Popular | 148 | - | Q2 2019 |
| Osiedle Przy Błoniach (Rumia Dębogórska) A | Euro Styl S.A. | Popular | 28 | - | Q2 2019 |
| Osiedle Przy Błoniach (Rumia Dębogórska) B | Euro Styl S.A. | Popular | 36 | - | Q2 2019 |
| Osiedle Przy Błoniach (Rumia Dębogórska) C | Euro Styl S.A. | Popular | 28 | - | Q2 2019 |
| Osiedle Przy Błoniach (Rumia Dębogórska) D | Euro Styl S.A. | Popular | 36 | - | Q2 2019 |
| Zielony Południk B9 | Euro Styl S.A. | Popular | 26 | - | Q2 2019 |
| Zielony Południk B10 | Euro Styl S.A. | Popular | 23 | - | Q2 2019 |
| Zielony Południk B11 | Euro Styl S.A. | Popular | 22 | - | Q2 2019 |
| Zielony Południk B12 | Euro Styl S.A. | Popular | 26 | - | Q2 2019 |
| total | | | 2 009 | 46 | |

Projects where the construction was completed in the first half of 2019:

| Project | Company* | Standard | Number of apartments | Number of commercial units | Completed in |
|-------------------------|----------------------|------------|----------------------|----------------------------|--------------|
| Amsterdam, phase 2 | Dom Development S.A. | Popular | 307 | 7 | Q1 2019 |
| Scena Apartamenty | Euro Styl S.A. | Apartments | 55 | 6 | Q1 2019 |
| Cybernetyki 17, phase 3 | Dom Development S.A. | Popular | 240 | - | Q2 2019 |
| Regaty, phase 2 | Dom Development S.A. | Popular | 198 | 2 | Q2 2019 |
| Forma, stage 2 phase 2 | Dom Development S.A. | Popular | 210 | 3 | Q2 2019 |
| Osiedle Beauforta – B1 | Euro Styl S.A. | Popular | 21 | 5 | Q2 2019 |
| Idea B6 | Euro Styl S.A. | Popular | 42 | 0 | Q2 2019 |
| Total | | | 1 073 | 23 | |

* 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 2019, the projects under development accounted for 5 372 units (apartments and retail units) in total. The new development projects for 6 813 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 2019

Significant risk factors and threats to the business activity conducted by the Company and the Group in the second half of 2019 as identified by the Management Board are presented below.

7.1. Macroeconomic factors

The Company's and the Group's business activities are constantly significantly affected by global developments, and in particular by their impact on the Polish economy. The business activities of the Company are affected specifically 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 key macroeconomic factors driving the demand in the housing market in the first six months in 2019 were a high increase in wages and historically low unemployment rate, which ensure favourable conditions for the development sector.

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 2019 and in the following year.

7.2. Availability of mortgages

The availability of mortgage loans in the first six months of 2019 remained 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 continued upward trend in value of new mortgages may also be observed. The rate of wage increase exceeded the increase in real property prices, resulting in high accessibility of apartments. In the opinion of the Management Board of the Company, the high availability of mortgage loans, due to low interest rates, low unemployment and growing real wages, will have a positive effect on property purchase decisions also in the second half of 2019.

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 of 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 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. 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 large business centres, with the dominant position of Warsaw as the national administration and business centre. 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. High purchase prices and complicated legal status of land prevent prompt start of development projects by developers to replenish the offer, thus restrict the supply of housing units. In the opinion of the Management Board, those difficulties will continue in the second half of 2019. 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. With the restricted supply and surging prices, very solid results reported by the Company and the Group reflect the quality and "abundance" of the products offered by the Company.

In the view of the Management Board the factors, which highly contributed to the market situation the first half of the year, were the increased availability of builders, the reduced quantity of commenced constructions as well as mild winter, which were favourable for timely completion of development projects and delivery of units to customers. The prices of initial works and steel prices stabilised, while finishing work prices remained high. The well-organised development process that ensures financial security and continuity of the jobs for subcontractors of the Company and the Group, allows the Group to complete projects in a timely manner, while maintaining their high quality.

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. The first

six month of 2019 were marked by rapid growth of operations in Tricity and Wrocław and featured strong purchases of land which are to bring a substantial growth in the offer and sales in these markets.

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 Company 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 strong growth in the demand for dwellings 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, following a selective approach to land purchases, focuses on securing attractive land for new projects to guarantee the satisfactory project contributions. Consequently the Company has broad and diversified land bank to ensure its successful operations for at least three years ahead. The Company, with its substantial resources of free cash and a strong balance sheet, has an opportunity to use them for further expansion of its diversified land bank. The intense development of land banks in Tricity and Wrocław is to bring a notable increase in the importance of these markets in the operations of the entire Group. In the Warsaw market, despite difficulties in land purchases, the Company controls a great deal of land.

7.6. Administrative decisions

The nature of real estate development projects requires a number of licenses, permits and arrangements to be obtained by the Company 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 Company 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 2019.

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 2019

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 2019

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 2019 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 31.03.2019 |
|---|---|--------------|----------------------------|-----------------------|---|
| | Shares | % of capital | Number of votes at the GSM | % of votes at the GSM | Shares |
| SCOP Poland S.à r.l. | 14 155 941 | 56.47 | 14 155 941 | 56.47 | - |
| Jarosław Szanajca | 1 454 050 | 5.80 | 1 454 050 | 5.80 | - |
| Aviva Otwarty Fundusz Emerytalny Aviva Santander *) | 1 313 383 | 5.24 | 1 313 383 | 5.24 | no data |
| Grzegorz Kielpsz | 1 280 750 | 5.11 | 1 280 750 | 5.11 | - |

*) Shareholding of Aviva OFE Aviva Santander (formerly Aviva OFE Aviva BZ WBK) 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 preparing of this Management's Report of Activities of the Group in the first half of 2019 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 31.03.2019 | |
|---|-----------|---------------|-----------|---|---------------|
| | 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 | 231 500 | 300 000 | 531 500 | - | - |
| Mikołaj Konopka | 1 292 | - | 1 292 | - | - |
| Terry R. 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 Company or the Group.

13. PROCEEDINGS BEFORE COURT, ARBITRATION OR PUBLIC ADMINISTRATION AUTHORITY

As of 30 June 2019 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 2019 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 at 30 June 2019 the Company was not a party to any material court cases.

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.

15. SURETYSHIPS AND GUARANTEES GRANTED

In the six-month period ended 30 June 2019 the companies operating within the Group did not provide any guarantees for loans or borrowings, nor any other guarantees – jointly to one entity or its subsidiary, the value of which would be material for the Group or would amount to at least 10% of the Company's shareholders' equity.

Information of conditional liabilities of the companies within the Group are presented in note 7.22 to the interim condensed consolidated financial statements for the period ended 30 June 2019.