

DOM DEVELOPMENT S.A.

**LONG-FORM AUDITORS' REPORT
ON THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016**

I. GENERAL NOTES

1. Background

Dom Development S.A. (hereinafter 'the Company') was incorporated on the basis of a Notarial Deed dated 25 February 1999. The Company's registered office is located in Warsaw at Plac Piłsudskiego 3. The Company was entered in the Register of Entrepreneurs of the National Court Register under no. KRS 0000031483 on 8 August 2001.

The Company was issued with tax identification number (NIP) 5251492233 and statistical number (REGON) 012212483.

The Company is the holding company of the Dom Development S.A. capital group. Details of transactions with affiliated entities and the list of companies in which the Company holds at least 20% of shares in the share capital or in the total number of votes in the company's governing body are included in Notes 7.9 and 7.43 of the additional notes ("the additional notes and explanations") to the audited financial statements for the year ended 31 December 2016.

The principal activities of the Company are as follows:

- real estate construction, investments and sale of real estates,
- property management,
- bookkeeping and accounting services,
- advisory and broking services in relation to mortgages.

As at 31 December 2016, the Company's issued share capital amounted to 24 782 thousand zlotys. Equity as at that date amounted to 931 129 thousand zlotys.

Based on the information included in Director's Report as well as in the current reports published by Company, the ownership structure of the Company's issued share capital as at 31 December 2016 was as follows:

	Number of shares	Number of votes	Par value of shares	% of issued share capital
Dom Development B.V.	14 726 172	14 726 172	1,00	59,42%
Jarosław Szanajca	1 454 050	1 454 050	1,00	5,87%
Aviva Powszechne Towarzystwo Emerytalne				
Aviva BZ WBK S.A.	1 313 383	1 313 383	1,00	5,30%
Grzegorz Kielpsz	1 280 750	1 280 750	1,00	5,17%
Pozostali akcjonariusze	6 008 237	6 008 237	1,00	24,24%
	-----	-----	-----	-----
Total	24 782 592	24 782 592	-	100,00%
	=====	=====	=====	=====

According to information included in the Entrepreneurs Register of National Court Register as at 27 February 2017, the share capital amounted to 24 868 thousand zlotys. In current financial year and as the date of this opinion the following changes have taken place in the structure of the share capital of the Company:

On 21 March 2016 the Management Board of Dom Development S.A. adopted a resolution to increase the share capital by issuing 10 320 U series ordinary shares and 1 000 V series ordinary shares as a part

of the authorized capital from the amount of 24 771 thousand zlotys up to 24 782 thousand zlotys, that is by 11 thousand zlotys. The U and V series shares were issued in private placement addressed to participants in Management Share Option Program II. These shares were registered by the District Court for the capital city of Warsaw in Warsaw, 12th Commercial Division of the National Court Register on 17 May 2016.

On 5 December 2016 the Management Board of Dom Development S.A. adopted a resolution to increase the share capital by issuing 85 830 W series ordinary shares as a part of the authorized capital from the amount of 24 782 thousand zlotys up to 24 868 thousand zlotys, that is by 86 thousand zlotys. The W series shares were issued in private placement addressed to participants in Management Share Option Program II. These shares were registered by the District Court for the capital city of Warsaw in Warsaw, 12th Commercial Division of the National Court Register on 10 January 2017.

Movements in the issued share capital of the Company in the financial year were as follows:

	Number of shares (in thousand)	Par value of shares (in thousand)
Opening balance	24 771	24 771
Increase in share capital	11	11
	-----	-----
Closing balance	24 782	24 782
	=====	=====

As at 27 February 2017, the Company's Management Board was composed of:

Jarosław Szanajca	- President
Janusz Zalewski	- Vicepresident
Małgorzata Kolarska	- Vicepresident
Janusz Stolarczyk	- Member
Terry Roydon	- Member

There were no changes in the Company's Management Board composition during the reporting period as well as from the balance sheet date to the date of the opinion.

2. Financial Statements

On 2 August 2006 the General Shareholders' Meeting decided on preparation of the financial statements in accordance with International Financial Reporting Standards as adopted by the EU.

2.1 Auditors' opinion and audit of financial statements

Ernst & Young Audyt Polska spółka z ograniczoną odpowiedzialnością sp. k. with its registered office in Warsaw, at Rondo ONZ 1, is registered on the list of entities authorised to audit financial statements under no. 130.

Ernst & Young Audyt Polska spółka z ograniczoną odpowiedzialnością sp. k. was appointed by the Supervisory Board on 21 March 2016 to audit the Company's financial statements.

Ernst & Young Audyt Polska spółka z ograniczoną odpowiedzialnością sp. k. and the key certified auditor meet the conditions required to express an impartial and independent opinion on the financial statements, as defined in Art. 56.3 and 56.4 of the Act on statutory auditors and their self-governance, audit firms authorized to audit financial statements and public oversight, dated 7 May 2009.

Under the contract executed on 24 September 2012 and adjusted on 1 June 2016 with the Company's Management Board, we have audited the financial statements for the year ended 31 December 2016.

Our responsibility was to express an opinion on the financial statements based on our audit. The auditing procedures applied to the financial statements were designed to enable us to express an opinion on the financial statements taken as a whole. Our procedures did not extend to supplementary information that does not have an impact on the financial statements taken as a whole.

Based on our audit, we issued an unqualified auditors' opinion dated 27 February 2017, stating the following:

'To the General Shareholders Meeting and Supervisory Board of Dom Development S.A.'

Report on the Audit of the Financial Statements

We have audited the accompanying financial statements for the year ended 31 December 2016 of Dom Development S.A. ('the Company') located in Warsaw, Plac Piłsudskiego 3, which comprise balance sheet as at 31 December 2016, income statement, statement of comprehensive income, cash flow statement and statement of changes in shareholders' equity for the period from 1 January 2016 to 31 December 2016 and the additional notes to the financial statements ('the accompanying financial statements').

Responsibilities of the Management Board and members of the supervisory board for the financial statements

The Management Board is responsible in accordance with the Accounting Act dated 29 September 1994 ('the Accounting Act'), regulations issued on the basis of the Accounting Act, for the preparation based on properly maintained accounting records of the financial statements and fair presentation in accordance with International Accounting Standards, International Financial Reporting Standards and related Interpretations announced in the form of European Commission regulations ('International Financial Reporting Standards as adopted by European Union') and other applicable laws. The Management Board is also responsible for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

According to the Accounting Act the Management Board and members of the supervisory board are required to ensure that the financial statements meet the requirements of the Accounting Act.

Auditor's Responsibilities for the Audit of the Financial Statements

Our responsibility is to express an opinion on accompanying financial statements based on our audit.

We conducted our audit in accordance with chapter 7 of the Accounting Act and National Auditing Standards in the version of International Standards on Auditing as adopted by Resolution no 2783/52/2015 of the National Council of Statutory Auditors dated 10 February 2015 with subsequent

amendments ('National Auditing Standards'). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

In accordance with National Auditing Standard 320 point 5 the concept of materiality is applied by the auditor both in planning and performing the audit, and in evaluating the effect of identified misstatements on the audit and of uncorrected misstatements, if any, on the financial statements and in forming the opinion in the auditor's report. Hence all auditor's assertions and statements contained in the auditor's report, including those on other information or regulatory requirements, are made with the contemplation of the qualitative and quantitative materiality levels established in accordance with auditing standards and auditor's professional judgement.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the accompanying financial statements:

- give a true and fair view of the financial position of the Company as at 31 December 2016 and its financial performance and its cash flows for the period from 1 January 2016 to 31 December 2016 in accordance with International Financial Reporting Standards as adopted by European Union and accounting policies;
- have been prepared based on properly maintained accounting records;
- are in respect of the form and content, in accordance with legal regulations governing the preparation of financial statements and the Company's Articles of Association.

Report on Other Legal and Regulatory Requirements

Report on the Directors' Report

Our opinion on the financial statements does not include the Directors' Report.

The Company's Management Board is responsible for preparation of the Directors' Report in accordance with the Accounting Act and other applicable laws. In addition the Company's Management Board and members of the supervisory board are obliged to state that the Directors' Report meet the requirements of the Accounting Act.

In connection with the audit of the financial statements, our responsibility was to read the content of the Directors' Report and consider whether the information contained in it take into account the provisions of art. 49 of the Accounting Act and the Decree of the Minister of Finance dated 19 February 2009 on

current and periodic information published by issuers of securities and conditions for recognition as equivalent the information required by laws of non-EU member states ('the Decree on current and periodic information') and whether they are consistent with the information contained in the accompanying financial statements. Our responsibility was also to report, based on our knowledge of the Company and its environment obtained during the audit of the financial statements, whether the Directors' Report does not include material misstatements.

We have concluded that the information included in the Directors' Report corresponds with the relevant regulations of art. 49 of the Accounting Act and the Decree on current and periodic information and that the information derived from the accompanying financial statements reconciles with the Directors' Report. Based on our knowledge of the Company and its environment obtained during the audit of the financial statements, we have not identified material misstatements in the Directors' Report.

In connection with the conducted audit of the financial statements, our responsibility was also to read the Company's representation on application of corporate governance which constitutes a separate part of the Directors' Report. We concluded that in the representation the Company included information required by implementing rules issued under art. 60 para. 2 of the Act of 29 July 2005 on public offering and on the terms of introducing financial instruments into an organised trading system and on public companies. This information is, in all material respects, in accordance with applicable regulations and with the information included in the accompanying financial statements.'

We conducted the audit of the Company's financial statements during the period from 21 November 2016 to 27 February 2017. We were present at the Company's head office from 21 November 2016 to 2 December 2016 and from 6 February 2017 to 24 February 2017.

2.2 Representations provided and data availability

The Management Board confirmed its responsibility for the truth and fairness¹ of the financial statements and the preparation of the financial statements in accordance with the required applicable accounting policies, and stated that it had provided us with all financial information, accounting records and other required documents as well as all necessary explanations. The Management Board also provided a letter of representations dated 27 February 2017, confirming that:

- the information included in the books of account was complete;
- all contingent liabilities had been disclosed in the financial statements, and
- all material events from the balance sheet date to the date of the representation letter had been disclosed in the financial statements;

and confirmed that the information provided to us was true and fair to the best of the Management Board's knowledge and belief, and included all events that could have had an effect on the financial statements.

At the same time declare that during the audit of the financial statements, there were no limitations of scope.

2.3 Financial statements for prior financial year

The Company's financial statements for the year ended 31 December 2015 were audited by Jarosław Dac, key certified auditor no. 10138, acting on behalf of Ernst & Young Audyt Polska spółka

¹ Translation of the following expression in Polish: "rzetelność i jasność"

z ograniczoną odpowiedzialnością sp. k., the company entered on the list of entities authorized to audit financial statements conducted by the National Council of Statutory Auditors with the number 130. The key certified auditor issued an unqualified opinion on the financial statements for the year ended 31 December 2015.

The Company's financial statements for the year ended 31 December 2015 were approved by the General Shareholders' Meeting on 2 June 2016, and the shareholders resolved to appropriate the 2015 net profit as follows:

Dividends for the shareholders	80 543
Reserve capital	104

	80 647
	=====

The financial statements for the financial year ended 31 December 2015, together with the auditors' opinion, a copy of the resolution approving the financial statements, a copy of the resolution on the appropriation of profit and the Directors' Report, were filed on 13 June 2016 with the National Court Register.

The closing balances as at 31 December 2015 were correctly brought forward in the accounts as the opening balances at 1 January 2016.

3. Analytical Review

3.1 Basic data and financial ratios

Presented below are selected financial ratios indicating the economic or financial performance of the Company for the years 2014 - 2016. The ratios were calculated on the basis of financial information included in the financial statements for the years ended 31 December 2016 and 31 December 2015.

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Total assets	1 978 252	1 748 710	1 604 565
Shareholders' equity	931 129	883 136	858 127
Net profit/ loss	127 740	80 647	55 822
Return on assets (%)	6.5%	4.6%	3.5
<hr/> $\frac{\text{Net profit} \times 100\%}{\text{Total assets}}$ <hr/>			
Return on equity (%)	14.5%	9.4%	6.5%
<hr/> $\frac{\text{Net profit} \times 100\%}{\text{Shareholders' equity at the beginning of the period}}$ <hr/>			

*Dom Development S.A.
Long-form auditors' report
for the year ended 31 December 2016
(in thousand zlotys)*

	2016	2015	2014
Profit margin (%)	11.0%	8.9%	7.1%
Net profit x 100%			
<hr/>			
Sales of finished goods, goods for resale and raw materials			
Liquidity I	2.5	4.1	3.8
Current assets			
<hr/>			
Short-term creditors			
Liquidity III	0.6	0.5	0.8
Cash and cash equivalents			
<hr/>			
Short-term creditors			
Debtors days	2 days	2 days	2 days
Trade debtors x 365			
<hr/>			
Sales of finished goods, goods for resale and raw materials			
Creditors days	65 days	76 days	64 days
Trade creditors x 365			
<hr/>			
Costs of finished goods, goods for resale and raw materials sold			
Inventory days	557 days	771 days	711 days
Inventory x 365			
<hr/>			
Costs of finished goods, goods for resale and raw materials sold			
Stability of financing (%)	63.8%	75.6%	73.8%
(Equity + long-term provisions and liabilities) x 100%			
<hr/>			
Total liabilities, provisions and equity			
Debt ratio (%)	52.9%	49.5%	46.5%
(Total liabilities and provisions) x 100%			
<hr/>			
Total assets			
Rate of inflation:			
Yearly average	-0.6%	-0.9%	0.0%
December to December	0.8%	-0.5%	-1.0%

This is a translation of a document originally issued in the Polish language.

3.2 Comments

The following trends may be observed based on the above financial ratios:

- return on asset ratio reached 6.5% in the year 2016 and was higher than in the year 2015 when it reached 4.6% and in 2014 when it reached 3.5%,
- return on equity ratio reached 14.5% in the year 2016 and was higher than in the year 2015 when it reached 9.4% and in 2014 when it reached 6.5%,
- profit margin ratio amounted to 11.0% in the year 2016 and was higher than in the year 2015 and 2014 when it reached 8.9% and 7.1% respectively,
- liquidity ratio I leveled at 2.5 as at the end of 2016, for comparison as at the end of 2015 and 2014 it leveled at 4.1 and 3.8 respectively,
- liquidity ratio III reached 0.6 as at the end of 2016 and was higher than as at the end of 2015 when it attained 0.5 and lower than as at the end of 2014 when it attained 0.8 respectively,
- debtors days ratio reached 2 days in the year 2016, for comparison in the year 2015 and 2014 it also reached 2 days,
- creditors days ratio reached 65 days in the year 2016, for comparison in the year 2015 and 2014 it reached 76 days and 64 days respectively,
- inventory days ratio for the year 2016 leveled at 557 days, for comparison in the year 2015 and 2014 the ratio reached 771 days and 711 days respectively,
- stability of financing ratio amounted to 63.8% as at 31 December 2016 and was lower than in the year 2015 when it amounted to 75.6% and lower than in the year 2014 when it amounted to 73.8%,
- debt ratio for the year 2016 amounted to 52.9% and was higher than in the year 2015 when it reached 49.5% and higher than in the year 2014 when it reached 46.5%.

3.3 Going concern

Nothing came to our attention during the audit that caused us to believe that the Company is unable to continue as a going concern for at least twelve months subsequent to 31 December 2016 as a result of an intended or compulsory withdrawal from or a substantial limitation in its current operations.

In Note 7.2 of the additional notes and explanations to the audited financial statements for the year ended 31 December 2016, the Management Board has stated that the financial statements were prepared on the assumption that the Company will continue as a going concern for a period of at least twelve months subsequent to 31 December 2016 and that there are no circumstances that would indicate a threat to its continued activity.

II. DETAILED REPORT

1. Accounting System

The Company's accounts are kept using the SunSystems computer system at the Company's head office. The Company has up-to-date documentation, as required under Article 10 of the Accounting Act dated 29 September 1994 ('the Accounting Act'), including a chart of accounts approved by the Company's Management Board.

During our audit no material irregularities were noted in the books of account which could have a material effect on the audited financial statements and which were not subsequently adjusted. These would include matters related to:

- the reasonableness and consistency of the applied accounting policies;
- the reliability of the accounting records, the absence of errors in the accounting records and the trail of entries in the accounting records;
- whether business transactions are supported by documents;
- the correctness of opening balances based on approved prior year figures;
- consistency between the accounting entries, the underlying documentation and the financial statements;
- fulfilment of the requirements for safeguarding accounting documents and storing accounting records and financial statements.

2. Assets, Liabilities and Equity, Profit and Loss Account

Details of the Company's assets, liabilities and equity and profit and loss account are presented in the audited financial statements for the year ended 31 December 2016.

Verification of assets, liabilities and equity was performed in accordance with the Accounting Act. Any differences were adjusted in the books of account for the year 2016.

3. Additional Notes and Explanations to the Financial Statements

The additional notes and explanations to the financial statements for the year ended 31 December 2016 were prepared, in all material respects, in accordance with International Financial Reporting Standards as adopted by the EU.

4. Directors' Report

We have read the Directors' report on the Company's activities in the period from 1 January 2016 to 31 December 2016 and the basis for preparation of annual financial statements ('Directors' Report') and concluded that the information contained in it take into account the provisions of Art. 49 para 2 of the Accounting Act and the relevant provisions of the Decree of the Minister of Finance dated 19 February 2009 on current and periodic information published by issuers of securities and conditions for recognition as equivalent the information required by laws of non-EU member states. We have also concluded, based on our knowledge of the Company and its environment obtained during the audit of the financial statements, that the Directors' Report does not include material misstatements. We have read also the Company's representation on application of corporate governance which constitutes a separate part of the Directors' Report. We concluded that in the representation the Company included information required by implementing rules issued under art. 60 para. 2 of the Act of 29 July 2005 on public offering and on the terms of introducing financial instruments into an organised trading system

and on public companies. This information is, in all material respects, in accordance with applicable regulations and with the information included in the financial statements.

5. Conformity with Law and Regulations

We have obtained a letter of representations from the Management Board confirming that no laws, regulations or provisions of the Company's Articles of Association were breached during the financial year.

Warsaw, 27 February 2017

Key Certified Auditor

Jarosław Dac
Certified Auditor
No. 10138

on behalf of
Ernst & Young Audyt Polska spółka
z ograniczoną odpowiedzialnością sp. k.
Rondo ONZ 1, 00-124 Warsaw
Reg. No 130