



# **MANAGEMENT BOARD'S REPORT OF ACTIVITIES OF DOM DEVELOPMENT S.A. IN 2016**

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## **APPROVAL BY THE MANAGEMENT BOARD OF THE MANAGEMENT BOARD'S REPORT OF ACTIVITIES OF DOM DEVELOPMENT S.A. IN 2016**

This Management Board's report of activities of Dom Development S.A. in 2016 was prepared and approved by the Management Board of the Company on 27 February 2017.

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Jarosław Szanajca,  
President of the Management Board

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Janusz Zalewski,  
Vice President of the Management Board

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Małgorzata Kolarska,  
Vice President of the Management Board

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Janusz Stolarczyk,  
Member of the Management Board

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Terry R. Roydon,  
Member of the Management Board.

## INTRODUCTION

The joint stock company Dom Development S.A. (the "Company") is the parent company of Dom Development S.A. Capital Group (the "Group"). The Company has been entered into the National Court Register under number 0000031483 maintained by the District Court for the capital city of Warsaw, 12th Commercial Division of the National Court Register. The registered office of the Company is in Warsaw (00-078 Warsaw, pl. Piłsudskiego 3).

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

As at 31 December 2016 the Company was controlled by Dom Development B.V. with registered office in the Netherlands which held 59.42% of the Company's shares.

### 1. GENERAL INFORMATION ABOUT DOM DEVELOPMENT S.A.

#### 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 31 December 2016 is presented in the table below:

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

#### 1.2. Activities of the Company and the Group

The main area of activity of the Company is the construction and sale of residential real estate. All development projects of the Company are conducted directly within the Dom Development organisational structure.

In the twelve-month period ended 31 December 2016:

- the Company did not discontinue any of its activities;
- the Company did not make any material deposits or capital investments. All free cash was invested by the Company in short term bank deposits.

### 1.3. Information on core products

The main aim of the Company has always been the construction of affordable flats in the so-called popular segment (mid-market). The Company's offer is supplemented with other market segment products.

Currently, product assortment of the Company comprises multi-family buildings (flats and apartments), which can be divided into the following market segments:

- *Popular flats* (mid-market) – flats in residential buildings and housing estates are usually located outside of the immediate city centre, normally with at least 200 flats.
- *Apartments* – apartments in residential buildings or small groups of buildings located in Warsaw's city centre and in popular residential districts (Żoliborz, Mokotów, Śródmieście, Ochota).

Flats and apartments are offered in two standards: "turn-key" and unfinished. The unfinished flats/apartments are finished by buyers on their own account. Various finishing options are available for "turn-key" flats/apartments.

- Commercial space – mainly shops constructed by the Company as part of residential buildings. The revenues from the sale of such space account for an insignificant part of the total revenue but they enable the possibility to offer such facilities as shops, which increases the attractiveness of a given project.

In addition to this, the Company's tasks include the management of housing estates constructed under development projects conducted by the Group. Management will be performed only through a limited period of time, i.e. until the final management company is chosen by the common hold associations which take over the managerial duties from the Company.

In 2016, the Company's revenue from the sale of products and services related to real estate management were as follows:

REVENUE STRUCTURE	01.01- -31.12.2016 in thousand PLN	01.01- -31.12.2015 in thousand PLN	Change 2016/2015
Revenue from the sale of flats/apartments, houses and commercial space	1 118 101	887 752	26%
Revenue from the sale of real estate management services	7 480	5 773	30%
Revenue from other sales	36 393	10 681	241%
<b>Total</b>	<b>1 161 973</b>	<b>904 206</b>	<b>29%</b>

### 1.4. Information on the markets, customers and sources of supply of production materials

In 2016 the activity of the Company was mainly concentrated in Warsaw. In 2016, as in 2015, the portfolio of offered apartment products and projects that were being prepared, was predominantly made up of investments in the popular segment. This has already been reflected in both, the sales structure in 2016 and the structure of planned investment projects. In the year 2016, the Company also had had a branch in Wrocław, which was dissolved on 31 December 2016 and the Company's activities in Wrocław will continue through Dom Development Wrocław Sp. z o.o., in which the company holds 100% of the shares.

#### 1.4.1 Dom Development S.A. sales structure

NUMBER OF PRODUCTS SOLD BY PRODUCT GROUPS	2016	2015	Change
Popular (mid-market) units	2 685	2 344	15%
High-end apartments and retail units (including luxury apartments)	44	39	13%
<b>Total</b>	<b>2 729</b>	<b>2 383</b>	<b>15%</b>

The Company does not depend on any of its customers because the sales are dispersed amongst a large, varied and changing group of buyers of residential and commercial units. The majority of the Company's customers are natural persons.

The sales in the table above covers signed preliminary agreements (including withdrawals) that are the measure for current scale of the Company's operations.

#### 1.4.2 Major contractors

The main costs incurred by the Company in the real estate development activity are the costs of construction services provided by third parties, not related to the Company, under a general contracting system and the purchase costs of land for the investment projects.

As regards the land, despite individual transactions of significant value, the Company does not depend on one supplier.

As regards the construction services, contractors are chosen in internally organised tender procedures. The Company uses the services of various construction companies operating in the Warsaw and Wrocław markets.

The Company's major contractors in 2016, in terms of the value of services purchased in this period, were:

CONTRACTOR	01.01- -31.12.2016 in thousand PLN
UNIBEP S.A.	234 711
ERBUD S.A.	53 681
EIFFAGE POLSKA BUDOWNICTWO S.A.	52 139
WARBUD S.A.	51 646
FUNDAMENTAL GROUP S.A. (formerly BUDNER S.A.)	38 057
NDI S.A.	30 570
PPUH RODEX SP. Z O.O.	22 214
REMBUD SP. Z O.O.	21 421
KALTER SP. Z O.O.	21 346

The turnover shown above accounts for approximately 50% of the sum spent by the Company on construction and design services in 2016.

## 2. OPERATIONS OF DOM DEVELOPMENT S.A.

### 2.1. Operations of Dom Development S.A. in 2016

In 2016 the Company continued its development activities, being the construction and sale of residential real estates. The construction works were conducted in the general contractor system, and the works were contracted to specialized third-party building companies.

There are several development projects that are simultaneously conducted by the Company. 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 and adjustment of the product offer to best meet the expectations and demand in the market,
- the potential plots of land which may be purchased for further development projects to be carried out in the following years, also in major Polish cities other than Warsaw,
- optimization of financing of the Company's operating activities.

#### 2.1.1 Development projects commenced and completed

In 2016, the following material changes in the portfolio of the Company's real estate development investments under construction took place:

Projects where the construction commenced in the period from 1 January 2016 until 31 December 2016:

Project	Standard	Number of apartments	Number of commercial units
Ursynovia (Anody), phase 1	Popular	72	7
Ursynovia (Anody), phase 2	Popular	111	0
Premium, phase 2	Popular	236	0
Palladium, phase 1	Popular	214	0
Saska III	Popular	347	12
Osiedle pod Różami, phase 3	Popular	47	3
Żoliborz Artystyczny, phase 5	Popular	117	9
Żoliborz Artystyczny, phase 6	Popular	125	12
Żoliborz Artystyczny, phase 7	Popular	127	13
Wilno III, phase 2	Popular	125	4
Moderna, phase 2	Popular	194	0
Klasyków Wille Miejskie, phase 2	Popular	204	0
Wille Taneczna	Popular	119	0
Wilno III, phase 3	Popular	111	0
Apartamenty Włodarzewska 30	Popular	114	9
Moderna, phase 4	Popular	189	0
Premium, phase 3	Popular	134	0
Amsterdam, phase 1	Popular	53	7
<b>Total</b>		<b>2 639</b>	<b>76</b>

In the period from 1 January 2016 to 31 December 2016, the construction under the Aura project, phase 2 was commenced within the Dom Development S.A. Capital Group (in Dom Development Wrocław Sp. z o.o.) with 172 apartments.



Projects where the construction was completed in the period from 1 January 2016 until 31 December 2016:

Project	Standard	Number of apartments	Number of commercial units
Klasyków Wille Miejskie, phase I	Popular	231	4
Aura, phase Ib	Popular	64	0
Wilno II, phase 2	Popular	249	14
Apartamenty Saska nad Jeziorem, phase 3	Popular	236	0
Wille Lazurowa	Popular	164	2
Osiedle Przyjaciół, phase 1	Popular	115	1
Osiedle Przyjaciół, phase 2	Popular	88	1
Dom Pod Zegarem	Popular	226	9
Żoliborz Artystyczny, phase 8	Popular	218	0
Żoliborz Artystyczny, phase 9	Popular	162	0
Wilno II, phase 3	Popular	185	4
Studio Mokotów	Popular	319	10
<b>Total</b>		<b>2 257</b>	<b>45</b>

### 2.1.2 Current and future development projects

As at 31 December 2016, the projects under development account for 3 371 units (apartments and retail units) in total. The new development projects for 6 450 units in total are defined and planned by the Company.

### 2.1.3 Agreements significant for the business activity of the Company

**In the financial year, the major agreements, with the value exceeding 10% of the shareholders' equity of the Company, were concluded with the following contractors**

In the financial year 2016, the Company signed agreements with Unibep S.A. with an aggregate value of PLN 280 800 thousand and with Kalter Sp. z o.o. with a total value of PLN 105 600 thousand. All the agreements were general contractor agreements for the Company's projects.

#### Other major agreements

On 28 July 2016, the Company entered into a sale agreement with Qualia Development Sp. z o.o. with its registered office in Warsaw for the sale of 100% of shares in Fort Mokotów Inwestycje Sp. z o.o. with its registered office in Warsaw (hereinafter referred to as "FMI") for a consideration of PLN 129 400 thousand net. The sale agreement was entered into so as to enable the purchase by the Company of long-term leasehold of the land located in the area of Żwirki i Wigury and Raclawicka streets in the Mokotów District in Warsaw. The transaction was reported in current report no. 28/2016 dated 28 July 2016.

### 2.1.4 Agreements with shareholders

Dom Development S.A. has no information on any possible agreements between the shareholders concluded in 2016.

### 2.1.5 Cooperation agreements

In 2016, Dom Development S.A. did not conclude any significant cooperation agreements with other entities.

### **2.1.6 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 7.43 to the financial statements for the period ended 31 December 2016.

### **2.1.7 Litigations**

#### **Proceedings before the courts, arbitration or public administration authority**

As of 31 December 2016, there was no individual proceeding before any court, authority competent for arbitration or public administration body, concerning the liabilities or receivables of the Company or its subsidiary, the value of which would be at least 10% of the Company's shareholders' equity.

As of 31 December 2016, there were not two or more proceedings before any court, authority competent for arbitration or public administration body, concerning the liabilities or receivables, the value of which would be at least 10% of the Company's shareholders' equity.

As of 31 December 2016, the Company was a party to proceedings concerning liabilities and receivables, the total value of which was approx. PLN 28 126 thousand, including the total value of proceedings concerning liabilities at approx. PLN 25 321 thousand and the total value of proceedings concerning receivables at approx. PLN 2 804 thousand.

The proceedings involving the Company have no significant impact on the Company's activity.

## **2.2. Development of Dom Development S.A., risk factors**

### **2.2.1 Significant risk factors and factors important for development of the Company**

Significant risk factors and threats to the business activity conducted by the Company have been presented below.

#### **Macroeconomic factors**

The Company's business activities are significantly affected by global developments, and in particular by their impact on the Polish economy. The most important macroeconomic factors for the Company's financial condition and results include: economic growth rate (risk of growth deceleration), unemployment rate (risk of growing unemployment), position of financial institutions (risk of a decrease in trust). The business activities of the Company 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.

In 2016, the macroeconomic environment had a positive effect on the Company's activities. The key positive factors for the housing market were the continuing record-low interest rates and the very good situation in the labour market. The Management Board expects that these favourable conditions will continue in the year 2017.

#### **Availability of mortgages**

In 2016, the availability of mortgage loans slightly decreased in comparison with the year 2015. This was related with the tightening of the criteria for granting loans by banks and an increase in margins, which, coupled with stable interest rates, has led to a slight increase in the cost of credit. It should be emphasised however that the cost of a mortgage remains very low and is close to the historic minimum.

The tightening of criteria for granting loans and the increase in the cost of credit were related, among other, with Recommendation S, which stipulated that for mortgage loans, the required downpayment increased to 15 % in 2016 and to 20% in 2017. It is still possible to obtain a loan with a loan to value ratio of 90%, but this requires downpayment insurance to be obtained, which increases the cost of the mortgage.

Although the availability of mortgage loans has decreased slightly in 2016, its impact on the housing market was negligible. What transpired was an unusual situation where the housing market broke record after record while the number of newly granted mortgage loans was the lowest in 10 years. According to the estimates of the National Bank of Poland, as many as two out of three transactions in the housing market were made for cash. At Dom Development S.A., cash transactions accounted for approximately 40% of sales in the previous year.

### **Foreign exchange risk**

As Recommendation S issued by the Polish Financial Supervision Authority came in effect early in January 2014, foreign exchange loans are to be provided only when majority of income is earned in a specific currency. This is to prevent speculations and reduce foreign exchange risk. 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 being 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 the present due to PLN depreciation against EUR or CHF, often exceed the real value of the properties bought that constitute security for mortgages.

### **Concentration of operations in the Warsaw market**

The Company's present and planned activity is concentrated in the Warsaw market. This makes the Company's results highly dependent on the situation in this market. However, it can be assumed that in the long-term this will be the most dynamic residential real estate market in Poland, and the Company already has a well-established position and therefore the possibility of further development. Currently, the Group is also developing its business in the Wrocław market where apartments are offered in two locations. A further expansion of the Company is also considered, in particular taking into account Tricity.

### **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 competitive prices. This will allow the generation of satisfactory project contributions. A limited supply of land in prime locations where the legal status is not a hindrance means that the ability to acquire new land is a significant source of competitive advantage in the real estate development market.

The observed revival of growth in demand translates to growth in scale of residential investments. To maintain the level and quality of the offer, developers have to constantly replenish their land banks. This leads to increased competition in the real estate market, and makes the acquisition of new land become increasingly difficult. The Management Board places great emphasis on acquiring affordable land for new investments so that the Company has a broad and varied real estate reserves that secure its activity for at least the next two years.

### **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 of decisions which have already been issued (also due to appeals with no consequences for appellants) or even failing to obtain them. All these affect the ability to conduct and complete the executed and planned projects.

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 Company. The adherence to such procedures is closely monitored by the Management Board of the Company.

The activities of the Company are also affected by administrative decisions at a central level such as the conditions for subsidies under the *Homes for the Young* programme or restrictions on land transactions.

Potential future changes in the legislation also constitute a risk that could directly or indirectly affect the Company's activities and results. In particular, these type of risks include the possibility of introducing a mandatory close-end escrow account as a form of security for buyers of apartments. The Management Board assesses, however, that the possible introduction of such an obligation may have a negative impact on the Company's activities to a lesser extent than on other market operators, primarily due to our comfortable financial situation and also because of the trust and good reputation, which Dom Development S.A. enjoys among financial institutions.

There has been a formalised risk management procedure in operation within the Company since 2000. Under this procedure the risk is managed through the identification and assessment of the risk areas for all aspects of the activities, in which the Company and the Group are involved, together with defining activities required to reduce or eliminate such risks (including through the procedures and internal audit system) The risk management procedure is subject to periodic revision and is updated by the Management Board jointly with the key management staff and third party advisers.

### **2.2.2 Perspectives for the development of the Company's business activities**

The year 2016 was record year for both, the Company and the entire real estate development sector. In 2016, the conditions in the primary apartment market were favourable for investors and also for customers. Buyers were able to choose from a broad offer with stable prices, and both parties felt the large positive influence of low interest rates. The management board believes that the good market conditions should sustain in 2017.

The Company intends to continue its activities in the current scope. In order to ensure a proper offer structure, the Company will continue to develop its land bank and balance the proportions between land owned on the left and right bank of the Vistula river in Warsaw and continue to search for attractive land in Wrocław. The major objective and task of the Management Board was to prepare the Company to face new challenges in the face of the favourable conditions. The major steps undertaken in this respect included:

- ensuring that adequate sources of finance are available to the Company, both for current and future real estate development projects, with due care from the perspective of the Company and its customers,
- co-operation with banks, and strong assistance to customers in obtaining mortgages for purchase of an apartment,
- adjusting the sales offer to the market demand,
- aligning land purchase outlays to Company's existing and future needs,
- optimizing the way and time the current land bank is used,
- increasing the efficiency and scale of sales support activities,
- maintaining and building upon customer confidence in the Dom Development brand,
- restructuring the organization and employment to the anticipated level of operational activities,
- optimising general administrative expenses.

The above-mentioned measures taken by the Management Board will be continued in 2017. In addition to this, in the next twelve months Dom Development S.A. will focus specifically on the further increase of sales volume as compared to 2016 and the increase of its share in the Warsaw real estate market. This will be possible due to:

- the well-established position in the Warsaw residential property market,
- the high qualifications and potential of the Company's management,
- the worked out know-how in respect of operational execution of development projects,
- accumulated experience in selling and financing development projects,
- the land bank (for both, ongoing and future projects).
- very good liquidity of the Company.

In the upcoming twelve-month period it is also planned to:

- further focus on the operating activities in the popular flat segment and maintain activities in the remaining product groups within the offered product range,
- develop operations of the Group outside the Warsaw market through the expansion of operations in Wrocław and potential entry into the Tricity market.

### 3. FINANCIAL SITUATION OF THE COMPANY, FINANCE MANAGEMENT

#### 3.1. Basic economic and financial figures disclosed in the annual financial statements of the Company for 2016

##### 3.1.1 Selected data from the balance sheet

##### Assets

Structure of the Company's assets as at 31 December 2016, and changes as compared to the figures as at the end of 2015.

ASSETS	31.12.2016 in thousand PLN	Share in assets	31.12.2015 in thousand PLN	Change 2016/2015
<b>Total fixed assets</b>	<b>170 940</b>	9%	<b>18 760</b>	811%
<b>Current assets</b>				
Inventory	1 360 371	69%	1 478 660	(8)%
Trade and other receivables	9 231	<1%	27 674	(67)%
Other current assets	2 612	<1%	2 668	(2)%
Cash and cash equivalents and Short-term financial assets	435 098	22%	220 948	97%
<b>Total current assets</b>	<b>1 807 312</b>	<b>91%</b>	<b>1 729 950</b>	<b>4%</b>
<b>Total assets</b>	<b>1 978 252</b>	<b>100%</b>	<b>1 748 710</b>	<b>13%</b>

##### Equity and liabilities

Structure of the Company's shareholders' equity and liabilities as at 31 December 2016, and changes as compared to the figures as at the end of 2015.

EQUITY AND LIABILITIES	31.12.2016 in thousand PLN	Share in equity and liabilities	31.12.2015 in thousand PLN	Change 2016/2015
<b>Shareholders' equity</b>				
Share capital	24 782	1%	24 771	<1%
Share premium less treasury shares	234 986	12%	234 534	<1%
Reserve and supplementary capitals, and accumulated unappropriated profit (loss)	671 361	34%	623 831	8%
<b>Total shareholders' equity</b>	<b>931 129</b>	<b>47%</b>	<b>883 136</b>	<b>5%</b>
<b>Liabilities</b>				
Total long-term liabilities	325 738	16%	432 147	(25)%
Total short-term liabilities	721 385	36%	433 427	66%
<b>Total liabilities</b>	<b>1 047 123</b>	<b>53%</b>	<b>865 574</b>	<b>21%</b>
<b>Total equity and liabilities</b>	<b>1 978 252</b>	<b>100%</b>	<b>1 748 710</b>	<b>13%</b>

### 3.1.2 Selected data from the income statement

Income statement of the Company for the year ended 31 December 2016 as compared to 2015.

	<b>01.01- -31.12.2016</b>	<b>sale %</b>	<b>01.01- -31.12.2015</b>	<b>Change 2016/2015</b>
	<b>in thousand PLN</b>		<b>in thousand PLN</b>	
Sales revenue	1 161 973	100%	904 206	29%
Cost of sales	890 824	77%	700 248	27%
Gross profit on sales	271 149	23%	203 958	33%
Operating profit	158 969	14%	102 270	55%
Profit before tax	158 227	14%	100 435	58%
<b>Net profit</b>	<b>127 740</b>	<b>11%</b>	<b>80 647</b>	<b>58%</b>
Basic earnings per share (in PLN)	5.16		3.26	58%

### 3.1.3 Selected information from the cash flow statement

	<b>(in thousand PLN)</b>		<b>Change</b>
	<b>2016</b>	<b>2015</b>	
Cash and cash equivalents – opening balance	217 201	317 382	(32)%
Net cash flow from operating activities	417 910	(43 724)	na.
Net cash flow from investing activities	(156 185)	23 278	na.
Net cash flows from financing activities	(66 591)	(79 735)	na.
Cash and cash equivalents – closing balance	412 335	217 201	90%

Cash balances amounted to PLN 217 201 thousand at the beginning of 2016 and they amounted to PLN 412 335 thousand at the end of the year. Therefore, in the period from 1 January until 31 December 2016 the balance of cash increased by PLN 195 134 thousand.

In 2016, the Company recorded a net inflow of cash from the operating activities in the amount of PLN 417 910 thousand. This resulted mainly from an increase in profit before tax and a reduction in inventories of the Company. This was caused, among other things, by an increase to 20% in the number of completed units delivered to customers (from 2 062 units in 2015 to 2 482 units in 2016). The increase in net cash flows from operating activities also resulted from a significant increase in deferred income, which shows that, despite the large number of completed units delivered to customers, the current sales income, which is presented as deferred income, exceeded in 2016 the value of revenue from units recognised as income in the profit and loss account.

Another factor that contributed to the amount of net cash flow from operating activities was the classification of the acquisition of shares in Fort Mokotów Inwestycje Sp. z o.o. as investment activities. This transaction was entered into so as to enable the purchase by the Company of perpetual usufruct right to the land located in the Mokotów District in Warsaw. The Company does not intend to conduct operating activities through Fort Mokotów Inwestycje Sp. z o.o.

In 2016, the Company disclosed a net outflow of cash from investing activities in the amount of PLN 156 185 thousand. This resulted mainly from the above mentioned acquisition of shares in Fort Mokotów Inwestycje Sp. z o.o. with the net carrying value of the investment amounting to PLN 136 411 thousand.

In 2016, the Company recorded a net cash outflow from the financing activities in the amount of PLN 66 591 thousand. The excess of financial outflow over the inflow is mainly due to the payment of dividends by the Company in the amount of PLN 80 543 thousand.

## 3.2. Forecasts

Both, Dom Development S.A. Capital Group and the parent company did not publish financial forecasts for 2016.

### 3.3. Finance management in the Company

In 2016, the finance management of Dom Development S.A. in respect of construction of residential buildings was focused on seeking and structuring sources of external financing for the projects under construction and on maintaining a safe level of liquidity. The Management Board analyses the current and plans the future optimum financing structure on a regular basis in order to achieve planned ratios and financial results, and at the same time, to ensure liquidity and the comprehensive financial security of the Company. In 2016, the activities of the Company generated a positive result at each level of the income statement.

The Management Board is of the opinion that the net assets and financial results of Dom Development S.A. at the end of 2016 demonstrate the strong and stable financial position of the Company. This results from the well-established position of the Company in the housing market, appropriate operational experience and potential in place, both in terms of execution of residential development projects, and the sale and financing of these projects. The net assets and financial standing of the Company has been demonstrated by liquidity and debt ratios presented further in this report.

Having considered the situation in the Polish real estate market in recent years, the financial results achieved by the Company in 2016 can be considered very good. In 2016, the Company delivered 2 482 units (including apartments and retail units) to its customers as compared to 2 062 units in 2015. The financial result for 2016 is significantly higher (by 58%) than the result recorded in 2015. At the same time, in 2016 the Company had a record net sales volume of 2 729 units which is 15% more than in 2015, and this may be considered as being a very strong result.

#### 3.3.1 Profitability ratios

The ratios showing profitability of the business activity pursued by the Company in 2016 have improved as compared to the previous year. It predominantly results from the fact that the average margin generated on apartments delivered in 2016 was higher than on apartments delivered in 2015. The return on assets and equity has also improved, this is a result of a net profit growth of 58% with a much lower growth in assets and equity (up by 13% and 5% respectively).

PROFITABILITY RATIOS	2016	2015
Operating profit margin <i>EBITDA / net sales revenue</i>	14.1%	11.8%
Net profit margin <i>Net profit / net sales revenue</i>	11.0%	8.9%
Return on assets (ROA) <i>Net profit / total assets</i>	6.5%	4.6%
Return on equity (ROE) <i>Net profit / shareholders' equity</i>	13.7%	9.1%

#### 3.3.2 Liquidity ratios

Having considered the specifics of the real estate development industry with its long production cycle and tighter funding requirements for the companies operating in this sector, the Company has been in a comfortable financial position.

This is due to a number of long-term decisions and actions taken by the Company's Management Board. These high ratios to a high extent result from the relevant financing structure applied, that is predominantly medium-term and long-term, as opposed to short-term and medium-term financing. The liquidity ratios are driven by decisions around financing of current investments (including decisions when to commence the construction of individual estates and concerning the product mix offered for sale) and the strategy of acquiring new land.

All the liquidity ratios have remained at a very safe level in 2016, similarly to those in 2015. The only ratio that changed significantly in 2016 compared to 2015 was the current ratio, which decreased by 44% to 4.85. It is to be noted, however, that such level is still considered very safe. The quick and cash ratios as at the end of the year 2016 did not change significantly in relation to the previous year.



The significant decrease in the current ratio from 8.72 as at the end of 2015 to 4.85 as at the end of 2016 resulted from disparities in the rate of increase of current assets and current liabilities. The increase in current liabilities as at the end of the year 2016 by 66% compared to the end of 2015 resulted mainly from the recognition that bonds maturing on 2 February 2017, were bought back by the Company on that date. This increase outweighed the increase of current assets in this period, which amounted to 4%. This relatively low increase in current assets resulted primarily from the recognition of shares in Fort Mokotów Inwestycje Sp. z o.o. in the fixed assets of the Company (information concerning the acquisition of those shares can be found in note 3.1.3. to these financial statements).

The Management Board is of the opinion that the credibility of the Company in the financial market is high which is reflected by relatively low cost of finance and diversified financing structure and by good relationships with banks and other financial institutions in the form of them providing the Company with loans and other forms of long-term finance (bonds).

LIQUIDITY RATIOS	2016	2015
Current ratio <i>current assets / short-term liabilities less deferred income</i>	4.85	8.72
Quick ratio <i>current assets less inventory / short-term liabilities less deferred income</i>	1.20	1.27
Cash ratio <i>cash and cash equivalents, and bank deposits with a maturity of over 3 months / short-term liabilities less deferred income</i>	1.11	1.09

### 3.3.3 Leverage ratios

Appropriate operating policy (i.e. proper commencement and pace of projects as well as controlled purchases of land) and conservative financing policy (the financing structure) maintained leverage ratios at adequate levels to support the business activity and maintain the Company's creditworthiness. The debt ratios with values similar at the end of 2016 to those at the end of 2015 reflect the conservative approach of the Company's governing bodies to the sources of finance for operations. The largest difference to 2015, which resulted from the increase in cash and short-term financial assets, was recorded by the Company with regard to net interest-bearing debt ratio, whose negative value means that the Company's cash exceeds its interest-bearing debt, i.e. the total value of liabilities under loans and bonds plus the accrued interest.

The changes to liabilities for loans and bonds are the best position to reflect "net cash flows from financing activities" described in note 3.1.3 of this report.

LEVERAGE RATIOS	2016	2015
Equity ratio <i>shareholders' equity / total assets</i>	47.1%	50.5%
Liabilities to equity ratio <i>total liabilities / shareholders' equity</i>	112.5%	98.0%
Liabilities to assets ratio <i>total liabilities / total assets</i>	52.9%	49.5%
Interest bearing debt to equity ratio <i>interest bearing liabilities (including accrued interest) / shareholders' equity</i>	41.2%	42.3%
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>	(5.5)%	17.3%

### **3.4. Information on loans, bonds, borrowings, sureties and guarantees**

#### **3.4.1 Borrowings contracted or terminated**

As at 31 December 2016 and 31 December 2015 the Company did not have any borrowings. The Company did not take or repay any borrowings in 2016 and 2015.

#### **3.4.2 Loans contracted or terminated**

In the twelve-month period ended 31 December 2016 the Company did not enter into any new credit facility agreements. Total loan liabilities decreased by PLN 100 000 thousand in the period concerned.

Details of the loans contracted by the Company have been presented in note 7.20 to the financial statements of the Company for 2016.

#### **Loan agreements terminated in 2016**

The Company did not terminate any loan facility agreement in 2016.

#### **3.4.3 Bonds**

On 15 November 2016, the Company issued 110,000 000 unsecured bonds with the nominal value of PLN 1 000 each and the aggregate nominal value of PLN 110 000 thousand. The maturity date for these bonds is 15 November 2021. The issue value equals their nominal value. The interest rate is set at WIBOR 6M plus margin and will be paid semi-annually. No purpose for the bond issue was specified. The funds from the issue have been designated for current operations of the Company.

Details of the bonds issued and redeemed by the Company have been presented in note 7.21 to the financial statements of the Company for 2016.

#### **3.4.4 Borrowings provided**

The Company did not provide any borrowings in 2016.

On 28 December 2016, a loan dated 30 June 2010 between the Company and its subsidiary Dom Development Grunty Sp. z o.o. was partially repaid. The amount of debt decreased from PLN 400 thousand to PLN 200 thousand. On 18 May 2016 an annex to the loan agreement between the Company and its subsidiary Dom Development Grunty Sp. z o.o. of 30 June 2010 was signed, according to which the borrowing repayment deadline was postponed from 31 May 2016 to 31 May 2018.

#### **3.4.5 Sureties provided and received**

The Company did not provide or received any sureties in 2016.

#### **3.4.6 Guarantees provided and received**

The Company did not provide any guarantees in 2016.

The performance guarantees, contractual and statutory warranty bonds and guarantees, defect rectification guarantee, advances repayment bond, retentions to secure payments for subcontractors and other performance bonds as received in 2016 are presented in the table below.

Company	Guarantee type	Guarantee amount in thousand PLN
UNIBEP S.A.	Bank guarantee	11 062
P.P.U.H. RODEX SP. Z O.O.	Bank guarantee	3 992
NDI S.A.	Bank guarantee	3 685
REMBUD SP. Z O.O.	Bank guarantee	3 540
FUNDAMENTAL GROUP S.A. (formerly BUDNER S.A.)	Bank guarantee	2 875
ERBUD S.A.	Bank guarantee	2 581
WARBUD S.A.	Bank guarantee	2 312
KALTER SP. Z O.O.	Bank guarantee	1 695
TOTALBUD SP. Z O.O.	Bank guarantee	1 339
OTIS SP. Z O.O.	Bank guarantee	827
KARMAR S.A.	Bank guarantee	592
„KONE” SP. Z O.O.	Bank guarantee	541
EIFFAGE POLSKA BUDOWNICTWO S.A.	Bank guarantee	300
EIFFAGE POLSKA INSTALACJE SP. Z O.O.		
SCHINDLER POLSKA SP. Z O.O.	Bank guarantee	107

### 3.5. Use of proceeds from the issue of securities

The Company issued new bonds for the amount of PLN 110 000 thousand in 2016. Information concerning the issue are presented in section 3.4.3 of this report. The proceeds from the issue of bonds will be used for financing the development of the Company.

In 2016, Dom Development S.A. issued 97 150 ordinary bearer shares. This took place in three series (U, V and W). The issues took place as a result of execution of obligations under Management Option Programme II. The funds in the amount of PLN 3 952 thousand from the issue of U, V and W series shares have been designated for current operating activities of the Company. Details of the share issues have been presented in note 7.16 to the financial statements of the Company for 2016.

### 3.6. Assessment of the possibility to implement investment projects

#### Assessment of the possibility to implement investment projects, including capital investment versus the resources held, with consideration of possible changes in the financing structure of investment activity

Dom Development S.A. is fully capable of financing the currently executed investment projects. The Company intends to finance the execution of real estate development projects from the shareholders' equity, bank loans and issue of commercial papers. The Management Board attempts to adapt the maturity structure of the bank loans and commercial papers mainly to the duration of individual development projects, with particular consideration given to gradual replenishment of the land bank for future development projects.

Currently, almost all activities of the Dom Development S.A. Capital Group are conducted directly in Dom Development S.A. Nonetheless, the Management Board of the Company does not exclude the possibility of executing the projects through subsidiaries or jointly-controlled entities with the financing (special-purpose loans) for these projects being provided directly by those companies or through Dom Development S.A. In particular, the Management Board expects an increase in the scale of operations of Dom Development Wrocław Sp. z o.o., through which the Company intends to operate in the Wrocław market.

In view of the financial and organizational potential of the Company, in 2016, the Management has taken steps to expand the operations of the Company and of the Group to another geographical market. On the basis of an analysis of the perspectives of the housing market in the largest Polish cities, the Management Board chose the Tricity area. The Management Board of the Company is considering expansion through the acquisition of an entity that is already established in that market.

As a result of efforts undertaken in 2016, on 5 January 2017, the Company was granted the exclusive right until 30 June 2017 to negotiate the acquisition by the Company of a portion of the Capital Group of Euro Styl Spółka z ograniczoną odpowiedzialnością spółka komandytowa. Euro Styl is a company that is operating in the housing development segment in the Tricity market. The company announced the obtaining of the exclusive right in current report no. 2/2017 of 5 January 2017, while in current report no. 3/2017 of 10 January 2017, the Management Board gave notice of the scale of the operating activities of the Euro Styl Group in the residential segment and of the continuation of the existing dividend policy of the Company if the acquisition of the portion of the Euro Styl Group that operates in the housing segment comes through.

The announcement of the continuation of the existing dividend policy, as a part of which the Company distributed 100% of the consolidated net profit of the Group for the years 2012 - 2015 serves as proof of the strength of the balance sheet of the Company and of the existing resources and sources of funding, which are sufficient to cover the investment plans of the Management Board.

### **3.7. Evaluation of factors and non-typical events affecting the result for the financial year**

#### **Evaluation of factors and non-typical events affecting the result for the financial year, including the extent to which these factors or non-typical events affected the generated result**

In 2016, there were no extraordinary events that could have affected the result of the operations of Dom Development S.A.

#### **4. STATEMENT ON THE APPLICATION OF CORPORATE GOVERNANCE**

##### **Company's corporate governance rules and the location, where the text of corporate governance rules is publicly available**

In 2016, Dom Development S.A. followed the corporate governance rules described in the Code of Best Practice for WSE Listed Companies 2016, adopted by the Supervisory Board of the Warsaw Stock Exchange on 13 October 2015 pursuant to Resolution no. 26/1413/2015.

In 2016, the recommendation described in Chapter IVR.2 in items 12) and 3) of the Good Practices for Listed Companies did not apply to the Company. The above mentioned recommendation stipulates that in cases justified by the shareholding structure or by the expectations of the shareholders communicated to the company, provided that the company is able to provide the technical infrastructure necessary for the proper conduct of the general meeting with the use of electronic means of communication, the company should allow the shareholders to participate in the general meeting with the use of such means, in particular by: 2) two-way communication in real time thus allowing the shareholders to speak during the proceedings of the general shareholders meeting while being away from the place of the meeting, 3) exercise the voting rights at the general shareholders meeting in person or by proxy. The Management Board of the Company decided that the possibility of holding a general meeting with the use of electronic means of communications is not justified on account of the shareholding structure of the Company and the lack of such communicated expectations of the shareholders of the Company. Moreover, the Company did not enable participation in the general shareholders meeting in line with the above described procedure due to the higher risk of irregularities in the general shareholders meeting proceedings. The Company's Management Board decided that the above mentioned recommendation would not be complied with due to the potential issues related to, inter alia, identification of Shareholders, the choice of the best media of the remote two-way communication, and the Company's inability to guarantee compliance with the hardware requirements on the part of a Shareholder.

The Company's Management Board believes that issues of legal, logistical and technical nature which are related with providing the option of real-time two-way communication where the shareholders may take the floor and exercise voting rights during a general meeting from a location other than the general meeting are greater than the potential benefits for the Shareholders. In the opinion of the Company's Management Board the existing rules of participating in the general meeting assure correct exercise of the rights related to the holding of the Company's shares by all the Shareholders, while a possible interruption of the general meeting in consequence of disruption of the remote bilateral communication would create material inconvenience of for the Shareholders or their attorneys present at the meeting.

The Company's Management Board does not rule out the possibility of complying with the above recommendation in the future, and the Management Board's decision to implement it depends on the development of proper standards of its application in practice."

The Code of Best Practice for Warsaw Stock Exchange Listed Companies is publicly available on: [https://static.gpw.pl/pub/files/PDF/RG/DPSN2016\\_\\_GPW.pdf](https://static.gpw.pl/pub/files/PDF/RG/DPSN2016__GPW.pdf). The statement on the status of application of the recommendations and rules of Good Practice for WSE Listed Companies 2016 was posted by the Company on: <http://inwestor.domdevelopment.com.pl/pl/lad-korporacyjny>

##### **Company's corporate governance rules adopted voluntarily and the location, where the text of such corporate governance rules is publicly available**

In 2016, Dom Development S.A. followed the corporate governance rules published in the Code of Best Practice for Customer-Developer Relations drafted by Polski Związek Firm Deweloperskich (the Polish Union of Developers).

The Code of Best Practice for Customer-Developer Relations is publicly available on: <http://www.warszawa.pzfd.pl/strefa-klienta/kodeks-dobrych-praktyk>

Dom Development S.A. has adhered to all of the rules described in the Code of Best Practice for Customer-Developer Relations.

## 4.1. Share capital, shareholders

### 4.1.1 Shareholders

As at 31 December 2016 the Company was controlled by Dom Development B.V. which held 59.42% of the Company's shares.

The table below shows the list of shareholders who have, directly or indirectly through subsidiaries, significant shareholdings as at 31 December 2016:

Status as at the date of of preparation of the financial statements					Change in the period from publication of the financial statements for the year ended 31.12.2015
	Shares	% of capital	Number of votes at the GSM	% of votes at the GSM	Shares
Dom Development B.V.	14 726 172	59.42	14 726 172	59.42	-
Jarosław Szanajca	1 454 050	5.87	1 454 050	5.87	(80 000)
Aviva Powszechnie Towarzystwo Emerytalne Aviva BZ WBK SA *)	1 313 383	5.30	1 313 383	5.30	no data
Grzegorz Kielpsz	1 280 750	5.17	1 280 750	5.17	-

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

### 4.1.2 Special control rights

#### Persons holding any securities with special control rights, and description of these rights

Pursuant to paragraph 6.2.2 of the Articles of Association of Dom Development S.A., a shareholder holding at least 50.1% of shares in the Company is personally vested with the right to appoint and dismiss half of the members of the Management Board, including the President of the Management Board and the Vice President of the Management Board who is responsible, pursuant to the Management Board bylaws, for the Company's finances. For an odd number of Management Board members, a shareholder who holds at least 50.1% of the shares in the Company is authorised to appoint, accordingly: three (for a 5-person Management Board) and four (for a seven-person Management Board) Management Board members. The above right is exercised by way of serving written statement to the Company on appointment or dismissal of a given Management Board member. The remaining members of the Management Board shall be appointed and dismissed by the Supervisory Board.

Pursuant to paragraph 7.4 of the Articles of Association of Dom Development S.A. a shareholder holding at least 50.1% of shares in the Company is vested with the personal right to appoint and dismiss half of the members of the Supervisory Board, including 1 Vice Chairman thereof. For an odd number of Supervisory Board members, a shareholder holding at least 50.1% shares in the Company is authorised to appoint, accordingly: three (for a 5-person Supervisory Board), four (for a seven-person Supervisory Board) and five (for a nine-person Supervisory Board) Supervisory Board members. The above right is exercised by way of serving written statement to the Company on the appointment or dismissal of a given Supervisory Board member.

On 31 December 2016, Dom Development B.V. with registered office in Rotterdam, the Netherlands was the shareholder who held at least 50.1% of shares in the Company.

#### **4.1.3 Limitation of right in shares**

**Indication of restrictions on voting rights, such as restricted voting rights by persons holding a specific portion or number of votes, and temporary restrictions on voting rights or provisions, according to which, in cooperation with the Company, capital rights attached to securities are separated from possession of securities**

Pledges and beneficial owners of shares of Dom Development S.A. are not entitled to exercise voting rights attached to shares.

**Indication of any restrictions on the transfer of ownership title to the issuer's securities**

No other restrictions have been in place in Dom Development S.A. regarding the transfer of ownership title to shares in Dom Development S.A.

#### **4.2. The General Shareholders' Meeting**

**The procedure for and major rights of a General Shareholders' Meeting, and description of the rights of shareholders and manner for these rights being exercised, in particular the rules resulting from General Shareholders' Meeting bylaws, if such bylaws were adopted and if the rules in this respect do not directly result from legal regulations**

The General Shareholders' Meeting holds its sessions as Ordinary or Extraordinary General Shareholders' Meetings, and as a governing body of the Company it acts pursuant to the provisions of the Code of Commercial Companies Act dated 15 September 2000 (consolidated text of Journal of Laws No. 94 item 1030, as amended), the Articles of Association of the Company and provisions of unclassified and publicly available General Shareholders' Meeting Bylaws dated 5 September 2006 as amended by resolution No. 27 by the Extraordinary General Shareholders' Meeting of Dom Development S.A. dated 15 May 2008 and resolution No. 31 by the Extraordinary General Shareholders' Meeting of Dom Development S.A. dated 21 May 2009.

An Ordinary General Shareholders' Meeting is convened by the Management Board. It takes place in Warsaw within 6 months following the end of each financial year. Shareholders are entitled to participate in the General Shareholders Meeting provided that they were shareholders of the Company 16 days before the date of the General Shareholders Meeting (registration date for participation in a general shareholders' meeting). No invitations are required for members of the Company's Management Board and the Supervisory Board to participate in a General Shareholders' Meeting. Other persons, in particular statutory auditors and experts, as invited by the Management Board, may participate in a session or an appropriate part thereof, should their participation be justified by the need to have their opinions on the discussed matters presented to the participants in the General Shareholders' Meeting. A statutory auditor should be present at a session of the General Shareholders' Meeting where Company's financial matters are addressed.

The General Shareholders' Meeting is valid and may adopt resolutions only if shareholders holding at least 50.1% of all votes are represented at the Meeting. Resolutions are adopted by an absolute majority of validly cast votes, unless the Code of Commercial Companies or the Articles of Association of the Company provide otherwise. An electronic system for casting and calculating votes may be used for voting. Pledges and beneficial owners of shares are not entitled to exercise voting rights attached to shares.

A resolution on the removal of certain matters from the agenda of the General Shareholders' Meeting or the abandonment of certain matters included in the agenda or placed on the agenda by a motion of shareholders requires a majority of three-fourths of the votes cast and the express prior consent of all present shareholders who have filed such motion, for it to be valid.



The Chairman puts the agenda to vote, having the attendance list signed and checked. The General Shareholders' Meeting may adopt the suggested agenda without changes, change the order of debate or remove certain matters from the agenda, subject to the provisions of the Articles of Association of the Company. The General Shareholders' Meeting may also put new matters on the agenda and discuss them, however without adopting any resolutions on such matters. The Chairman of the Meeting has no right to remove matters from the agenda or alter the same without the consent of the General Shareholders' Meeting.

Each participant in the General Shareholders' Meeting may speak on matters included in the adopted agenda which are currently brought up for discussion. Each participant of the General Shareholders' Meeting may submit a formal motion. The Chairman gives the floor to a participant willing to lodge a formal motion out of turn. Formal motions are the motions concerning debate and voting procedure.

The General Shareholders' Meeting adopts resolutions on matters included in the agenda by voting. Voting is open and is subject to relevant provisions of the Articles of Association of the Company and the Code of Commercial Companies.

In 2016, the formally convened General Shareholders' Meeting of Dom Development S.A. was held on 26 January 2016 and 2 June 2016 in Warsaw in the registered office of the Company. The General Shareholders' Meetings had been convened upon a motion of the Management Board of the Company, and shareholders of the Company did not file their motions for the General Shareholders' Meeting to be convened.

The course of the General Shareholders' Meetings was in line with the provisions of the Code of Commercial Companies, the Company's Articles of Association, unclassified and publicly available General Shareholders' Meeting Bylaws of Dom Development S.A. and the Code of Best Practice for WSE Listed Companies. The shareholders had the possibility to review the content of draft resolutions included in the agenda, in each case not later than 26 days prior to the planned date of the General Shareholders' Meeting. The Company did not question the correctness of documents submitted by shareholders and their attorneys in support of their right to represent a shareholder when verifying shareholders' IDs being the proof of their entitlement to participate in the General Shareholders' Meeting.

The Chairman of the General Shareholders' Meeting ensured that the session proceeded in an orderly and efficient manner. Sessions of General Shareholders' Meetings have never been cancelled or discontinued. Members of the Management Board and the Supervisory Board present at the General Shareholders' Meetings readily explained all matters within their competences and as required by the law.

The circumstances for adopting resolutions of the General Shareholders' Meetings enabled for the protection of the rights of minority shareholders, including for voicing reservations and objections against the resolutions. None of the resolutions adopted was appealed against in court.

The Ordinary General Shareholders' Meeting of Dom Development S.A. was held within the time limit set forth in article 395 of the Code of Commercial Companies and Partnerships, and the documentation concerning the financial statements for the financial year 2015 was published on the website of the Company 3 months before the date of the Ordinary General Shareholders' Meeting. The resolution by the Ordinary Shareholders Meeting concerning distribution of the profit earned by the Company in 2015 and on payment of the dividend was adopted unanimously.

All resolutions adopted by the General Shareholders' Meetings in 2016 were passed in the best interest of the Company and took into account the rights of other stakeholders. Resolutions adopted by the General Shareholders' Meetings are posted on: <https://inwestor.domd.pl/pl/wza>

#### **4.3. Principles for the amendment of the articles of association**

Pursuant to article 430 § 1 and art. 415 § 1 of the Code of Commercial Companies and Partnerships, an amendment to the Articles of Association of Dom Development S.A. requires a resolution by the General Shareholders' Meeting adopted by the three-fourths majority of votes and court registration. For a resolution that is to amend the Articles of Association as to benefits of the shareholders or limit the rights granted personally to individual shareholders under art. 354 of the Code of Commercial Companies and Partnerships, the consent of all the shareholders affected by the resolution is required. An amendment to the Articles of Association is to be filed with the court of registration by the Management



Board of Dom Development S.A. The General Shareholders' Meeting of Dom Development S.A. may authorize the Supervisory Board to determine a revised and reinstated text for the amended Articles of Association or to make such other editorial changes as defined in the resolution by the General Shareholders' Meeting.

#### **4.4. The Management Board**

##### **4.4.1 Principles for the appointment or dismissal of the Management Board**

###### **Description of the principles for the appointment or dismissal of managing persons and their rights, in particular the right to decide on the issue or repurchase of shares**

In accordance with the Company's Articles of Association, the Management Board of Dom Development S.A. shall comprise of 4 to 8 members, including the President, with a three-year term of office. The Supervisory Board shall determine the number of members of the Management Board. A shareholder who holds at least 50.1% of the shares in the Company is personally vested with the right to appoint and dismiss half of the members of the Management Board, including the President of the Management Board and the Vice President of the Management Board who is responsible, pursuant to the Management Board bylaws for the Company's finances. For an odd number of Management Board members, a shareholder who holds at least 50.1% of the shares in the Company is authorised to appoint, accordingly: three (for a 5-person Management Board) and four (for a seven-person Management Board) Management Board members. The above right is exercised by way of serving written statement to the Company on appointment or dismissal of a given Management Board member. The remaining members of the Management Board shall be appointed and dismissed by the Supervisory Board.

The Management Board represents the Company in and out of court. For statements to be validly made and signed on behalf of the Company, two members of the Management Board are required to act jointly or one member of the Management Board is required to act jointly with a commercial proxy.

Pursuant to paragraph 3.2.8 of the Company's Articles of Association, the Management Board is authorised to increase the Company's share capital by the issue of new shares with an aggregate nominal value of no more than PLN 1 514 950 (in words: one million five hundred and fourteen thousand nine hundred and fifty) by way of one or several share capital increases within the limits specified above (authorised capital). The Management Board's right to increase share capital and issue new shares within the limits of the authorised capital up to PLN 1 514 950 shall expire 3 years from the date of the amendment to the Articles of Association made by resolution No. 23 dated 28 May 2015 by the General Shareholders' Meeting being entered in the register of entrepreneurs.

The right to increase the share capital referred to in the foregoing sentence, includes the issue of subscription warrants with subscription rights that expire after the above mentioned period.

Upon the consent of the Supervisory Board, the Management Board may deprive a shareholder of all or a part of its pre-emptive rights in relation to shares issued within the limits of the authorised capital.

A share capital increase by the Management Board within the limits of the authorised capital is conditional upon obtaining a positive opinion in this respect from the Supervisory Board. In other cases, unless otherwise provided by the Code of Commercial Companies, the Management Board may decide on any and all matters related to share capital increases within the limits of the authorised capital.

Pursuant to paragraph 3.2.6. of the Articles of Association of the Company, a purchase of treasury shares by the Company for redemption does not require the consent of the General Shareholders' Meeting (subject to art. 393 item 6 of the Code of Commercial Companies and Partnerships) and only requires the consent of the Supervisory Board.

#### **4.4.2 Composition of the Management Board**

In the period from 1 January until 31 December 2016 the Management Board of the Company was composed of the following five members:

- 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

As the mandates of the members of the Management Board of Dom Development S.A. have expired on 2 June 2016, Dom Development B.V. acting pursuant to section 6.2.2. of the Articles of Association of Dom Development S.A. appointed Mr. Jarosław Szanajca as a Member and President of the Management Board of the Company, Mr. Janusz Zalewski as a Member and the Vice President of the Management Board of the Company and Mr. Terry Roydon as a Member of the Management Board of the Company, effective of 2 June 2016. Moreover on 2 June 2016, the Supervisory Board of the Company appointed Ms. Małgorzata Kolarska as a Member and the Vice President of the Management Board of the Company and Mr. Janusz Stolarczyk as a Member of the Management Board of the Company. All these members of the Management Board have been appointed for a joint three-year term.

#### **4.4.3 Principles governing the functioning of the Management Board**

The Company's Management Board acts pursuant to the provisions of the Code of Commercial Companies, the Articles of Association and unclassified and publicly available Management Board Bylaws approved by the Supervisory Board's resolution, and in accordance with the Code of Best Practice for WSE Listed Companies.

The Management Board is an executive body of the Company. It manages the current operations of the Company and represents the same towards third parties. The Management Board decides in all matters concerning the Company not reserved for the General Shareholders' Meeting and/or the Supervisory Board under legal regulations, the Articles of Association of the Company or a resolution of the General Shareholders' Meeting.

For statements to be validly made and signed on behalf of the Company, two members of the Management Board are required to act jointly or one member of the Management Board is required to act jointly with a commercial proxy. Resolutions of the Management Board are adopted by an absolute majority of votes. In case of a voting deadlock, the President of the Management Board has the casting vote.

When defining strategic and current objectives for the Company, the Management Board always acted in the underlying interest of the Company and in line with the legal regulations, and taking into account the interests of the shareholders, employees and creditors of the Company.

In order to ensure transparency and efficiency of the management system, the Management Board followed the principles of professional conduct within the limits of reasonable economic risk, and took into consideration a wide range of available information, analyses and opinions.

The amount, form and structure of remuneration for the Members of the Management Board have been determined by the Supervisory Board in line with the applicable remuneration policy and on the basis of clear-cut procedures, and have corresponded to the scope of their responsibilities and competences and have taken into account the economic performance of the Company. This remuneration has also corresponded to remuneration of Management Boards in comparable companies in the real estate development market.

## **4.5. The Supervisory Board**

### **4.5.1 Principles for the appointment or dismissal of the Supervisory Board**

The Supervisory Board shall comprise of 5 to 9 members appointed for a three-year term of office.

The General Shareholders' Meeting shall determine the number of members of the Supervisory Board. In addition to this, the General Shareholders' Meeting shall appoint and dismiss Members of the Supervisory Board, subject to the personal right of a Shareholder holding at least 50.1% of shares to appoint and dismiss half of the Members of the Supervisory Board, including 1 Vice Chairman thereof. For an odd number of Supervisory Board members, a shareholder holding at least 50.1% shares in the Company is authorised to appoint, accordingly: three (for a 5-person Supervisory Board), four (for a seven-person Supervisory Board) and five (for a nine-person Supervisory Board) Supervisory Board members. The above right is exercised by way of serving written statement to the Company on the appointment or dismissal of a given Supervisory Board member.

At least two Members (and their relatives, in particular spouses, descendants or ascendants) of the Supervisory Board appointed by the General Shareholders' Meeting should meet the criteria of the so-called Independent Members, defined in paragraph 7.7 of the Articles of Association of the Company.

### **4.5.2 Composition of the Supervisory Board**

In the period from 1 January 2016 until 31 December 2016 the Supervisory Board was composed of the following members:

- Grzegorz Kiępsz, Chairman of the Supervisory Board
- Markham Dumas, Vice Chairman of the Supervisory Board
- Marek Moczulski, Vice Chairman of the Supervisory Board (Independent Member)
- Mark Spiteri, Member of the Supervisory Board
- Michael Cronk, Member of the Supervisory Board
- Włodzimierz Bogucki, Member of the Supervisory Board (Independent Member)
- Krzysztof Grzyliński, Member of the Supervisory Board (Independent Member)

As the mandates of the members of the Supervisory Board of Dom Development S.A. have expired on 2 June 2016, Dom Development B.V. acting pursuant to section 7.4 of the Articles of Association of Dom Development S.A. appointed Mr. Markham Dumas as a Member and Vice President of the Supervisory Board of the Company and Mr. Grzegorz Kiępsz, Mr. Michael Cronk and Mr. Mark Spiteri as Members of the Supervisory Board of the Company, effective as of 2 June 2016. Moreover, on 2 June 2016 the Annual General Shareholders' Meeting of Dom Development S.A. appointed Mr. Marek Moczulski, Mr. Włodzimierz Bogucki and Mr. Krzysztof Grzyliński as Members of the Supervisory Board. All these members of the Management Board have been appointed for a joint three-year term. On 2 June 2016, the Supervisory Board of the Company acting pursuant to point 7.1 of the Articles of Association of the Company appointed Mr. Grzegorz Kiępsz as Chairman of the Supervisory Board and Mr. Marek Moczulski as Vice Chairman of the Supervisory Board.

### **4.5.3 Principles governing the functioning of the Supervisory Board**

The Supervisory Board acts pursuant to the provisions of the Code of Commercial Companies, the Articles of Association and unclassified and publicly available Supervisory Board Bylaws, approved by the Supervisory Board's resolution, that set forth its organisation and manner of operation, and in accordance with the Code of Best Practice for WSE Listed Companies.

The Supervisory Board is a permanent supervisory body of the Company for all areas of its operation.

The Supervisory Board adopts resolutions or issues opinions in the matters reserved for the Supervisory Board under the Company's Articles of Association and in the manner as provided for in the Articles of Association or relevant legal regulations.

The Supervisory Board held its meetings regularly. The meetings were attended by the Members of the Management Board. In 2016 the Supervisory Board held 9 sessions including 6 teleconferences. The Management Board provided the Supervisory Board with exhaustive information on all important matters concerning the operations of the Company.

The Supervisory Board complied with the requirement of having among its members at least two independent members in line with the criteria of independence set forth in the Company's Articles of Association.

Resolutions of the Supervisory Board concerning: (i) the consent for the Company or a related entity of the Company to make any considerations on any account whatsoever for the benefit of the Members of the Management Board, (ii) the consent for the Company or a related entity of the Company to conclude a material agreement with a related entity of the Company, a Member of the Supervisory Board or the Management Board, or entities related to such members, (iii) the choice of a statutory auditor for the audit of the Company's financial statements, were all adopted upon the consent of the majority of the independent Members of the Supervisory Board.

The remuneration of the Members of the Supervisory Board was determined in a transparent manner and did not constitute a considerable share in the Company's costs affecting its financial result. The amount of the remuneration was approved by a resolution of the General Shareholders' Meeting and was disclosed in the annual report.

The Supervisory Board presented to the Ordinary General Shareholders' Meeting of the Company which was held on 2 June 2016 the following documents prepared in line with the Code of Best Practice for WSE Listed Companies:

- assessment of the situation of the Company in 2015, including the system of internal control, risk management, compliance and internal audit,
- report of activities of the Supervisory Board in 2015,
- assessment of the company's compliance with the duty of disclosure in respect of applying the principles of corporate governance as specified in the Stock Exchange Rules, and the regulations concerning current and periodic submissions by security issuers,
- assessment of the soundness of the sponsorship, charity and other similar policies in place at the Company.

#### **4.5.4 The Supervisory Board Committees**

Two committees, the Audit Committee and the Remuneration Committee, were established within the structure of the Supervisory Board.

##### **Audit Committee**

In the period from 1 January 2016 until 31 December 2016 the Audit Committee was composed of the following members:

- Włodzimierz Bogucki, Chairman of the Audit Committee
- Mark Spiteri, Member of the Audit Committee
- Marek Moczulski, Member of the Audit Committee

The Audit Committee is a permanent committee at the Supervisory Board. It is composed of at least three members appointed by the Supervisory Board from amongst its members, with at least two members of the Audit Committee being Independent Members of the Supervisory Board within the meaning of paragraph 7.7 of the Articles of Association, and at least one of whom shall have qualifications in accountancy or financial audit.

The duties and competences of the Audit Committee have been set forth in unclassified and publicly available Audit Committee Bylaws approved by the Supervisory Board.

The duties of the Audit Committee include, in particular (i) supervision of the Company's Management Board as regards the Management Board's compliance to relevant laws and other regulations, in particular the Accounting Act dated 29 September 1994, supervision of the preparation of financial information by the Company, in particular in respect of the choice of the accounting policy adopted by the Company, supervision of the application and assessment of the

consequences of new legal regulations, supervision of the information on the manner in which estimated items, forecasts etc., are presented in annual reports and supervision of the compliance to recommendations and findings of a statutory auditor appointed by the Supervisory Board, (ii) issuing recommendations to the Company's Supervisory Board concerning the appointment and dismissal of the statutory auditor, (iii) control of independence and objectivity of the statutory auditor, in particular in respect of a possible replacement of the statutory auditor, and their remuneration, (iv) verification of the statutory auditor's work.

In executing its duties, the Audit Committee works with the Supervisory Board, the Management Board, middle management and the external and internal audit unit.

The Vice President of the Management Board responsible for finance, Deputy Financial Director, Financial Controller and representatives of the external and internal audit teams may attend the Audit Committee meetings, if invited. In 2016, the Audit Committee held 8 meetings, including 4 teleconferences.

### **Remuneration Committee**

In the period from 1 January 2016 until 31 December 2015 the Remuneration Committee was composed of the following members:

- Marek Moczulski, Chairman of the Remuneration Committee
- Mark Spiteri, Member of the Remuneration Committee
- Krzysztof Grzyliński, Member of the Remuneration Committee.

The Remuneration Committee is a permanent committee at the Supervisory Board. It is composed of at least three members appointed by the Supervisory Board from amongst its members, with at least two members of the Remuneration Committee being Independent Members of the Supervisory Board within the meaning of paragraph 7.7 of the Articles of Association. The Supervisory Board appoints one member of the Remuneration Committee to the position of the Chairman of the Remuneration Committee. This member serves concurrently as an Independent Member of the Supervisory Board within the meaning of paragraph 7.7 of the Articles of Association. The Supervisory Board may dismiss any Member of the Remuneration Committee at any time.

The duties and competences of the Remuneration Committee have been set forth in unclassified and publicly available Remuneration Committee Bylaws approved by the Supervisory Board

The duties of the Remuneration Committee include, in particular (i) a periodic assessment of the remuneration principles for the members of the Management Board and providing the Supervisory Board with relevant recommendations in this respect, (ii) preparation of suggestions as regards remuneration and additional benefits for individual members of the Management Board, including in particular benefits under a management share option programme (options convertible into shares in the Company's share capital) to be reviewed by the Supervisory Board, (iii) submission of projects concerning the Company's remuneration policy.

The President of the Management Board and the Vice President of the Management Board for finance may attend the Remuneration Committee meetings, if invited. In 2016, the Remuneration Committee held 7 meetings, including 4 teleconferences.

## **4.6. Remuneration policy report**

### **4.6.1 Remuneration system at the Company**

The purpose of the remuneration policy for members of the management and supervisory bodies, and for key managers at Dom Development S.A. (hereinafter referred to as the: remuneration policy) is to support the Company's strategy and its short and long term objectives.

Coherent and organised principles have been created to allow the Company to operate against the backdrop of the remunerations in the market in such a way so that the remunerations are based on the realities in the market and the financial condition of the Company. The remuneration policy implemented at the Company allows us to stimulate business development and attract, motivate and retain top-class specialists in their respective areas of expertise.

The remuneration policy for the members of the Management Board of the Company and key managers at Dom Development S.A. is linked to the long-term interests and economic results of the Company through a system of long-term incentives.

The remuneration policy for the members of the corporate bodies of the Company and key managers at Dom Development S.A. is determined in accordance with generally applicable laws and internal regulations in force in the Company, including, but not limited to, the Code of Commercial Companies, the Articles of Association, the Supervisory Board By-laws, the Management Board By-laws and the Remuneration Committee Rules and Regulations.

In the financial year 2016 there were no significant changes in the remuneration policy of the Company.

#### **4.6.2 Non-financial components of remuneration for the Members of the Management Board and key managers**

The remuneration of the Members of the Management Board, the Members of the Supervisory Board and key managers also consists of fringe benefits such as private health care or a company car that can also be used for private purposes.

#### **4.6.3 Assessment of the remuneration policy operation**

The Company is of the opinion that the remuneration policy in place that is linked with economic performance, while meeting business objectives, is the strong foundation for maintaining the viability of the company and the long-term increase in value for shareholders.

#### **4.6.4 Terms and amounts of remuneration, bonuses and benefits received by individual members of the Management Board**

In accordance with the Articles of Association of the Company, the terms of contracts and the remuneration for the President of the Management Board and the other members of the Management Board is the responsibility of the Supervisory Board, upon the recommendation of the Remuneration Committee in this regard.

The Remuneration Committee reviews the remuneration principles for the members of the Management Board periodically and provides the Supervisory Board with relevant recommendations in this respect, suggests amounts of remuneration and additional benefits for individual members of the Management Board, in particular benefits under a management share option programme (options convertible into shares in the Company's share capital) for individual members of the Management Board, to be reviewed by the Supervisory Board.

The remuneration for the Members of the Management Board of the Company and key managers stems from the remuneration policy adopted and consists of a fixed part (base salary), a variable part (incentive system known as an annual discretionary bonus) and fringe benefits. In 2016, the principles of the remuneration system were similar to these applied in previous years, i.e. the remunerations were based on the incentive system linked with financial performance, business and financial objectives of the Company. The granting of the annual discretionary bonus was contingent on the degree of implementation of individual annual targets associated with the business objectives of the Company.

In 2016, the amount of remuneration (including bonuses) paid, accrued or potentially accrued to individual members of the management bodies was as follows:

Remuneration and bonuses (in thousand PLN)	In the Company			In other companies operating within the Group
	Fixed remuneration items	Variable remuneration items	Non-pay benefits	in thousand PLN
<b>The Management Board</b>				
Jarosław Szanajca	1 399	666	22	-
Małgorzata Kolarska	1 200	462	21	-
Janusz Zalewski	1 080	551	14	-
Janusz Stolarczyk	711	321	27	-
Terry Roydon	72	250	-	-

In 2016, there was no distributions from profit to members of the management bodies of the Company, except for the dividend.

#### 4.6.5 The amount of remuneration, bonuses and benefits received by individual members of the Supervisory Board

In 2016, the amount of remuneration paid, accrued or potentially accrued to individual members of the supervisory bodies was as follows:

Remuneration and bonuses	In the Company	In other companies operating within the Group
	in thousand PLN	in thousand PLN
<b>The Supervisory Board</b>		
Grzegorz Kielpsz	617	-
Mark Spiteri	235	-
Markham Dumas	110	-
Michael Cronk	110	-
Włodzimierz Bogucki	110	-
Marek Moczulski	110	-
Krzysztof Grzyliński	115	-

In 2016, there was no distributions from profit to members of the supervisory bodies of the Company, except for the dividend.

#### 4.6.6 Agreements with the members of the Management Board in the event of their resignation or dismissal

##### The agreements concluded between the Company and the members of the management which provide for the compensation in the event of their resignation or dismissal from office

Members of the Management Board of the Company: Jarosław Szanajca, Janusz Zalewski, Małgorzata Kolarska and Janusz Stolarczyk are employed by the Company on the basis of employment contracts. Pursuant to the provisions of these employment contracts, an individual Member of the Management Board is entitled to receive remuneration throughout the notice period in the case that their employment is terminated. This has been described in note 7.45 in the Company's financial statements for 2016.



#### 4.7. Application of the Diversity Policy in relation to the Management Board and the Supervisory Board

In the opinion of the Management Board of the Company, the composition of both these bodies provided the diversity of age, education and professional experience necessary to achieve a multidimensional perspective supporting the activities of and supervision over the Company.

The Members of the Management Board were aged from 49 to 69 and had from 15 to 40 years of professional experience in the real estate and property development sector. The Management Board of Dom Development S.A. includes people who have degrees in law, economics and property management.

The Supervisory Board of the Company includes persons with experience in various industries, not only in the property development sector, aged from 41 to 66. The Members of the Supervisory Board include persons that have been working for many years at Dom Development S.A., namely Mr Grzegorz Kielpsz, the Chairman of the Supervisory Board and a co-founder of the Company, as well as three independent members, who warrant the high standards of supervision over the Company. Such diversification provides a wide perspective on the operation of the Management Board of the Company and its strategic potential.

In 2016, as in 2015, there were no changes in the composition of the Management Board or the Supervisory Board. In 2014, Ms Małgorzata Kolarska was appointed the Vice-President of the Management Board and the General Director. The relative stability of the composition of these two bodies results in large part from the stable shareholding structure of the Company and its history - both the Management Board and the Supervisory Board include co-founders of the company and persons representing the dominant shareholder, Dom Development B.V., as members.

In order to safeguard the development of the Company and of the Group, the Management Board has emphasised the development of key managers and its diversity. The directors and vice-directors of the individual divisions and departments include women and men of different educational backgrounds, professional experience and age.

#### 4.8. Shares held by the members of the Management Board and the Supervisory Board

**Total number and nominal value of all shares in the Company as well as the shares and stocks in the companies operating within the Group held by the members of the management and supervisory bodies of the Company**

The ownership structure of shares and share options in the Company held by the Members of the Management Board and the Supervisory Board as at 31 December 2016 was as follows:

	Shares		Share options	Total
	number	nominal value in thousand PLN	number	number of options and shares
<b>The Management Board</b>				
Jarosław Szanajca	1 454 050	1 454	-	1 454 050
Janusz Zalewski*)	281 000	281	-	281 000
Małgorzata Kolarska	6 500	7	-	6 500
Janusz Stolarczyk**)	105 200	105	-	105 200
Terry Roydon	58 500	59	-	58 500
<b>The Supervisory Board</b>				
Grzegorz Kielpsz	1 280 750	1 281	-	1 280 750
Mark Spiteri	900	1	-	900

\*) On 7 December 2016, as a part of exercise of share options, Mr Janusz Zalewski subscribed for 69,000 of shares. These shares were registered on 10 January 2017. The shareholding of Mr Janusz Zalewski in Dom Development S.A. as at the day of the approval of these statements is 350 000 shares.



\*) On 6 December 2016, as a part of exercise of share options, Mr Janusz Stolarczyk subscribed for 16 830 of shares. These shares were registered on 10 January 2017. The shareholding of Mr Janusz Stolarczyk in Dom Development S.A. as at the day of the approval of these statements is 122 030 shares.

The Members of the Management Board and the Supervisory Board of the Company did not hold any shares in other companies operating within the Group.

#### **4.9. Policy for sponsoring, charity and other activities of a similar nature**

DOM Development S.A. in 2016 donated over PLN 467 thousand for charity. The beneficiaries of these funds were 14 entities in education, culture, science and in the area of care for those in need. Donations provided by the Company originate from individual initiatives of employees as approved by the Management Board.

In addition, the Company has been actively engaged in sponsorship, which combines support for cultural, art, sports and education institutions with the promotion of the Dom Development S.A. brand. In 2016, the Company has been involved as a sponsor or on a similar basis with entities such as: The Polish National Opera in Warsaw, Prom Kultury Saska Kępa, the Municipal Targówek Football Club, a number of publishing houses and schools. The partners to be involved with as a sponsor or on a similar basis have been selected with high ethical standards in place and with particular regard for projects having a positive effect in the areas where the property development projects of the Company are located.

#### **4.10. Management Option Programmes**

##### **4.10.1 Existing employee share schemes**

##### **Information on the agreements that are known to the Company and that were concluded in the last financial year which may result in future changes in the proportions of shares held by the current shareholders**

In 2016, Management Share Option Programme II for 726 000 shares in Dom Development S.A. was operating in the Company. Share options were granted under this programme. The exercise of these options resulted in changes in the proportions of shares held by the current shareholders.

In the twelve-month period ended 31 December 2016 the Company did not grant any new share options.

Management Share Option Programme II expired on 10 December 2016. Management Option Programme II have been described in detail the financial statements of the Company for 2016 in note 7.44.

##### **Changes to the Management Option Programmes**

In 2016 no changes were made to Management Option Programme II as in place in the Company.

Share options granted and exercisable as at respective balance sheet dates, and changes in 2016 and 2015 has been presented in the table below.

<b>SHARE OPTIONS</b>		<b>01.01- 31.12.2016</b>	<b>01.01- 31.12.2015</b>
<b>Unexercised options at the beginning of the period</b>	<b>Number of options</b>	<b>150 410</b>	<b>260 651</b>
	<b>Total exercise price</b>	<b>6 116</b>	<b>6 746</b>
Options granted in the period	Number of options	-	-
	Total option exercise value	-	-
Options expired in the period	Number of options	53 260	109 241
	Total option exercise value	2 164	615
Options exercised in the period	Number of options	97 150	1 000
	Total option exercise value	3 952	15
	Weighted average exercise price per share (PLN per share)	40.68	14.91
<b>Unexercised options at the end of the period</b>	<b>Number of options</b>	<b>-</b>	<b>150 410</b>
	<b>Total exercise price</b>	<b>-</b>	<b>6 116</b>
Exercisable options at the beginning of the period	Number of options	150 410	164 185
	Total exercise price	6 116	6 650
Exercisable options at the end of the period	Number of options	-	150 410
	Total exercise price	-	6 116

#### **4.10.2 Employee share scheme control system**

The Management Option Programmes, which were in place in the Company, were adopted by the Supervisory Board based on the authorisation contained in a resolution issued by the General Shareholders' Meeting.

On 10 August 2006, 21 May 2009, 23 May 2012 and 28 May 2015, the Management Board was authorised by the General Shareholders' Meeting to increase the share capital of the Company within the scope of the authorised capital and to issue warrants allowing the participants of Management Option Programme II and Programme III to subscribe for shares. The Management Board is then entitled to adopt a resolution concerning the increase of the share capital upon the consent of the Supervisory Board.

On 29 March 2012, the Supervisory Board of the Company adopted a resolution concerning Management Share Option Programme II for 726 000 Shares in Dom Development S.A. (hereinafter "Programme II") and Management Share Option Programme III for Senior Executives for 360 000 Shares in Dom Development S.A. (hereinafter "Programme III"), pursuant to which the Supervisory Board decided not to grant any options to any person under the programmes concerned.

#### **4.11. Changes in the basic management principles of the Company**

In 2016 there were no major changes in the basic principles of management. The development of the organisation calls for improvement of the management procedures in Dom Development S.A.

#### **4.12. Internal control and risk management systems**

##### **Description of the basic features of the internal control and risk management systems in place in the Company for the preparing of standalone and consolidated financial statements**

The Company's Management Board is responsible for the internal control system in the Company and its effectiveness in the preparing of financial statements and periodic reports prepared and published in accordance with the Regulation by the Minister of Finance dated 19 February 2009 on the current and periodic submissions by securities issuers.

The effectiveness of the Company's internal control and risk management systems in financial reporting was ensured through the following means:

**The structure and scope of financial reporting applied by the Company**

The medium-term plan (covering a period of at least 3 years) is updated on a yearly basis in the Company. In addition to this, a detailed operating and financial budget which implements the assumptions of the medium-term plan are prepared every year. The process is managed by the Management Board and the middle and executive management of the Company is also involved. The budget, which is prepared annually for the following year, is approved by the Company's Management Board.

During any specific year, the Company's Management Board reviews the current financial results versus the adopted budget. The management reporting methodology applied in the Company is used for this purpose. This reporting is based on the accounting policy adopted by the Company (in line with the International Financial Reporting Standards) and takes into account the form and level of detail of financial data presented in the financial statements of the Company and the Group.

Consistent accounting policies are applied by the company for presenting its financial details in the financial statements, periodic financial reports and management reports.

**Clear division of duties and competences in the process of preparing financial information**

The financial division headed by the Vice President of the Management Board as the Company's CFO is responsible for the preparing of financial statements, periodic financial reports and current management reports of the Company.

The Company's finance statements are prepared by a team of highly qualified employees from the finance and accounting division, with the assistance of the planning and analysis unit. The entire process is supervised by middle management from the financial division. The financial statements, when ready, are verified by the financial controller (responsible for the accounting department and planning and analysis unit) and then by the Vice President of the Management Board as the Company's CFO, prior to being submitted to the independent statutory auditor.

**Regular assessment of the Company's operations based on its financial reports**

The figures used in the financial statements and periodic reports and in the monthly management and operating reports come from the Company's financial and accounting system. Detailed financial and operating management reports are prepared, having all predefined book-closing procedures completed at the end of each month. These reports, in addition to historical financial data, are supplemented with quantitative operating data and forecasts by the planning and analyses unit. These reports are scrutinized by middle and executive management of individual organizational units of the Company and by the Management Board. As regards closed reporting periods, the Company's financial results are scrutinized versus the budgets and forecasts made in the month preceding the reporting period subject to scrutiny. Taking into consideration the specific nature of the sector, not only individual cost groups are scrutinized but also individual investment projects.

Any identified deviations and errors are clarified and corrected in the Company's books on an ongoing basis, in accordance with the adopted accounting policy.

**Verification of the Company's financial statements by an independent statutory auditor**

Pursuant to the applicable legal regulations, the Company's financial statements are reviewed or audited, respectively, by an independent statutory auditor. This is always a prime and highly qualified statutory auditor.

A so-called Audit Life Cycle has been developed in the Company. This is a cyclical schedule of communication between the Management Board, the statutory auditor and the Audit Committee of the Supervisory Board. The purpose of this schedule is to ensure appropriate interaction between the Audit Committee and the statutory auditor as well as appropriate presentation of the results of the above mentioned review and audit.

**Formalised process for significant assessments that considerably affect the Company's financial statements**

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 Company. The adherence to such procedures is closely monitored by the Management Board of the Company.

As implied by the accounting policy adopted by the Company in this respect, detailed budgets for individual development projects that are prepared in accordance with the best practice and experience of the Company constitute the grounds for the calculation of revenue from the sale of products and costs of products sold. The budgets for all construction projects are updated at least once every three months, during the execution of the projects. The update is based on the formalised principles in place in the Company and is scrutinized by the Management Board, in particular by the Vice President of the Management Board as the Company's CFO.

### **Risk management process and internal audit**

There has been a formalised risk management procedure in operation within the Company since 2000. Under this procedure the risk is managed through the identification and assessment of the risk areas for all aspects of the activities, in which the Company and the Group are involved, together with defining activities required to reduce or eliminate such risks (including through the procedures and internal audit system). The risk management procedure is subject to periodic revision and is updated by the Management Board jointly with the key management staff and third party advisers.

The internal audit unit that is in place in the Company also participates in the process of risk identification and assessment of the control measures. The schedule of internal audits is created based on the risk assessment made in cooperation with the Management Board under the supervision of the Audit Committee. In addition to scheduled audits, there are verification audits to check implementation of recommendations formulated in the previous audits and non-scheduled audits. The findings of internal audits are reported to the Audit Committee and to experts appointed by this Committee.

### **4.13. Auditor**

#### **Information on the agreement for the audit and review of the financial statements and the consolidated financial statements concluded with the authorized auditor**

On 24 September 2012, Dom Development S.A. entered into an agreement for an audit of the consolidated financial statements for 2013, 2014 and 2015, and a review of the condensed financial statements and condensed consolidated financial statements for the six-month periods ended 30 June 2013, 2014 and 2015, with the authorised auditor Ernst & Young Audit Sp. z o.o. (now Ernst & Young Audyt Polska spółka z ograniczoną odpowiedzialnością sp.k.). On 1 June 2016, the parties annexed the said agreement to cover also an audit of the consolidated financial statements for 2016, and a review of the condensed financial statements and condensed consolidated financial statements for the six-month periods ended 30 June 2016.

The agreement covers the audit of the financial statements submitted by the Company and the Group for the year ended 31 December 2016 and the review of interim financial statements submitted by the Company and the Group for the six-month period ended 30 June 2016 and the total remuneration for the audit of the annual financial statements is PLN 184 thousand and the total remuneration for the review of the interim financial statements is PLN 60 thousand.

Moreover, Ernst & Young provided additional services to the Company in 2015:

- training for the total amount of PLN 28 thousand
- other services for the total; amount of PLN 72 thousand.

The financial statements of the Company and the Group for the first half of the year 2015 and for the entire year 2015 were, respectively, reviewed and audited also by Ernst & Young Audyt Polska Spółka z ograniczoną odpowiedzialnością sp.k. and the total remuneration for the audit of the annual financial statements was PLN 182 thousand and the total remuneration for the review of the interim financial statements was PLN 81 thousand.

Moreover, Ernst & Young Audyt Polska Spółka z ograniczoną odpowiedzialnością sp.k. provided additional services to the Company for the total amount of PLN 2 thousand, in 2015.