



**Management Board's Report of Activities of**

**DOM DEVELOPMENT S.A. CAPITAL GROUP**

**in the first half of 2014**



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**APPROVAL BY THE MANAGEMENT BOARD OF THE MANAGEMENT BOARD'S REPORT OF  
ACTIVITIES OF DOM DEVELOPMENT S.A. CAPITAL GROUP IN THE FIRST HALF OF 2014**

This Management Board's report of activities of Dom Development S.A. Capital Group in the first half of 2014 was drafted and approved by the Management Board of the Company on 20 August 2014.

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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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Jerzy Ślusarski,  
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", the "parent company") is the parent company of Dom Development S.A. Capital Group (the "Group"). The Company has been entered into the National Court Register under number 0000031483 maintained by the District Court for the capital city of Warsaw, 12<sup>th</sup> 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 Group operates.

The Company is a majority-owned subsidiary of Dom Development B.V. with its registered office in the Netherlands. As at 30 June 2014 the Company was controlled by Dom Development B.V. which held 59.45% of the Company's shares.

## 1. STRUCTURE AND ACTIVITIES OF DOM DEVELOPMENT S.A. CAPITAL GROUP

### 1.1. Group's Structure

The Group's structure and the Company's interest in the share capital of the entities comprising the Group as at 30 June 2014 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
<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 companies operating within the Group is the construction and sale of residential real estate. The Group conducts its activities mainly in Warsaw and its vicinity, and Wrocław. The development projects of the Group are usually executed directly by Dom Development S.A. For projects carried through special purpose vehicles, Dom Development S.A. supervises the execution of the construction investments and sales.

In the six-month period ended 30 June 2014:

- The Group did not discontinue any of its activities;
- The Group did not make any material capital investments within the framework of the Capital Group. All free cash was invested by the companies operating within the Group in short term bank deposits;
- No material changes were made to the structure of Dom Development S.A. Capital Group.



## 2. BASIS FOR THE DRAFTING OF THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The interim condensed consolidated financial statements have been prepared on the assumption that the companies operating within the Group will continue as a going concern in the foreseeable future.

Polish law requires the Group to prepare its interim condensed consolidated financial statements in accordance with IFRS, applicable to interim financial reporting as adopted by the European Union (EU) (IAS 34). At this particular time, due to the endorsement of IFRS by the EU and the activities of the Group, there are no differences in the IFRS policies applied by the Group and IFRS that have been endorsed by the EU.

The interim condensed consolidated financial statements have been prepared in accordance with IFRS applicable in the interim financial reporting (IAS 34) and all applicable IFRS that have been adopted by the EU.

The interim condensed consolidated financial statements are drafted based on the same accounting policies as for the consolidated financial statements of the Group for the year ended 31 December 2013, except for the following amendments to existing standards and new interpretations that are effective for annual periods beginning on 1 January 2014 which are described in note 7.3 of the interim condensed consolidated financial statements.

## 3. BASIC ECONOMIC AND FINANCIAL FIGURES DISCLOSED IN THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS OF THE GROUP FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2014

### 3.1. Selected data from the consolidated income statement

	(in thousand PLN)		Change
	H1 2014	H1 2013	
Sales revenue	361 620	340 190	6.3%
Gross profit on sales	53 662	78 721	(31.8)%
Selling costs	20 107	21 175	(5.0)%
General administrative expenses	23 040	20 856	10.5%
Operating profit	11 847	34 854	(66.0)%
EBITDA / sales revenue ratio	3.7%	10.7%	(65.6)%
<b>Net profit</b>	<b>10 948</b>	<b>27 350</b>	(60.0)%
Earnings per share (PLN)	0.44	1.11	(60.4)%

### 3.2. Selected data from the consolidated balance sheet, assets

	(in thousand PLN)		Change
	30.06.2014	31.12.2013	
Total assets	1 616 607	1 728 894	(6.5)%
Fixed assets	9 138	7 489	22.0%
Current assets, including:	1 607 469	1 721 405	(6.6)%
Inventory	1 301 561	1 346 599	(3.3)%
Trade and other receivables	6 459	43 328	(85.1)%
Other current assets	4 766	4 071	17.1%
Cash and cash equivalents and short-term financial assets	294 683	327 407	(10.0)%

### 3.3. Selected data from the consolidated balance sheet, liabilities

	(in thousand PLN)		Change
	30.06.2014	31.12.2013	
Total equity and liabilities	1 616 607	1 728 894	(6.5)%
Share capital	24 770	24 753	0.1%
Shareholders' equity	813 261	856 541	(5.1)%
Total liabilities	803 346	872 353	(7.9)%
Long-term liabilities	357 254	488 638	(26.9)%
Short-term liabilities	446 092	383 715	16.3%

## 4. MATERIAL EVENTS AND DESCRIPTION OF GROUP'S ACTIVITIES IN THE FIRST HALF OF 2014

In the six-month period ended 30 June 2014 the Group continued its development activities, being the construction and sale of residential real estates. The construction works are conducted in the general contractor system, and the works are contracted to specialized third-party building companies.

There are several development projects that are simultaneously conducted by the Group. The Management Board of the Company regularly reviews and gives its opinion on:

- current projects during their implementation in relation to both, the progress of construction works, and current and anticipated sales revenue,
- the best possible manner in which the plots of land from the land-bank may be used,
- the potential plots of land which may be purchased for further development projects to be carried out in the following years, also in major Polish cities other than Warsaw,
- optimization of financing of the Group's operating activities.

In the first half of 2014 the following material changes in the portfolio of the Group's investments under construction took place:

Projects where construction commenced in the first half of 2014:

Project	Standard	Number of apartments
Żoliborz Artystyczny, phase 3	Popular	228
Aura, phase 1b	Popular	64
Willa Lindego	Popular	121
Wilno, phase 2 (stage 2A)	Popular	149
Rezydencja Mokotów	Luxury apartments	133
Apartamenty Saska nad Jeziorem, phase 2	Popular	224
Aleja Piastów , phase 1	Popular	91
Aleja Piastów , phase 2	Popular	80
Żoliborz Artystyczny, phase 4	Popular	222

### Projects where construction was completed in the first half of 2014

Project	Standard	Number of apartments
Derby 14, phase 3	Popular	189
Młyny Królewskie	Popular	294
Klasyków I, phase 2	Popular	236
Wilno, phase 2b	Popular	124
Adria, phase 3	Popular	183
Willa na Harfowej	Popular	90

## 5. CURRENT AND FUTURE DEVELOPMENT PROJECTS

As at 30 June 2014, the projects under development account for 3,138 apartments in total. In addition, new development projects for 5,173 apartments in total are defined and planned by the Group.

## 6. FINANCE MANAGEMENT

### 6.1. Assets financing structure

	(in thousand PLN)		Change
	30.06.2014	31.12.2013	
Total assets	1 616 607	1 728 894	(6.5)%
Shareholders' equity	813 261	856 541	(5.1)%
Total liabilities	803 346	872 353	(7.9)%
Long-term liabilities	357 254	488 638	(26.9)%
Short-term liabilities	446 092	383 715	16.3%
Long-term loans and bonds	314 000	444 000	(29.3)%
Short-term loans and bonds	100 000	-	na.
<b>Leverage ratios</b>			
Equity ratio			
<i>shareholders' equity / total assets</i>	50.3%	49.5%	1.5%
Debt to equity ratio			
<i>total liabilities / shareholders' equity</i>	98.8%	101.8%	(3.0)%
Debt to assets ratio			
<i>total liabilities / total assets</i>	49.7%	50.5%	(1.5)%
Interest bearing debt to equity ratio			
<i>interest bearing liabilities (including accrued interest) / shareholders' equity</i>	51.4%	52.3%	(1.8)%
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>	15.1%	14.1%	7.6%
<b>Liquidity ratios</b>			
Current ratio			
<i>current assets / short-term liabilities less deferred income</i>	6.32	11.31	(44.1)%
Quick ratio			
<i>current assets less inventory / short-term liabilities less deferred income</i>	1.20	2.46	(51.2)%
Cash ratio			
<i>cash and cash equivalents / short-term liabilities less deferred income</i>	1.12	2.12	(47.0)%



The Company and the entire Group were in good financial standing in the six-month period ended 30 June 2014. The liquidity ratios of the Group are sufficient to guarantee safe and efficient operations.

Also the equity ratio and the financial leverage ratios (debt ratio and debt to equity ratio) as calculated at 30 June 2014, demonstrate with a high likelihood that the Group will be able to pay its liabilities.

## 6.2. Consolidated cash flows

	(in thousand PLN)		Change
	H1 2014	H1 2013	
Cash and cash equivalents – opening balance	322 250	175 918	83.2%
Net cash flow from operating activities	50 706	(17 768)	na.
Net cash flow from investing activities	(3 056)	231 449	na.
Net cash flows from financing activities	(84 180)	(40 543)	na.
Cash and cash equivalents – closing balance	285 720	349 056	(18.1)%

## 7. DESCRIPTION OF SIGNIFICANT RISK FACTORS AND FACTORS IMPORTANT FOR DEVELOPMENT OF THE COMPANY AND DOM DEVELOPMENT S.A. CAPITAL GROUP

Significant risk factors and threats to the business activity conducted by the Company and the Group in the second half of 2014 as identified by the Management Board are presented below.

### 7.1. Macroeconomic factors

The Group's business activities are significantly affected by global developments, and in particular by their impact on the Polish economy. The business activities of the Group are affected by the following macroeconomic factors which have an impact on the state of the Polish economy: GDP, level of investment, household income, interest rates, inflation, unemployment, the condition of the real estate development and construction industries, and the real estate market.

The noticeable improvement in the economic situation in the first half of 2014 has had a positive impact on the residential market. Further improvement in the developer's market may be expected in the second half of the year as a result of low interest rates, industrial production growth, market stabilization and improved consumer's sentiment.

### 7.2. Availability of mortgages

The historically low interest rates that have been observed since July 2013 have had a measurable impact on the availability of mortgages. On the other hand, pursuant to Recommendation S issued by the Polish Financial Supervision Authority (*Komisja Nadzoru Finansowego*, KNF) at least a 5% deposit (own contribution) is required from 1 January 2014 when purchasing a property. The impact of this recommendation has been negligible to date. The minimum deposit will be gradually increased to reach 20% of the property value in 2017. This may adversely impact the availability of mortgages in the future.

The effects of Recommendation S were slightly mitigated amongst customers in the popular segment by the *Mieszkanie dla Młodych (Apartment for the Young)* programme that was introduced at the beginning of 2014. The price limit set for Warsaw and Wrocław was however considerably below market prices. This limited the positive impact of the programme on the availability of mortgages in these cities. The improved impact of the governmental support depends on price limits that qualify apartments for the programme.



### **7.3. Foreign exchange risk**

Pursuant to Recommendation S issued by the KNF, from 1 July 2014 banks are required to provide mortgages to retail customers only in the currency of their income. The mortgage-related exchange risk has been eliminated in this way.

A great deal of foreign currency loans are mortgages. This brings about the risk of borrower insolvency, and therefore more apartments seized by the banks are put on the market, where a decline in demand from potential buyers who are not able to obtain such loans is observed.

The historic foreign currency loans that were taken at lower exchange rates than they are at present due to PLN depreciation against EUR or CHF, sometimes exceed the real value of the properties bought that constitute security for mortgages. As the overall situation in the residential market improves, the disproportion between the value of the properties and the mortgage liability should gradually diminish.

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

The Company's and the Group'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 and the Group will already have a well established position and therefore the possibility of further development.

Dom Development S.A. Capital Group has been developing its branch in Wrocław since 2011. The projects currently in progress comprise 575 apartments in three locations. A further expansion of the Group's operations in major cities in Poland is also considered.

### **7.5. Opportunity to purchase land for new projects**

The future success of the Company and the Group is founded on the ability to continually and effectively acquire attractive land for new development projects at the right times and at competitive prices. This will allow the generation of satisfactory project contributions.

### **7.6. Administrative decisions**

The nature of real estate development projects requires a number of licenses, permits and arrangements to be obtained by the Company and the Group at every stage of the development process. Despite significant caution applied in the project execution schedules there is always a risk of delay in their obtaining, challenges to decisions which have already been issued (also due to appeals with no consequences for appellants) or even failure to obtain them. All these affect the ability to conduct and complete the executed and planned projects.

Risk management in Dom Development S.A. Capital Group takes place through a formalized process of periodic identification, review and assessment of risk factors. The objective of this process is to set relevant procedures and processes for identified risks. The implementation of those procedures and processes is aimed at eliminating or reducing the risk to which the Company and the Group are exposed. The fundamental activity adopted by the Group 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.



## 8. THE MANAGEMENT BOARD AND THE SUPERVISORY BOARD

### 8.1. Composition of the Management Board of the Group's parent company as at 30 June 2014

Jarosław Szanajca, President of the Management Board  
Janusz Zalewski, Vice President of the Management Board  
Jerzy Ślusarski, Vice President of the Management Board  
Janusz Stolarczyk, Member of the Management Board  
Terry Roydon, Member of the Management Board

### 8.2. Composition of the Supervisory Board of the Group's parent company as at 30 June 2014

Grzegorz Kiełpsz, Chairman of the Supervisory Board  
Markham Dumas, Vice Chairman of the Supervisory Board  
Marek Moczulski, Vice Chairman of the Supervisory Board  
Michael Cronk, Member of the Supervisory Board  
Mark Spiteri, Member of the Supervisory Board  
Włodzimierz Bogucki, Member of the Supervisory Board  
Krzysztof Grzyliński, Member of the Supervisory Board

## 9. LIST OF SHAREHOLDERS

List of shareholders who hold, directly or indirectly through subsidiaries, at least 5% of the overall number of votes at the General Shareholders Meeting ("GSM") as at the day of drafting of this Management Board's Report of Activities of the Group in the first half of 2014 are presented in the table below.

	Status as at the date of drafting of this report				Change in the period from publication of the financial statements for the three-month period ended 31.03.2014
	Shares	% of capital	Number of votes at the GSM	% of votes at the GSM	Shares
Dom Development B.V.	14 726 172	59.45	14 726 172	59.45	-
Jarosław Szanajca	1 534 050	6.19	1 534 050	6.19	-
Aviva Powszechnie Towarzystwo Emerytalne Aviva BZ WBK SA *)	1 313 383	5.30	1 313 383	5.30	no data
Grzegorz Kiełpsz	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.

## 10. SHAREHOLDING IN THE DOM DEVELOPMENT S.A. AND SHARE OPTIONS

The shares of Dom Development S.A. or rights thereto (options) owned by the persons performing management and supervisory functions at Dom Development S.A. as at the date of drafting of this Management's Report of Activities of the Group in the first half of 2014 are presented in the table below.



	Status as at the date of drafting of this report			Change in the period from publication of the financial statements for the three-month period ended 31.03.2014	
	Shares	Share options	Total	Shares	Share options
<b>The Management Board</b>					
Jarosław Szanajca	1 534 050	-	1 534 050	-	-
Janusz Zalewski	311 000	92 534	403 534	-	-
Jerzy Ślusarski	5 363	72 784	78 147	-	-
Janusz Stolarczyk	105 200	43 597	148 797	-	-
Terry Roydon	58 500	11 767	70 267	-	-
<b>The Supervisory Board</b>					
Grzegorz Kielpsz	1 280 750	-	1 280 750	-	-
Markham Dumas	-	-	-	-	-
Mark Spiteri	500	2 330	2 830	-	-

## 11. FORECASTS

The Management Board of Dom Development S.A. does not publish any financial forecasts concerning either, the parent company and the Group.

## 12. PROCEEDINGS BEFORE COURT, ARBITRATION OR PUBLIC ADMINISTRATION AUTHORITY

As of 30 June 2014 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 any of its subsidiaries, the value of which would be at least 10% of the Company's shareholders' equity.

As of 30 June 2014 there were not two or more proceedings before any court, authority competent for arbitration or public administration body, concerning the liabilities or receivables, the value of which would be at least 10% of the Company's shareholders' equity.

As of 30 June 2014, the Company was a party to proceedings concerning liabilities and receivables, the total value of which was approx. PLN 56 353 thousand, including the total value of proceedings concerning liabilities at approx. PLN 40 973 thousand and the total value of proceedings concerning receivables at approx. PLN 15 380 thousand.

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

## 13. 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 7.18 to the interim condensed consolidated financial statements for the period ended 30 June 2014.