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

ON THE ASSESSMENT OF:

- **FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017,**
- **MANAGEMENT BOARD'S REPORT OF ACTIVITIES OF DOM DEVELOPMENT S.A. IN 2017,**
- **CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017,**
- **MANAGEMENT BOARD'S REPORT OF ACTIVITIES OF DOM DEVELOPMENT S.A. CAPITAL GROUP IN 2017**

for the period
from 1 January 2017 until 31 December 2017

Warsaw, 10 April 2018

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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 2017

The financial statements for the year ended on 31 December 2017 prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the EU, 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 2017 with the balance of assets and liabilities in the amount of PLN **2 156 952 thousand**;
- income statement for the financial year from 1 January 2017 to 31 December 2017 showing a net profit of PLN **186 113 thousand**;
- statement of comprehensive income for the financial year from 1 January 2017 to 31 December 2017 showing a comprehensive income of PLN **185 882 thousand**;
- cash flow statement for the period from 1 January 2017 to 31 December 2017 with the PLN **202 083** thousand net cash and cash equivalents as at 31 December 2017;
- statement of changes in shareholders' equity in the financial year from 1 January 2017 to 31 December 2017 showing a PLN **999 320 thousand** balance of shareholders' equity;
- additional notes to the financial statements.

b) Management Board's report of activities of Dom Development S.A. in 2017

c) consolidated financial statements of Dom Development S.A. Capital Group for the year ended on 31 December 2017

The consolidated financial statements for the year ended on 31 December 2017 prepared in accordance with 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 2017 with the balance of assets and liabilities in the amount of PLN **2 390 395 thousand**;
- consolidated income statement for the financial year from 1 January 2017 to 31 December 2017 showing a net profit of PLN **190 787 thousand**;
- consolidated statement of comprehensive income for the financial year from 1 January 2017 to 31 December 2017 showing a net comprehensive income of PLN **190 556 thousand**;
- consolidated cash flow statement for the period from 1 January 2017 to 31 December 2017 with the PLN **279 653 thousand** net cash and cash equivalents as at 31 December 2017;
- consolidated statement of changes in shareholders' equity in the financial year from 1 January 2017 to 31 December 2017 showing a PLN **1 002 326 thousand** balance of shareholders' equity;
- additional notes to the financial statements.

d) Management Board's Report of activities of Dom Development S.A. Capital Group in 2017

1.2. Financial statements audit

The financial statements and the consolidated financial statements for the year ended on 31 December 2017 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 statutory auditor was approved by resolution no. 03/03/17 adopted on 21 March 2017 by the Supervisory Board of Dom Development S.A.

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

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

b) the Act of 11 May 2017 on statutory auditors, audit firms and public supervision,

c) 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 dated 10 February 2015, as amended,

d) Regulation No. 537/2014 of the European Parliament and of the Council of 16 April 2014 on specific requirements regarding statutory audit of public-interest entities and repealing Commission Decision 2005/909/EC.

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

- Financial statements for the year ended on 31 December 2017;
- Management Board's report of activities of Dom Development S.A. in 2017;
- Consolidated financial statements of Dom Development S.A. Capital Group for the year ended on 31 December 2017;
- Management Board's Report of activities of Dom Development S.A. Capital Group in 2017;

and came to the conclusion, sharing the opinion of the Statutory Auditor, that the information contained therein has been complied based on the properly kept accounting books as well as is consistent with 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 2017:

  - give a true and fair view of the assets and financial position of Dom Development as at 31 December 2017, as well as its financial result and cash flow for the period from 1 January 2017 to 31 December 2017,
  - has been prepared in accordance with IFRS,
  - are consistent with the laws and regulations regulating the preparation of financial statements and affecting the presentation and content of the financial statements;

b) Management Board's report of activities of Dom Development S.A. in 2017:

- 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. 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 2017:

- give a true and fair view of the assets and financial position of Dom Development S.A. Capital Group as at 31 December 2017, as well as its financial result and cash flow for the period from 1 January 2017 to 31 December 2017;
- have been prepared in accordance with IFRS;
- 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 2017:

- 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. 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 2017 AND THE MANAGEMENT BOARD'S REPORT OF ACTIVITIES OF DOM DEVELOPMENT S.A. IN 2017

2.1. Statutory auditor's report from the audit of annual financial statements of Dom Development S.A. for the financial year ended 31 December 2017

The Supervisory Board is pleased to note that the independent statutory auditor in its audit report issued an unqualified opinion on the annual financial statements of Dom Development S.A. for the financial year ended 31 December 2017.

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 2017

As at 31 December 2017 the parent company Dom Development S.A. was controlled by Dom Development B.V. which held 57.34% 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 2017.

	Balance as at 31 December 2017			
	Shares	**% of capital**	**Number of votes at the GSM**	**% of votes at the GSM**
Dom Development B.V.	14 259 879	57.34	14 259 879	57.34
Jarosław Szanajca	1 454 050	5.85	1 454 050	5.85
Aviva Powszechne Towarzystwo Emerytalne Aviva BZ WBK SA *)	1 313 383	5.28	1 313 383	5.28
Grzegorz Kiełpsz	1 280 750	5.15	1 280 750	5.15

*) 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 2017

2.3.1 Balance sheet

Structure of the Company's assets as at 31 December 2017, and movements since the end of 2016.

ASSETS	**31.12.2017 in thousand PLN**	**Share in assets**	**31.12.2016 in thousand PLN**	**Change 2017/2016**
Total fixed assets	**325 925**	**15%**	**170 940**	**91%**
Current assets				
Inventory	1 571 308	73%	1 360 371	16%
Trade and other receivables	29 506	1%	9 231	220%
Other current assets	2 931	<1%	2 612	12%
Cash and cash equivalents and Short-term financial assets	227 282	11%	435 098	(48)%
Total current assets	**1 831 027**	**85%**	**1 807 312**	**1%**
Total assets	**2 156 952**	**100%**	**1 978 252**	**9%**

Structure of the Company's shareholders' equity and liabilities as at 31 December 2017, and movements since the end of 2016

EQUITY AND LIABILITIES	**31.12.2017 in thousand PLN**	**Share in equity and liabilities**	**31.12.2016 in thousand PLN**	**Change 2017/2016**
Shareholders' equity				
Share capital	24 868	1%	24 782	<1%
Share premium less treasury shares	238 388	11%	234 986	1%
Reserve and supplementary capitals, and accumulated unappropriated pro	736 064	34%	671 361	10%
Total shareholders' equity	**999 320**	**46%**	**931 129**	**7%**
Liabilities	356 384	17%	325 738	9%
Total long-term liabilities	801 248	37%	721 385	11%
Total short-term liabilities	**1 157 632**	**54%**	**1 047 123**	**11%**
Total liabilities	**2 156 952**	**100%**	**1 978 252**	**9%**
Total equity and liabilities	24 868	1%	24 782	<1%

2.3.2 Income statement

Income statement of the Company for the year ended 31 December 2017 compared to 2016

	01.01- -31.12.2017	sale %	01.01- -31.12.2016	Change 2017/2016
Sales revenue	1 298 718	100%	1 161 973	12%
Cost of sales	937 061	72%	890 824	5%
Gross profit on sales	361 657	28%	271 149	33%
Operating profit	231 155	18%	158 969	45%
Profit before tax	231 924	18%	158 227	47%
Net profit	**186 113**	**14%**	**127 740**	**46%**
Earnings per share (in PLN)	7,48		5,16	45%

2.3.3 Cash flow statement

	(in thousand PLN)		Change
	2017	2016	
Cash and cash equivalents – opening balance	412 335	217 201	90%
Net cash flow from operating activities	236 354	417 910	(43)%
Net cash flow from investing activities	(301 020)	(156 185)	n/d
Net cash flows from financing activities	(145 586)	(66 591)	n/d
Cash and cash equivalents – closing balance	202 083	412 335	(51)%

The year 2017 opened with a cash and cash equivalents balance of PLN 412 335 thousand and closed with a balance of PLN 202 083 thousand. Therefore, in the period from 1 January until 31 December 2017 the balance of cash dropped by PLN 210 252 thousand.

In 2017, the Company recorded a net inflow of cash from the operating activities in the amount of PLN 236 354 thousand. The key factor here was the increase in profit before tax by 47% from PLN 158 227 thousand to PLN 231 924 thousand. The increase in profit before tax resulted mainly from the increase in gross margin on sales, which was 28% in 2017, that is 5 percentage points higher than in 2016. The lower net cash flows from operating activities by PLN 181 556 thousand (i.e. by 43%) in comparison to the previous year resulted primarily from the effect of the recognition in 2016 of the acquisition of shares in Fort Mokotów Inwestycje Sp z o.o. (at the carrying amount of net investment of PLN 136 411 thousand) as cash outflows from investment activities rather than from operating activities. The purpose of the transaction was the acquisition by the Company of the perpetual usufruct to land in the Mokotów district of Warsaw, which after the winding up of Fort Mokotów Inwestycje Sp. z o.o. in 2017 were classified as inventory in the balance sheet of the Company. The lower than in the previous year net cash inflows from operating activities is also the outcome of the considerable purchases of land by the Company in 2017.

In 2017, the Company recognised net cash outflows from investment activities in the amount of PLN 301 020 thousand. This is mainly due to the acquisition of Euro Styl S.A. Capital Group, at the carrying amount of net investment of PLN 265 473 thousand and the reimbursable contributions to the equity of subsidiaries as made by the Company in the amount of PLN 26 900 thousand.

In 2017, the Company recorded a net cash outflow from the financing activities in the amount of PLN 145 586 thousand. The excess of financial outflow over the inflow is mainly due to the dividend distributed by the Company in the amount of PLN 125 586 thousand.

2.3.4 Profitability ratios

The operating profit margin and net profit margin in 2017 have improved compared to the previous year. This predominantly results from the fact that the average gross margin generated on products delivered in 2017 was higher than on products delivered in 2016. At the same time a significant increase in ROE and ROA was noted in 2017 compared to 2016, which is a result of a net profit growth by 46% with a much lower growth in assets and equity (by 9% and 7%, respectively).

PROFITABILITY RATIOS	**2016**	**2015**
Operating profit margin *EBITDA / net sales revenue*	18.3%	14.1%
Net profit margin *Net profit / net sales revenue*	14.3%	11.0%
Return on assets (ROA) *Net profit / total assets*	8.6%	6.5%
Return on equity (ROE) *Net profit / shareholders' equity*	18.6%	13.7%

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 a very safe level in 2017. The only ratio that changed significantly in 2017 compared to 2016 was the quick ratio, which decreased to 0.69. This change resulted mainly from the liquidation of Fort Mokotów Inwestycje Sp. z o.o. and the reclassification of the cost of acquisition of that company from fixed assets to inventory and from the increase in the scale of operations and the recognition of apartments and retail units for which sale agreements have been signed as inventory until the date of handover of units to the buyers. The increase in the value of inventory is therefore a natural consequence of the increase in the scale of the Company's operations and does not constitute a threat to its liquidity.

The cash ratio also decreased significantly in 2017 as compared to the situation at the end of 2016, while still remaining at a very high level. The main reason for the decrease of this ratio from 1.11 to 0.53 is drop in cash and cash equivalents by 51%, resulting primarily from the acquisition of Euro Styl S.A. Capital Group by the Company for PLN 260 million out of its own funds, the considerable expenditures on land and the payment of PLN 126 million as a dividend. This was also the result of the policy implemented by the Company's Management Board, namely a deliberate reduction of cash reserves while maintaining the availability of overdraft; as at 31 December 2017, the undrawn and available lines of credit was PLN 150 million.

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	**2017**	**2016**
Current ratio *current assets / short-term liabilities less deferred income*	4.84	4.85
Quick ratio *current assets less inventory / short-term liabilities less deferred income*	0.69	1.20
Cash ratio *cash and cash equivalents, and bank deposits with a maturity of over 3 months / short-term liabilities less deferred income*	0.53	1.11

2.3.6 Leverage ratios

Appropriate operating policy (i.e. proper commencement and pace of projects as well as controlled purchases of land) and financing policy ensured that 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 2017 were similar to those at the end of 2016. They remain at an appropriate level for the business in the opinion of the Supervisory Board.

LEVERAGE RATIOS	2017	2016
Equity ratio *shareholders' equity / total assets*	46.3%	47.1%
Liabilities to equity ratio *total liabilities / shareholders' equity*	115.8%	112.5%
Liabilities to assets ratio *total liabilities / total assets*	53.7%	52.9%
Interest bearing debt to equity ratio *interest bearing liabilities (including accrued interest) / shareholders' equity*	36.2%	41.2%
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*	13.4%	(5.5)%

2.3.7 Summary and assessment

Based on the financial statements of Dom Development S.A. for the financial year 2017 and the Management Board's report of activities of the Company in the financial year 2017, the Supervisory Board is of the opinion that the year 2017 was a good year for Dom Development S.A. in the context of a very strong market.

In 2017, 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 2017 in a constructive economic environment, 2018 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 condition in the labour market or interest rate policy, which is expected to remain supportive, although there are regulatory headwinds and a pressure for an increase in the costs of construction, related to the shortage of workers and higher prices of building materials.

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 included:

- 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;
- 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 2017, the activities of the Company generated a significant profit as shown by the income statement.

Having analysed the financial statements for 2017 and the Management Board's report of activities of the Company in 2017, 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 2017, 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 2017 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 2017 AND THE MANAGEMENT BOARD'S REPORT OF ACTIVITIES OF DOM DEVELOPMENT S.A. CAPITAL GROUP IN 2017

3.1. Statutory auditor's report from the audit of annual consolidated financial statements of the Group for the financial year ended 31 December 2017

The Supervisory Board is pleased to note that the independent statutory auditor in its audit report issued an unqualified opinion on the annual consolidated financial statements of Dom Development S.A. Capital Group for the financial year ended 31 December 2017.

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 2017

As at 31 December 2017 the Group was controlled by Dom Development B.V. which held 57.34% 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 2017.

	Balance as at 31 December 2017			
	Shares	**% of capital**	**Number of votes at the GSM**	**% of votes at the GSM**
Dom Development B.V.	14 259 879	57,34	14 259 879	57,34
Jarosław Szanajca	1 454 050	5,85	1 454 050	5,85
Aviva Powszechne Towarzystwo Emerytalne Aviva BZ WBK SA *)	1 313 383	5,28	1 313 383	5,28
Grzegorz Kiełpsz	1 280 750	5,15	1 280 750	5,15

*) 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 2017

3.3.1 Consolidated balance sheet

Structure of the Group's assets as at 31 December 2017, and movements since the end of 2016.

ASSETS	31.12.2017 in thousand PLN	Share in assets	31.12.2016 in thousand PLN	Change 2017/2016
Total fixed assets	**30 785**	**1%**	**20 510**	**50%**
Current assets				
Inventory	1 989 052	83%	1 507 595	32%
Trade and other receivables	35 428	1%	9 347	279%
Other current assets	3 971	<1%	2 767	44%
Cash and cash equivalents and Short-term financial assets	331 159	14%	437 073	(24)%
Total current assets	**2 359 610**	**99%**	**1 956 782**	**21%**
Total assets	**2 390 395**	**100%**	**1 977 292**	**21%**

Structure of the Group's shareholders' equity and liabilities as at 31 December 2017, and movements since the end of 2016

EQUITY AND LIABILITIES	31.12.2017 in thousand PLN	Share in equity and liabilities	31.12.2016 in thousand PLN	Change 2017/2016
Shareholders' equity				
Share capital	24 868	1%	24 782	<1%
Share premium less treasury shares	238 388	10%	234 986	1%
Reserve and supplementary capitals, and accumulated unappropriated profit (loss)	739 003	31%	669 739	10%
Total shareholders' equity	**1 002 259**	42%	**929 507**	8%
Non-controlling interests	67	<1%	(46)	n/a
Total shareholders' equity	**1 002 326**	**42%**	**929 461**	**8%**
Liabilities				
Total long-term liabilities	410 701	17%	325 309	26%
Total short-term liabilities	977 368	41%	722 522	35%
Total liabilities	**1 388 069**	**58%**	**1 047 831**	**32%**
Total equity and liabilities	**2 390 395**	**100%**	**1 977 292**	**21%**

3.3.2 Consolidated income statement

Consolidated income statement of the Group for the year ended 31 December 2017 compared to 2016.

	01.01 -31.12.2017 in thousand PLN	sale %	01.01 -31.12.2016 in thousand PLN	Change 2017/2016
Sales revenue	1 404 683	100%	1 153 016	22%
Cost of sales	1 018 947	73%	881 944	16%
Gross profit on sales	385 736	27%	271 072	42%
Operating profit	235 392	17%	156 619	50%
Profit before tax	236 232	17%	155 900	52%
Net profit	**190 787**	**14%**	**125 783**	**52%**
Basic earnings per share (in PLN)	7.67		5.07	51%

3.3.3 Consolidated cash flow statement

	(in thousand PLN)		Change
	2017	2016	
Cash and cash equivalents – opening balance	414 310	221 640	87%
Net cash flow from operating activities	198 136	265 224	(25)%
Net cash flow from investing activities	(212 921)	(5 963)	n/a
Net cash flows from financing activities	(119 872)	(66 591)	n/a
Cash and cash equivalents – closing balance	279 653	414 310	(33)%

The year 2017 opened with a cash and cash equivalents balance of PLN 414 310 thousand and closed with a balance of PLN 279 653 thousand. Therefore, in the period from 1 January until 31 December 2017 the balance of cash dropped by PLN 134 657 thousand.

In 2017, the Group recorded a net inflow of cash from the operating activities in the amount of PLN 198 136 thousand. The key factor here was the increase in profit before tax by 52% from PLN 155 900 thousand to PLN 236 232 thousand. The increase in profit before tax resulted mainly from the increase in gross margin on sales, which was 27.5% in 2017, that is 4 percentage points higher than in 2016. The lower net cash flows from operating activities (i.e. by 25%) in comparison to the previous year resulted primarily from the effect of the recognition in 2016 of the acquisition of shares in Fort Mokotów Inwestycje Sp z o.o. (at the carrying amount of net investment of PLN 136 411 thousand) as cash outflows from investment activities rather than from operating activities. The purpose of the transaction was the acquisition by the Company of the perpetual usufruct to land in the Mokotów district of Warsaw, which after the winding up of Fort Mokotów Inwestycje Sp. z o.o. in 2017 were classified as inventory in the balance sheet of the Group. The lower than in the previous year net cash inflows from operating activities is also the outcome of the considerable purchases of land by the Group in 2017.

In 2017, the Company recognised net cash outflows from investment activities in the amount of PLN 212 921 thousand. This is mainly due to the acquisition of Euro Styl S.A. Capital Group, at the carrying amount of net investment of PLN 265 473 thousand.

In 2017, the Group recorded a net cash outflow from the financing activities in the amount of PLN 119 872 thousand. The excess of financial outflow over the inflow is mainly due to the dividend distributed by the Company in the amount of PLN 125 586 thousand.

3.3.4 Profitability ratios

The operating profit margin and net profit margin in 2017 have improved compared to the previous year. This predominantly results from the fact that the average gross margin generated on products delivered in 2017 was higher than on products delivered in 2016. At the same time a significant increase in ROE and ROA was noted in 2017 compared to 2016, which is a result of a net profit growth by 52% with a much lower growth in assets and equity (by 21% and 8%, respectively).

PROFITABILITY RATIOS	2017	2016
Operating profit margin EBITDA / net sales revenue	17.3%	14.1%
Net profit margin net profit / net sales revenue	13.6%	10.9%
Return on assets (ROA) net profit / total assets	8.0%	6.4%
Return on equity (ROE) net profit / shareholders' equity	19.0%	13.5%

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 a very safe level in 2017. The quick ratio and cash ratio also decreased significantly in 2017 as compared to the situation at the end of 2016. The decrease in the quick ratio resulted primarily from the increase in the Group's inventory, resulting from the increase in the scale of operations and the recognition of apartments and retail units for which sale agreements have been signed as inventory until the date of handover of a unit to the buyers. The increase in the value of inventory is therefore a natural consequence of considerable increase in the scale of the Group's operations and does not constitute a threat to its liquidity.

The main reason for the decrease of cash ratio from 1.11 to 0.68 is drop in cash and cash equivalents by 33%, resulting primarily from the acquisition of Euro Styl S.A. Capital Group by the Company for PLN 260 million out of its own funds, the considerable expenditures on land and PLN 126 million appropriated for a dividend. This was also the result of the policy implemented by the Company's Management Board, namely a deliberate reduction of cash reserves while maintaining the availability of overdraft; as at 31 December 2017, the undrawn and available lines of credit was PLN 150 million.

It should however be noted that they are still at the very secure level, which in the context of the acquisition of Euro Styl S.A. Capital Group in 2017 is a significant achievement.

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	**2017**	**2016**
Current ratio *current assets / short-term liabilities less deferred income*	5.77	5.24
Quick ratio *current assets less inventory / short-term liabilities less deferred income*	0.91	1.20
Cash ratio *cash and cash equivalents, and bank deposits with a maturity of over 3 months / short-term liabilities less deferred income*	0.68	1.11

3.3.6 Leverage ratios

Appropriate operating policy (i.e. proper commencement and pace of projects as well as controlled purchases of land) and financing policy ensured that 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 2017 were similar to those at the end of 2016. They remain at an appropriate level for the business in the opinion of the Supervisory Board.

LEVERAGE RATIOS	2017	2016
Equity ratio *shareholders' equity / total assets*	41.9%	47.0%
Liabilities to equity ratio *total liabilities / shareholders' equity*	138.5%	112.7%
Liabilities to assets ratio *total liabilities / total assets*	58.1%	53.0%
Interest bearing debt to equity ratio *interest bearing liabilities (including accrued interest) / shareholders' equity*	39.5%	41.3%
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*	6.5%	(6.0)%

3.3.7 Summary and assessment

Based on the consolidated financial statements of the Group for the financial year 2017 and the Management Board's report of activities of the Group in the financial year 2017, the Supervisory Board is of the opinion that the year 2017 was a good year for Dom Development S.A. Capital Group in the context of a very strong market.

In 2017, 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 of Dom Development S.A. 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 2017 in a constructive economic environment, 2018 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 condition in the labour market or interest rate policy, which is expected to remain supportive, although there are regulatory headwinds and a pressure for an increase in the costs of construction, related to the shortage of workers and an higher prices of building materials.

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 included:

- ensuring that adequate sources of finance are available to the Group, both for current and future development projects;
- geographical diversification of activities of the Group through the development of Euro Styl S.A. Capital Group operating in the Tricity and its vicinity and Dom Development Wrocław Sp. z o.o.;
- 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;
- 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 2017, the activities of the Group generated a significant profit as shown by the income statement.

Having analysed the consolidated financial statements for 2017 and the Management Board's report of activities of the Company in 2017, 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 2017 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 2017 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 7 March 2018, the Management Board of Dom Development S.A. adopted resolution no. 01/03/18 on the Management Board's proposal concerning the distribution of the Dom Development S.A. net profit for 2017 and the appropriation of a portion of the supplementary capital for payment of a dividend. According to this resolution the Management Board proposes that the aggregate amount of PLN 189 760 007.20 (in words: one hundred and eighty-nine million seven hundred and sixty thousand seven Polish zlotys and 20/100) be appropriated for payment of a dividend to the shareholders in Dom Development S.A., as follows:

- the Dom Development S.A. net profit for the year ended 31 December 2017 in the amount of PLN 186 112 545.02 (in words: one hundred and eight-nine million one hundred and twelve thousand five hundred and forty-five Polish zlotys and 02/100); and
- a portion of the Dom Development S.A. supplementary capital being the profit carried forward in the amount of PLN 3 647 462.18 (in words: three million six hundred and forty-seven thousand four hundred and sixty-two Polish zlotys and 18/100),

that is PLN 7.60 (in words: seven Polish zlotys and 60/100) per each share.

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 2017 and having familiarised itself with the statutory auditor's report from the audit of consolidated financial statements and clarifications by the statutory 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 Ordinary General Shareholders' Meeting of Dom Development S.A. approves:

- Financial statements for the year ended on 31 December 2017;
- Management Board's report of activities of Dom Development S.A. in 2017;
- Consolidated financial statements of Dom Development S.A. Capital Group for the year ended on 31 December 2017;
- Management Board's Report of activities of Dom Development S.A. Capital Group in 2017,

and issues a positive opinion on the Management Board's proposal on the appropriation of profit for 2017 and recommends that the General Shareholders' Meeting adopts such resolution as proposed by the Management Board of Dom Development S.A. in resolutions no. 01/03/18 dated 7 March 2018 and no. 06/03/18 dated 29 March 2018.