REPORT BY THE SUPERVISORY BOARD OF DOM DEVELOPMENT S.A.

ON THE ASSESSMENT OF:

- **FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016,**
- **MANAGEMENT BOARD'S REPORT OF ACTIVITIES OF DOM DEVELOPMENT S.A. IN 2016,**
- **CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016,**
- **MANAGEMENT BOARD'S REPORT OF ACTIVITIES OF DOM DEVELOPMENT S.A. CAPITAL GROUP IN 2016**

for the period
from 1 January 2016 until 31 December 2016

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1. ASSESSMENT OF THE FINANCIAL STATEMENTS AND MANAGEMENT BOARD'S REPORT OF ACTIVITIES

1.1. SCOPE OF THE ASSESSMENT

The Supervisory Board of Dom Development S.A. with its registered office in Warsaw examined and assessed:

a) Financial statements for the year ended 31 December 2016

The financial statements for the year ended on 31 December 2016 prepared in accordance with International Financial Reporting Standards (IFRS), of Dom Development S.A. with its registered office at Pl. Piłsudskiego 3 in Warsaw ("**Company**"), consisting of:

- balance sheet prepared as at 31 December 2016 with the balance of assets and liabilities in the amount of PLN **1 978 252 thousand**;
- income statement for the financial year from 1 January 2016 to 31 December 2016 showing a net profit of PLN **127 740 thousand**;
- statement of comprehensive income for the financial year from 1 January 2016 to 31 December 2016 showing a comprehensive income of PLN **128 073 thousand**;
- statement of changes in shareholders' equity in the financial year from 1 January 2016 to 31 December 2016 showing a PLN **47 993 thousand** increase in shareholders' equity;
- cash flow statement for the financial year from 1 January 2016 to 31 December 2016 showing a PLN **195 134 thousand** net cash and cash equivalents increase;
- additional notes to the financial statements.

b) Management Board's report of activities of Dom Development S.A. in 2016

c) consolidated financial statements of Dom Development S.A. Capital Group for the year ended on 31 December 2016

The consolidated financial statements for the year ended on 31 December 2016 prepared in accordance with International Financial Reporting Standards (IFRS), of Dom Development S.A. Capital Group, where Dom Development S.A. with its registered office at pl. Piłsudskiego 3 in Warsaw is the parent company, consisting of:

- consolidated balance sheet prepared as at 31 December 2016 with the balance of assets and liabilities in the amount of PLN **1 977 292 thousand**;
- consolidated income statement for the financial year from 1 January 2016 to 31 December 2016 showing a net profit of PLN **125 783 thousand**;
- consolidated statement of comprehensive income for the financial year from 1 January 2016 to 31 December 2016 showing a net comprehensive income of PLN **126 116 thousand**;
- consolidated statement of changes in shareholders' equity in the financial year from 1 January 2016 to 31 December 2016 showing a PLN **46 036 thousand** increase in shareholders' equity;
- consolidated cash flow statement for the financial year from 1 January 2016 to 31 December 2016 showing a PLN **192 670 thousand** net cash and cash equivalents increase;
- additional notes to the financial statements.

d) Management Board's Report of activities of Dom Development S.A. Capital Group in 2016.

1.2. Financial statements audit

The financial statements and the consolidated financial statements for the year ended on 31 December 2016 were audited on the basis of an agreement between Dom Development S.A. and Ernst & Young Audyt Polska Spółka z ograniczoną odpowiedzialnością spółka komandytowa (*limited partnership*) with its registered office in Warsaw at RONDO ONZ 1, listed by the National Council of Statutory Auditors under number 130. The selection of certified auditor was approved by resolution no. 05/03/16 adopted on 21 March 2016 by the Supervisory Board of Dom Development S.A.

The audit was carried out by the Certified Auditor in accordance with:

a) Chapter 7 of the Polish Accounting Act dated 24 September 1994,

b) national auditing standards in the wording of the international standards on auditing, as adopted by resolution no. 2783/52/2015 of the National Council of Statutory Auditors in Poland dated 10 February 2015, as amended.

The Supervisory Board assessed the following statements and reports submitted by the Management Board:

- Financial statements for the year ended on 31 December 2016;
- Management Board's report of activities of Dom Development S.A. in 2016;
- Consolidated financial statements of Dom Development S.A. Capital Group for the year ended on 31 December 2016;
- Management Board's Report of activities of Dom Development S.A. Capital Group in 2016;

and came to the conclusion, sharing the opinion of the Certified Auditor, that the information contained therein is consistent with the accounting books and documents as well as factual circumstances.

1.3. Assessment by the Supervisory Board

In the opinion of the Supervisory Board:

a) The financial statements for the year ended on 31 December 2016:

   - give a true and fair view of the assets and financial position of Dom Development S.A. as at 31 December 2016, as well as its financial result and cash flow for the period from 1 January 2016 to 31 December 2016;
   - have been prepared in accordance with the International Financial Reporting Standards as adopted by the EU;
   - are consistent with the laws and regulations regulating the preparation of financial statements and affecting the presentation and content of the financial statements;

b) the Management Board's report of activities of Dom Development S.A. in 2016:

   - is complete in accordance with the meaning of art. 49 of the Accounting Act and the Regulation by the Minister of Finance dated 19 February 2009 on the current and periodic submissions by securities issuers and the terms of confirming equivalency of information required under the regulations of a non-Member State (consolidated text: Journal of Laws of 2014 item 133, as amended). The information contained in the Management Board's report of activities of the Company, is consistent with the information contained in the audited financial statements;

c) The consolidated financial statements of Dom Development S.A. Capital Group for the year ended on 31 December 2016:

- give a true and fair view of the assets and financial position of Dom Development S.A. Capital Group as at 31 December 2016, as well as its financial result and cash flow for the period from 1 January 2016 to 31 December 2016;
- have been prepared in accordance with the International Financial Reporting Standards as adopted by the EU;
- are consistent with the laws and regulations regulating the preparation of consolidated financial statements and affecting the presentation and content of the financial statements;

d) The Management Board's Report of activities of Dom Development S.A. Capital Group in 2016:

- is complete in accordance with the meaning of art. 49 of the Accounting Act and the Regulation by the Minister of Finance dated 19 February 2009 on the current and periodic submissions by securities issuers and the terms of confirming equivalency of information required under the regulations of a non-Member State (consolidated text: Journal of Laws of 2014 item 133, as amended). The information contained in the Management Board's report of activities of the Dom Development S.A. Capital Group, is consistent with the information contained in the audited consolidated financial statements.

2. ASSESSMENT OF THE POSITION OF THE COMPANY BASED ON THE FINANCIAL STATEMENTS OF DOM DEVELOPMENT S.A. FOR THE YEAR ENDED 31 DECEMBER 2016 AND THE MANAGEMENT BOARD'S REPORT OF ACTIVITIES OF DOM DEVELOPMENT S.A. IN 2016

2.1. Certified Auditor's opinion on the financial statements of Dom Development S.A. for the financial year ended 31 December 2016

The Supervisory Board is pleased to note that the independent certified auditor issued an unqualified opinion on the financial statements of Dom Development S.A. for the financial year ended 31 December 2016.

2.2. The shareholders of Dom Development S.A. who held, both directly or indirectly through subsidiaries, at least 5% of the overall number of votes at the General Shareholders Meeting as at 31 December 2016

As at 31 December 2016 the parent company Dom Development S.A. 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.

	Balance as at 31 December 2016			
	Shares	**% of capital**	**Number of votes at the GSM**	**% of votes at the GSM**
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
Aviva Powszechne Towarzystwo Emerytalne Aviva BZ WBK SA *)	1 313 383	5.30	1 313 383	5.30
Grzegorz Kiełpsz	1 280 750	5.17	1 280 750	5.17

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

2.3. Evaluation of basic economic and financial figures disclosed in the annual financial statements of Dom Development S.A. for 2016

2.3.1 Balance sheet

Structure of the Company's assets as at 31 December 2016, and movements since the end of 2015.

ASSETS	31.12.2016 in thousand PLN	Share in assets	31.12.2015 in thousand PLN	Change 2016/2015
Total fixed assets	**170 940**	9%	**18 760**	811%
Current assets				
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%
Total current assets	**1 807 312**	**91%**	**1 729 950**	**4%**
Total assets	**1 978 252**	**100%**	**1 748 710**	**13%**

Structure of the Company's shareholders' equity and liabilities as at 31 December 2016, and movements since 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
Shareholders' equity				
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 pro	671 361	34%	623 831	8%
Total shareholders' equity	**931 129**	**47%**	**883 136**	**5%**
Liabilities				
Total long-term liabilities	325 738	16%	432 147	(25)%
Total short-term liabilities	721 385	36%	433 427	66%
Total liabilities	**1 047 123**	**53%**	**865 574**	**21%**
Total equity and liabilities	**1 978 252**	**100%**	**1 748 710**	**13%**

2.3.2 Income statement

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

	01.01--31.12.2016	sale %	01.01--31.12.2015	Change 2016/2015
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%
Net profit	**127 740**	**11%**	**80 647**	**58%**
Earnings per share (in PLN)	5.16		3.26	58%

2.3.3 Cash flow statement

	(in thousand PLN)		Change
	2016	2015	
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%

The year 2016 opened with a cash and cash equivalents balance of PLN 217 201 thousand and closed with a balance of PLN 412 335 thousand. As such, in the period between 1 January 2016 and 31 December 2016, the balance of cash and cash equivalents 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 of 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.

In 2016, the Company disclosed a net outflow of cash from investing activities amounting to 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 amounting to PLN 66 591 thousand. The excess of financial outflow over the inflow is mainly due to the dividend distributed by the Company in the amount of PLN 80 543 thousand.

2.3.4 Profitability ratios

The operating profit margin and net profit margin in 2016 have improved compared to the previous year. This predominantly results from the fact that the average gross margin generated on products delivered in 2016 was higher than on products delivered in 2015. At the same time a significant increase in ROE and ROA was noted in 2016 compared to 2015, which is a result of a net profit growth by 58% with a much lower growth in assets and equity (by 13% and 5%, respectively).

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

2.3.5 Liquidity ratios

Special attention should be given to the fact that financial liquidity has continued to be adequately maintained by the Company.

All the liquidity ratios have remained at very safe levels in 2016. The only ratio that changed significantly in 2016 compared to 2015 was the current ratio, which decreased to 4.85. It should be noted, however, that such a level is still considered very safe.

Such good liquidity ratios are due to a number of long-term decisions and actions taken by the Company's Management Board. It is also largely a result of the relevant financing structure being applied, with a policy of securing medium and longer term debt maturities. Liquidity is also impacted by decisions regarding the management of construction and financing of current investments (including decisions when to commence the construction of individual projects and concerning the product mix offered for sale), the purchase strategy of new land and management of suitable employment levels and overheads

The credibility of the Company in the financial market is high which is reflected by a diversified financing structure and by the willingness of banks as well as other financial institutions to grant new loans and other forms of long-term finance (such as bonds) to the Company.

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

2.3.6 Leverage ratios

Appropriate operating policies (i.e. proper commencement and pace of projects as well as controlled purchases of land) and financing policies ensured ratios were maintained at appropriate levels to support the business activity and maintain the Company's creditworthiness. The majority of the leverage ratios at the end of 2016 were similar to those at the end of 2015. They remain at an appropriate level for the business in the opinion of the Supervisory Board.

LEVERAGE RATIOS	2016	2015
Equity ratio *shareholders' equity / total assets*	47.1%	50.5%
Liabilities to equity ratio *total liabilities / shareholders' equity*	112.5%	98.0%
Liabilities to assets ratio *total liabilities / total assets*	52.9%	49.5%
Interest bearing debt to equity ratio *interest bearing liabilities (including accrued interest) / shareholders' equity*	41.2%	42.3%
Net interest bearing debt to equity ratio *interest bearing liabilities (including accrued interest) less cash and cash equivalents, and bank deposits with a maturity of over 3 month / shareholders' equity*	(5.5)%	17.3%

2.3.7 Summary and assessment

Based on the financial statements of Dom Development S.A. for the financial year 2016 and the Management Board's report of activities of the Company in the financial year 2016, the Supervisory Board is of the opinion that the year 2016 was a good year for Dom Development S.A. in the context of a relatively strong market.

In 2016, the Company's financial management was focused on seeking sources of long-term external financing for the projects under construction and on maintaining more-than-adequate levels of liquidity. The Management Board regularly analyses both the current financing structure and makes plans for the future optimum financing structure in order to achieve satisfactory financial ratios and financial results over the medium term, and at the same time, ensuring adequate liquidity and the financial security of the Company.

After satisfactory results in 2016 in a constructive economic environment, 2017 has the potential to be another strong year for the real estate development industry and for the economy as a whole. The residential real estate market will be impacted mostly by macroeconomic factors, such as interest rate policy, which is expected to remain supportive, although there are regulatory headwinds or increasingly difficult access to mortgages which comes about from the deposit levels increasing and banks tightening mortgage-related requirements.

The major responsibility of the Management Board is not only to ensure that the Company is prepared to react quickly to new challenges but most of all to maintain a leading position in an improving residential market, absent any major shocks. The major steps undertaken in this respect include:

- ensuring that adequate sources of finance are available to the Company, both for current and future development projects;
- co-operation with banks, and assisting customers in obtaining mortgages for the purchase of apartments;
- adjusting the Company's sales offer to the market demand, with particular attention to utilising any potential government-subsidised programmes that support the purchase of apartments;
- aligning land purchases to the Company's existing and future needs;
- utilising the existing land bank in the most appropriate manner;
- generating sales by improving the sales and marketing processes;

- maintaining customer confidence in the 'Dom Development' brand by maintaining quality;
- restructuring the organization and employment levels to the anticipated level of operational activities;
- optimising overhead efficiency; and
- responding to new regulatory hurdles.

In 2016, the activities of the Company generated a significant profit as shown by the income statement.

Having analysed the financial statements for 2016 and the Management Board's report of activities of the Company in 2016, the Supervisory Board shares the opinion of the Management Board as to the strong financial position of Dom Development S.A. at the end of 2016, that provides solid foundations for the continuing development of the Company.

This opinion is based on both the analysis of current operations and the financial standing of the Company, and the analysis of the Management Board's activities and effectiveness of these activities. It relates predominantly to the prompt, effective and professional reaction of the Management Board to changes in the market where the Company has been operating in recent years.

Over the years, the Company has developed an established position as the leader in the Warsaw residential market, gaining considerable experience in terms of execution of development projects as well as the sale and financing of these projects.

The Supervisory Board also appreciates the commitment of the Management Board of the Company in 2016 to the matters relating to the internal control and risk management systems of the Company.

3. ASSESSMENT OF THE POSITION OF THE DOM DEVELOPMENT S.A. CAPITAL GROUP BASED ON THE CONSOLIDATED FINANCIAL STATEMENTS OF DOM DEVELOPMENT S.A. CAPITAL GROUP FOR THE YEAR ENDED 31 DECEMBER 2016 AND THE MANAGEMENT BOARD'S REPORT OF ACTIVITIES OF DOM DEVELOPMENT S.A. CAPITAL GROUP IN 2016

3.1. Certified Auditor's opinion on the consolidated financial statements of the Group for the financial year ended 31 December 2016

The Supervisory Board is pleased to note that the independent certified auditor issued an unqualified opinion on the consolidated financial statements of Dom Development S.A. Capital Group for the financial year ended 31 December 2016.

3.2. The shareholders of Dom Development S.A. who held, both directly or indirectly through subsidiaries, at least 5% of the overall number of votes at the General Shareholders' Meeting as at 31 December 2016

As at 31 December 2016 the Group was controlled by Dom Development B.V. which held 59.42% of the shares in Dom Development S.A.

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

	Balance as at 31 December 2016			
	Shares	**% of capital**	**Number of votes at the GSM**	**% of votes at the GSM**
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
Aviva Powszechne Towarzystwo Emerytalne Aviva BZ WBK SA *)	1 313 383	5.30	1 313 383	5.30
Grzegorz Kiełpsz	1 280 750	5.17	1 280 750	5.17

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

3.3. Evaluation of basic economic and financial figures disclosed in the annual financial statements of Dom Development S.A. Capital Group for 2016

3.3.1 Consolidated balance sheet

Structure of the Group's assets as at 31 December 2016, and movements since the end of 2015.

ASSETS	**31.12.2016 i n thousand PLN**	**Share in assets**	**31.12.2015 i n thousand PLN**	**Change 2016/2015**
Total fixed assets	**20 510**	1%	**18 710**	10%
Current assets				
Inventory	1 507 595	76%	1 478 660	2%
Trade and other receivables	9 347	<1%	27 528	(66)%
Other current assets	2 767	<1%	2 668	4%
Cash and cash equivalents and Short-term financial assets	437 073	22%	225 387	94%
Total current assets	**1 956 782**	**99%**	**1 734 243**	**13%**
Total assets	**1 977 292**	**100%**	**1 752 953**	**13%**

Structure of the Group's shareholders' equity and liabilities as at 31 December 2016, and movements since 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
Shareholders' equity				
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)	669 739	34%	624 299	7%
Total shareholders' equity	**929 507**	**47%**	**883 604**	**5%**
Non-controlling interests	(46)	<1%	(179)	(74)%
Total shareholders' equity	**929 461**	**47%**	**883 425**	**5%**
Liabilities				
Total long-term liabilities	325 309	16%	432 147	(25)%
Total short-term liabilities	722 522	37%	437 381	65%
Total liabilities	**1 047 831**	**53%**	**869 528**	**21%**
Total equity and liabilities	**1 977 292**	**100%**	**1 752 953**	**13%**

3.3.2 Consolidated income statement

Consolidated income statement of the Group for the year ended 31 December 2016 compared to 2015.

	01.01 - 31.12.2016 in thousand PLN	sale %	01.01 - 31.12.2015 in thousand PLN	Change 2016/2015
Sales revenue	1 153 016	100%	904 195	28%
Cost of sales	881 944	76%	700 248	26%
Gross profit on sales	271 072	24%	203 947	33%
Operating profit	156 619	14%	102 459	53%
Profit before tax	155 900	14%	100 613	55%
Net profit	**125 783**	**11%**	**80 792**	**56%**
Basic earnings per share (in PLN)	5.07		3.26	56%

3.3.3 Consolidated cash flow statement

	(in thousand PLN)		Change
	2016	2015	
Cash and cash equivalents – opening balance	221 640	318 341	(30)%
Net cash flow from operating activities	265 224	(40 029)	n/d
Net cash flow from investing activities	(5 963)	23 063	n/d
Net cash flows from financing activities	(66 591)	(79 735)	n/d
Cash and cash equivalents – closing balance	414 310	221 640	87%

The year 2016 opened with a cash and cash equivalents balance of PLN 221 640 thousand and closed with a balance of PLN 414 310 thousand. As such, in the period between 1 January 2016 and 31 December 2016, the balance of cash and cash equivalents increased by PLN 192 670 thousand

In 2016, the Group recorded a net inflow of cash from the operating activities in the amount of PLN 265 224 thousand. This resulted mainly from an increase in profit before tax and significant drop in the growth of inventories as compared to the previous year. This was caused, among other things, by an increase of 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.

In 2016, the Group disclosed a net outflow of cash from investing activities amounting to PLN 5 963 thousand. This resulted mainly from the purchase of intangible assets and tangible fixed assets in the amount of PLN 6 383 thousand.

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

3.3.4 Profitability ratios

The operating profit margin and net profit margin in 2015 have improved compared to the previous year. This predominantly results from the fact that the average gross margin generated on products delivered in 2016 was higher than on products delivered in 2015. At the same time a significant increase in ROE and ROA was noted in 2016 compared to 2015, which is a result of a net profit growth by 56% with a much lower growth in assets and equity (by 13% and 5%, respectively).

PROFITABILITY RATIOS	2016	2015
Operating profit margin EBITDA / net sales revenue	14.1%	11.8%
Net profit margin net profit / net sales revenue	10.9%	8.9%
Return on assets (ROA) net profit / total assets	6.4%	4.6%
Return on equity (ROE) net profit / shareholders' equity	13.5%	9.1%

3.3.5 Liquidity ratios

Special attention should be given to the fact that financial liquidity has continued to be adequately maintained by the Group.

All the liquidity ratios have remained at very safe levels in 2016. The only ratio that changed significantly in 2016 compared to 2015 was the current ratio, which decreased to 5.24. It should be noted, however, that such a level is still considered very safe.

Such good liquidity ratios are due to a number of long-term decisions and actions taken by the Company's Management Board. It is also largely a result of the relevant financing structure being applied, with a policy of securing medium and longer term debt maturities. Liquidity is also impacted by decisions regarding the management of construction and financing of current investments (including decisions when to commence the construction of individual projects and concerning the product mix offered for sale), the purchase strategy of new land and management of suitable employment levels and overheads.

The credibility of the Group in the financial market is high which is reflected by a diversified financing structure and by the willingness of banks as well as other financial institutions to grant new loans and other forms of long-term finance (such as bonds) to the Company.

LIQUIDITY RATIOS	2016	2015
Current ratio *current assets / short-term liabilities less deferred income*	5.24	8.57
Quick ratio *current assets less inventory / short-term liabilities less deferred income*	1.20	1.26
Cash ratio *cash and cash equivalents, and bank deposits with a maturity of over 3 months / short-term liabilities less deferred income*	1.11	1.10

3.3.6 Leverage ratios

Appropriate operating policies (i.e. proper commencement and pace of projects as well as controlled purchases of land) and financing policies ensured ratios were maintained at appropriate levels to support the business activity and maintain the Company's and Group's creditworthiness. The majority of the leverage ratios at the end of 2016 were similar to those at the end of 2015. They remain at an appropriate level for the business in the opinion of the Supervisory Board.

LEVERAGE RATIOS	2016	2015
Equity ratio *shareholders' equity / total assets*	47.0%	50.4%
Liabilities to equity ratio *total liabilities / shareholders' equity*	112.7%	98.4%
Liabilities to assets ratio *total liabilities / total assets*	53.0%	49.6%
Interest bearing debt to equity ratio *interest bearing liabilities (including accrued interest) / shareholders' equity*	41.3%	42.3%
Net interest bearing debt to equity ratio *interest bearing liabilities (including accrued interest) less cash and cash equivalents, and bank deposits with a maturity of over 3 month / shareholders' equity*	(6.0)%	16.8%

3.3.7 Summary and assessment

Based on the consolidated financial statements of the Group for the financial year 2016 and the Management Board's report of activities of the Group in the financial year 2016, the Supervisory Board is of the opinion that the year 2016 was a good year for Dom Development S.A. Capital Group in the context of a relatively strong market.

In 2016, the Group's financial management was focused on seeking sources of long-term external financing for the projects under construction and on maintaining more-than-adequate levels of liquidity. The Management Board regularly analyses both the current financing structure and makes plans for the future optimum financing structure in order to achieve satisfactory financial ratios and financial results over the medium term, and at the same time, ensuring adequate liquidity and the financial security of the Group.

After satisfactory results in 2016 in a constructive economic environment, 2017 has the potential to be another strong year for the real estate development industry and for the economy as a whole. The residential real estate market will be impacted mostly by macroeconomic factors, such as interest rate policy, which is expected to remain supportive, although there are regulatory headwinds or increasingly difficult access to mortgages which comes about from the deposit levels increasing and banks tightening mortgage-related requirements. The major responsibility of the Management Board is not only to ensure that the

Group is prepared to react quickly to new challenges but most of all to maintain a leading position in an improving residential market, absent any major shocks. The major steps undertaken in this respect include:

- ensuring that adequate sources of finance are available to the Group, both for current and future development projects;
- co-operation with banks, and assisting customers in obtaining mortgages for the purchase of apartments;
- adjusting the Group's sales offer to the market demand, with particular attention to utilising any potential government-subsidised programmes that support purchases of apartments;
- aligning land purchases to the Group's existing and future needs;
- utilising the existing land bank in the most appropriate manner;
- generating sales by improving the sales and marketing processes;
- maintaining customer confidence in the 'Dom Development' brand by maintaining quality;
- restructuring the organization and employment levels to the anticipated level of operational activities;
- optimising overhead efficiency; and
- responding to new regulatory hurdles.

In 2016, the activities of the Group generated a significant profit as shown by the income statement.

Having analysed the consolidated financial statements for 2016 and the Management Board's report of activities of the Company in 2016, the Supervisory Board shares the opinion of the Management Board as to the strong financial position of Dom Development S.A. Capital Group at the end of 2016, that provides solid foundations for the continuing development the Group.

This opinion is based on both, the analysis of current operations and the financial standing of the Group and the analysis of the Management Board's activities and effectiveness of these activities. It relates predominantly to the prompt, effective and professional reaction of the Management Board to changes in the market where the Group has been operating in recent years.

Over the years, the Group has developed an established position as the leader in the Warsaw residential market, gaining considerable experience in terms of execution of development projects as well as the sale and financing of these projects.

The Supervisory Board also appreciates the commitment of the Management Board of the Company in 2016 to the matters relating to the internal control and risk management systems in the Group.

4. EVALUATION OF THE MANAGEMENT BOARD'S PROPOSAL FOR THE APPROPRIATION OF PROFIT

On 28 February 2017, the Management Board of Dom Development S.A. adopted resolution no. 02/02/17 on the motion of the Management Board concerning the distribution of the Dom Development S.A. net profit for 2016. According to this resolution the Management Board proposes that part of Dom Development S.A.'s net profit for 2016 in the amount of PLN 125 585 531.10 (one hundred and twenty-five million five hundred and eighty-five thousand five hundred and thirty-one zlotys and ten groszes), i.e. PLN 5.05 (five point zero five zlotys) per share, be distributed among the Dom Development S.A. shareholders as a dividend and the remaining part of Dom Development S.A.'s net profit for 2016 in the amount of PLN 2 155 024.36 (two million one hundred and fifty-five thousand twenty-four zloty and thirty-six groszes) be allocated to increase the supplementary capital of the Company.

The Supervisory Board gives its consent to the above proposal of the Management Board.

5. PROPOSALS TO THE GENERAL SHAREHOLDERS' MEETING OF DOM DEVELOPMENT S.A.

Having examined the submitted statements and reports for the financial year 2016 and having familiarised itself with the opinion, report and clarifications by the auditor's representative and the Management Board of Dom Development S.A., the Supervisory Board issues a positive opinion on the following documents and recommends that the General Shareholders' Meeting of Dom Development S.A. approves:

- Financial statements for the year ended on 31 December 2016;
- Management Board's report of activities of Dom Development S.A. in 2016;
- Consolidated financial statements of Dom Development S.A. Capital Group for the year ended on 31 December 2016;
- Management Board's Report of activities of Dom Development S.A. Capital Group in 2016,

and issues a positive opinion on the Management Board's proposal on the appropriation of profit for 2016 and recommends that the General Shareholders' Meeting adopts such resolution as proposed by the Management Board of Dom Development S.A. in resolution no. 02/02/17 dated 28 February 2017.