



DOM DEVELOPMENT S.A.

FINANCIAL STATEMENTS FOR THE YEAR ENDED

31 DECEMBER 2017

Prepared in accordance
with the International Financial Reporting Standards



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1. APPROVAL OF THE FINANCIAL STATEMENTS BY THE MANAGEMENT BOARD OF THE COMPANY

These financial statements for the year ended on 31 December 2017, comprising:

- 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 twelve-month period ended 31 December 2017 with a net profit of PLN 186 113 thousand;
- statement of comprehensive income for the twelve-month period ended 31 December 2017 with a total net comprehensive income of PLN 185 882 thousand;
- cash flow statement for the twelve-month period ended 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 twelve-month period ended 31 December 2017 with the PLN 999 320 thousand shareholders' equity as at 31 December 2017;
- additional notes to the financial statements

were prepared and approved by the Management Board of the Company on 6 March 2018.

Jarosław Szanajca,
President of the Management Board

Janusz Zalewski,
Vice President of the Management Board

Małgorzata Kolarska,
Vice President of the Management Board

Terry R. Roydon,
Member of the Management Board



2. BALANCE SHEET

ASSETS	Note	31.12.2017	31.12.2016
Fixed assets			
Intangible assets	7.6	3 988	3 923
Tangible fixed assets	7.7	7 857	6 973
Investments in subsidiaries, associates and jointly controlled entities	7.9	305 785	151 108
Long-term receivables	7.10	1 538	1 523
Other long-term assets		6 757	7 413
Total fixed assets		325 925	170 940
Current assets			
Inventory	7.11	1 571 308	1 360 371
Trade and other receivables	7.12	29 506	9 231
Other current assets	7.13	2 931	2 612
Short-term financial assets	7.14	25 199	22 763
Cash and cash equivalents	7.15	202 083	412 335
Total current assets		1 831 027	1 807 312
Total assets		2 156 952	1 978 252

EQUITY AND LIABILITIES	Note	31.12.2017	31.12.2016
Shareholders' equity			
Share capital	7.16	24 868	24 782
Share premium	7.17	238 388	234 986
Other capital (supplementary capital)		549 257	542 696
Reserve capital from valuation of cash flow hedges		184	415
Reserve capital from reduction of share capital		510	510
Unappropriated profit		186 113	127 740
Total shareholders' equity		999 320	931 129
Liabilities			
Long-term liabilities			
Loans, long-term portion	7.20	-	-
Bonds, long-term portion	7.21	260 000	260 000
Deferred tax provision	7.23	28 958	17 023
Long-term provisions	7.24	14 224	14 346
Other long-term liabilities	7.25	53 202	34 369
Total long-term liabilities		356 384	325 738
Short-term liabilities			
Trade payables, tax and other liabilities	7.26	244 745	219 827
Loans, short-term portion	7.20	50 000	-
Bonds, short-term portion	7.21	50 000	120 000
Accrued interest on loans and bonds	7.22	1 368	3 897
Corporate income tax payables	7.33	25 200	23 057
Short-term provisions	7.27	6 816	5 546
Deferred income	7.28	423 119	349 058
Total short-term liabilities		801 248	721 385
Total liabilities		1 157 632	1 047 123
Total equity and liabilities		2 156 952	1 978 252



3. INCOME STATEMENT

	Note	Year ended	
		31.12.2017	31.12.2016
Sales revenue	7.35	1 298 718	1 161 973
Cost of sales	7.36	(937 061)	(890 824)
Gross profit on sales		361 657	271 149
Selling costs	7.36	(56 174)	(47 389)
General administrative expenses	7.36	(61 466)	(57 500)
Other operating income	7.38	1 084	3 290
Other operating expenses	7.39	(13 946)	(10 581)
Operating profit		231 155	158 969
Financial income	7.40	2 634	2 430
Financial costs	7.41	(1 865)	(3 172)
Profit before tax		231 924	158 227
Income tax	7.33	(45 811)	(30 487)
Net profit		186 113	127 740
Earnings per share:			
Basic (PLN)	7.32	7.48	5.16
Diluted (PLN)	7.32	7.48	5.15



4. STATEMENT OF COMPREHENSIVE INCOME

	Year ended	
	31.12.2017	31.12.2016
Net profit	186 113	127 740
Other comprehensive income		
Net change to cash flow hedges	(285)	411
Income tax	54	(78)
Other net comprehensive income	(231)	333
Total net comprehensive income	185 882	128 073



5. CASH FLOW STATEMENT

	Note	Year ended	
		31.12.2017	31.12.2016
Cash flow from operating activities			
Profit before tax		231 924	158 227
Adjustments:			
Depreciation		6 031	5 396
(Profit)/loss on foreign exchange differences		11	20
(Profit)/loss on investments		826	(28)
Interest cost/(income)		12 687	17 665
Share options valuation		4 406	-
Changes in the operating capital			
Changes in provisions		1 148	1 425
Changes in inventory		(76 179)	112 997
Changes in receivables		(20 289)	18 442
Changes in short-term liabilities, excluding loans and bonds		43 708	13 872
Changes in prepayments and deferred income		74 679	113 616
Other adjustments		(11)	(20)
Cash flow generated from operating activities		278 941	441 612
Interest received		3 341	3 636
Interest paid		(14 249)	(15 639)
Income tax paid		(31 679)	(11 699)
Net cash flow from operating activities		236 354	417 910
Cash flow from investing activities			
Cash flow from investing activities		-	200
Proceeds from the sale of intangible assets and tangible fixed assets		164	428
Proceeds from borrowings granted		205	210
Other income from financial assets		118	-
Acquisition of intangible and tangible fixed assets		(6 492)	(5 765)
Acquisition of financial assets		(295 015)	(151 258)
Net cash flow from investing activities		(301 020)	(156 185)
Cash flows from financing activities			
Proceeds from issue of shares (exercise of share options)		-	3 952
Proceeds from contracted loans	7.20	155 000	100 000
Commercial papers issued	7.21	50 000	110 000
Repayment of loans and borrowings	7.20	(105 000)	(200 000)
Redemption of commercial papers	7.21	(120 000)	-
Dividends paid	7.19	(125 586)	(80 543)
Net cash flow from financing activities		(145 586)	(66 591)
Increase / (decrease) in net cash and cash equivalents		(210 252)	195 134
Cash and cash equivalents – opening balance	7.15	412 335	217 201
Cash and cash equivalents – closing balance	7.15	202 083	412 335



Dom Development S.A.

Statement of changes in shareholders' equity for the year ended 31 December 2017
(all amounts in thousands PLN unless stated otherwise)

6. STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

	Share capital	Share premium less treasury shares	Other capital (supplementary capital)	Reserve capital			Accumulated, unappropriated profit/(loss)	Total shareholders' equity
				from reduction of share capital	from valuation of cash flow hedges	from valuation of share options		
Balance as at 1 January 2017	24 782	234 986	542 696	510	415	-	127 740	931 129
Share capital increase by exercising share options (note 7.16 and 7.17)	86	3 402	-	-	-	-	-	3 488
Profit transfer to supplementary capital (note 7.19)	-	-	2 155	-	-	-	(2 155)	-
Dividends to shareholders (note 7.19)	-	-	-	-	-	-	(125 585)	(125 585)
Options (note 7.44)	-	-	4 406	-	-	-	-	4 406
Net profit for the reporting period	-	-	-	-	-	-	186 113	186 113
Other net comprehensive income for the reporting period	-	-	-	-	(231)	-	-	(231)
Balance as at 31 December 2017	24 868	238 388	549 257	510	184	-	186 113	999 320

	Share capital	Share premium less treasury shares	Other capital (supplementary capital)	Reserve capital			Accumulated, unappropriated profit/(loss)	Total shareholders' equity
				from reduction of share capital	from valuation of cash flow hedges	from valuation of share options		
Balance as at 1 January 2016	24 771	234 534	517 466	510	82	25 126	80 647	883 136
Share capital increase by exercising share options	11	452	-	-	-	-	-	463
Transfer of profit to supplementary capital	-	-	104	-	-	-	(104)	-
Payment of dividends to shareholders	-	-	-	-	-	-	(80 543)	(80 543)
Transfer of reserve capital from the valuation of the share options	-	-	25 126	-	-	(25 126)	-	-
Net profit for the reporting period	-	-	-	-	-	-	127 740	127 740
Other net comprehensive income for the reporting period	-	-	-	-	333	-	-	333
Balance as at 31 December 2016	24 782	234 986	542 696	510	415	-	127 740	931 129



7. ADDITIONAL NOTES TO THE FINANCIAL STATEMENTS

7.1. General information about Dom Development S.A.

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

According to the Polish Classification of Business Activity the Company's scope of activity is the development of building projects – PKD 4110Z (NACE F41.1). The Company conducts its activities mainly in Warsaw and its vicinity.

The Company is a majority-owned subsidiary of Dom Development B.V. with its registered office in the Netherlands. As at 31 December 2017, Dom Development B.V. controlled 57.34% of the Company's shares and was a parent company for Dom Development S.A.

The main area of activity of the Company is the construction and sale of residential real estate.

The Company conducts its activities in the territory of Poland in compliance with the Code of Commercial Companies and Partnerships and its term of operations is unlimited.

In the twelve-month period ended 31 December 2017 the Company did not discontinue any of its activities.

7.2. Basis for the preparing of the financial statements

These financial statements have been prepared on a historical cost basis.

The financial statements have been prepared on the assumption that the Company will continue as a going concern in the foreseeable future. No circumstances that would indicate that there is a threat to the continued activity of the Company are known as at the date of the approval of these financial statements.

The Polish zloty is the functional currency for the Company. These financial statements are stated in Polish zloty (PLN). Financial data included in the financial statements are expressed in thousands of PLN unless stated otherwise.

The Company has also prepared consolidated financial statements for Dom Development S.A. Capital Group for the twelve-month period ended 31 December 2017. These statements were approved by the Management Board of the Company on 6 March 2018.

7.3. Compliance statement

Polish law requires the Company to prepare its financial statements in accordance with the International Financial Accounting Standards (IFRS) adopted by the European Union (EU). Having considered the process of IFRS introduction that takes place in the EU and the activities of the Company, in the context of accounting policies applied by the Company there are no differences in IFRS that have been put into force and IFRS that have been endorsed by the EU for the financial year ended 31 December 2017.

These financial statements were prepared in accordance with all applicable IFRSs that have been adopted by the European Union.

IFRSs comprise standards and interpretations approved by the International Accounting Standards Board ("IASB") and the International Financial Reporting Interpretations Committee ("IFRIC").



These financial statements are prepared based on the same accounting principles (policies) as for the financial statements of the Company for the year ended 31 December 2016, except for the following amendments to existing standards and new interpretations that are effective for annual periods beginning on 1 January 2017:

- Amendments to IAS 12 *Recognition of deferred tax assets for unrealised losses* (published on 19 January 2016),
- Amendments to IAS 7 *Disclosure Initiative* (published on 29 January 2016).
- Amendments to IFRS 12 that are a part of improvements resulting from IFRS reviews 2014-2016 (published on 8 December 2016).

The introduced amendments and new standards were scrutinized by the Company and they do not materially affect the Company's financial position, operating results or the scope of information presented in these financial statements.

The following standards and interpretations issued by the International Accounting Standards Board or the International Financial Reporting Interpretation Committee that have not come into force:

- IFRS 9 *Financial Instruments* (published on 24 July 2014) – effective for annual periods beginning on or after 1 January 2018,
- IFRS 14 *Regulatory Deferral Accounts* (published on 30 January 2014) – the European Commission decided not to propose an interim standard for endorsement before the final standard is released – not endorsed by the EU until the date of approval of these financial statements – effective for annual periods beginning on or after 1 January 2016,
- IFRS 15 *Revenue from Contracts with Customers* (published on 28 May 2014) to include amendments to IFRS 15 Effective Date of IFRS 15 (published on 11 September 2015) – effective for annual periods beginning on or after 1 January 2018,
- Amendments to IFRS 10 and IAS 28 *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture* (published on 11 September 2014) – endorsement of these amendments have been deferred indefinitely by the EU – effective date deferred indefinitely by IASB,
- IFRS 16 *Leases* (published on 13 January 2016) – not endorsed by the EU until the date of approval of these financial statements – effective for annual periods beginning on or after 1 January 2019,
- Amendments to IFRS 4 *Application of IFRS 9 Financial Instruments with IFRS 4 Insurance contracts* (published on 12 September 2016) – effective for annual periods beginning on or after 1 January 2018,
- Clarifications to IFRS 15 *Revenue from Contracts with Customers* (published on 12 April 2016) – effective for annual periods beginning on or after 1 January 2018,
- Amendments to IFRS 2 *Classification and Measurement of Share-based Payment Transactions* (published on 20 June 2016) – effective for annual periods beginning on or after 1 January 2018.
- Amendments to IAS 28 *Investments in Associates and Joint Ventures* that are a part of improvements resulting from IFRS reviews 2014-2016 (published on 8 December 2016) – effective for annual periods beginning on or after 1 January 2018,
- Amendment to IFRS 1 *First-time Adoption of International Financial Reporting Standards* as part of improvements resulting from IFRS reviews 2014-2016 (published on 8 December 2016) – effective for annual periods beginning on or after 1 January 2018,
- Interpretation IFRIC 22 *Foreign Currency Transactions and Advance Consideration* (published on 8 December 2016) – not endorsed by the EU until the date of approval of these financial statements – effective for annual periods beginning on or after 1 January 2018,
- Amendments to IAS 40: *Transfer of Investment Property* (published on 8 December 2016) – not endorsed by the EU until the date of approval of these financial statements – effective for annual periods beginning on or after 1 January 2018,
- IFRS 17 *Insurance Contracts* (published on 18 May 2017) – not endorsed by the EU until the date of approval of these financial statements – effective for annual periods beginning on or after 1 January 2021,
- IFRIC 23 *Uncertainty over Income Tax Treatments* (published on 7 June 2017) – not endorsed by the EU until the date of approval of these financial statements – effective for annual periods beginning on or after 1 January 2019,
- Amendments to IFRS 9 *Revenue from Contracts with Customers* (published on 12 October 2017) – not endorsed by the EU until the date of approval of these financial statements – effective for annual periods beginning on or after 1 January 2019,



- Amendments to IAS 28 *Investments in Associates and Joint Ventures* (published on 12 October 2017) – not endorsed by the EU until the date of approval of these financial statements – effective for annual periods beginning on or after 1 January 2019,
- Improvements resulting IFRS reviews 2015-2017 (published on 12 December 2017) – not endorsed by the EU until the date of approval of these financial statements – effective for annual periods beginning on or after 1 January 2019,
- Amendments to IAS 19 *Plan Amendment, Curtailment or Settlement* (published on 7 February 2018) – not endorsed by the EU until the date of approval of these financial statements – effective for annual periods beginning on or after 1 January 2019.

The Management Board is verifying effect of the above standards on the Company's financial position, operating results or the scope of information presented in the Company's financial statements and no significant changes are expected.

As concerning changes to IFRS 15 *Revenue from Contracts with Customers*, the Management Board has analysed the impact of this standard on the financial situation, the operational results of the Group and the scope of information presented in the financial statements. The above analysis covered chiefly the moment of recognition of revenue from sales of goods (specifically residential units, retail premises or parking spaces). Based on the said analysis, the Management Board does not expect any material changes.

In relation to the amendments to IFRS 9 Financial Instruments, these amendments, in the opinion of the Management Board, will have an impact on the measurement of receivables, cash and cash equivalents and short-term financial assets. Having completed analyses, the Management Board does not expect any material effect of these changes the Company's financial position, operating results or the scope of information presented in the Company's financial statements.

7.4. Significant accounting policies

Investments in subsidiaries, associates and jointly controlled entities

Shares in subsidiaries, associates and jointly controlled entities are stated at historical acquisition cost less impairment write downs.

Tangible fixed assets

All tangible fixed assets are stated at purchase price less accumulated depreciation (except for land), less accumulated impairment write downs. Replacement cost of existing parts of a tangible fixed asset can be capitalised, if material. Depreciation is calculated on straight-line basis over the useful life of the asset. Depreciation rates for buildings and structures range from 2.5% to 4.5%, for vehicles the rate applied is 20% and for other fixed assets from 10% to 30%.

Inventory

Finished goods

Finished goods represent mainly housing units and parking places. They are valued at the lower of either the cost or net realizable value.

The net realisable value is the estimated sales price evaluated by the Management Board based on market prices.

Work in progress

Work in progress is valued at the lower of either the purchase price/cost of production or net realisable value. In case of discrepancies an impairment write down is made. For the Company's real estate development projects, assessment of the need for impairment write down is determined using the "inventory impairment test" described below based on the analysis of production costs and net realisable value.



Inventory impairment test:

If a development project is expected to generate a loss, this entails a revaluation write down of work in progress, which is immediately recognised in the income statement. The write down may also relate to the property, for which an inherent risk of postponement is associated with the development process.

For each real estate development project there are budgets prepared, which cover both, past and future cash flows for each undertaken project. These budgets are subject to revaluation at least once every three months. For the purposes of impairment review, budgets of projects cover all past and projected net revenues less direct costs of land acquisition, design, construction and other costs related to the preparation of a project, show-flats and sales offices on-site. These budgets are also encumbered with related past and projected costs of external financing and projected claims from customers (if applicable).

The budgets of projects are prepared in compliance with the prudence principle.

If a project contribution, calculated taking into account all revenues and the above-mentioned costs, is positive, there is no need to make an inventory impairment revaluation write down. A negative contribution implies that there is a potential problem of impairment, which, following a thorough analysis of cash flows for a given project, results in the recording of an impairment revaluation write down in the amount of the estimated negative value of this contribution.

The revaluation write down is recognized as the cost of sales in "Inventory write down to the net realisable value". The reversal, if any, of such an impairment write down for a given project is possible if the projected contribution for this project assumes a positive value.

If the project consists of several stages, the inventory impairment review is conducted in the following manner:

- a) all future phases of the project are treated as a single project for the purposes of impairment review,
- b) each phase of the project, in which sales and construction have already begun, is separated from the rest of the (construction) project and is considered separately for the purposes of impairment review.

Costs of external financing

Costs of external financing are disclosed as costs in the income statement in the period, in which they were incurred, except for capitalized costs, i.e. costs that may be assigned to costs of production of qualifying assets (in the case of the Company: to work-in-progress) as a part of their production costs.

The financial costs are capitalized into work-in-progress exclusively in the period, during which the real estate development project is active. The project is considered active if designing or construction work is underway for the acquired land and during the process of obtaining key administrative decisions necessary to run the project.

The financial costs cease to be capitalized upon completion of substantially all activities, which have to be undertaken in order to prepare flats for hand-over to customers.

The capitalization of financial costs is suspended in the case of suspension of activities connected with the project-related investment activity, including works related to design, the construction process and obtaining required permits and administrative decisions concerning the project.

Trade and other receivables

Trade receivables are recognised and disclosed at original invoice amounts less provision for bad debts. Revaluation write down for doubtful debt is estimated when it is unlikely to collect the full amount of a receivable.

If the effect of the time value of money is material, the value of receivables is determined by discounting the estimated future cash flows to present value. Where discounting is used, any increase in the balance due to the passage of time is recognized as financial income.



Bank deposits with a maturity over three months

Bank deposits with a maturity over three months (as of the date when they are made) are presented in "Short-term financial assets".

Cash and cash equivalents

Cash and short-term deposits with the maturity of up to three months (when created) are disclosed in the balance sheet at a nominal value and comprise cash at banks, in hand and short-term deposits with an original maturity of three months or less. For the purpose of the cash flow statement, the balance of cash and cash equivalents consist of cash and cash equivalents as defined above less outstanding bank overdrafts.

Interest-bearing loans, borrowings and commercial papers

All loans, borrowings and commercial papers are initially recognized at the fair value less transaction costs associated with the loans or borrowings.

After initial recognition, interest-bearing loans, borrowings and commercial papers are subsequently valued at amortised cost, using the effective interest rate method.

Amortised cost is calculated by taking into account any transaction costs for loan or borrowing, and any discount or premium related to raising the funds.

Trade payables, tax and other liabilities

Short-term trade payables, and tax and other liabilities are disclosed at the amount due and payable.

If the effect of the time value of money is material (in particular it relates to the guarantee retentions), the value of payables is determined by discounting the estimated future cash flows to present value. Where discounting is used, any decrease in the balance due to the passage of time is recognized as financial cost.

Provisions

Provisions are created when the Company has a present obligation (legal or constructive) as a result of a past event, and if it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The expense relating to any provision is disclosed in the income statement net of any reimbursement.

Revenue recognition

Revenue is recognised to the extent that it is probable that the Company will achieve economic benefits from a given transaction and the revenue can be reliably measured. The following specific recognition criteria must be met before revenue is recognised:

Sale of products

The revenue from the sale of real estate (housing units, commercial space, etc.) – pursuant to the guidelines included in IFRIC 15 "Agreements for the Construction of Real Estate" - is recognised at the moment when control over the real estate is transferred to the buyer of said real estate together with the transfer of significant risks and rewards typical to the ownership rights. According to the Company's judgement this occurs at the moment of handover of the real estate to the buyer, which is based on a handover document signed by both parties and subject to the condition that the buyer has made 100% payment of the sale price for the real estate.

Sale of services

The revenue from the sale of services, including income from housing real estate administration fees, is recognized within the period, in which a service is provided.

Foreign currency translation

The financial statements are presented in PLN, which is the Company's functional (for measurement) and presentation currency. Transactions in foreign currencies are initially recorded at the exchange rate of the functional currency at the



date of the transaction. Pecuniary assets and liabilities in foreign currencies are translated at the exchange rate of the functional currency applicable on the balance sheet date. The exchange rate differences are recognised in the income statement as financial income/cost.

Taxes

Current tax

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those applicable as at the balance sheet date.

Deferred tax

For financial reporting purposes, the deferred tax is calculated by the method of the balance sheet liabilities in relation to the timing differences as at the balance sheet date between the tax value of assets and liabilities and their carrying value recognized in the financial statements.

Deferred tax assets are recognised with regards to all negative timing differences, carry-forward of unused tax credits and unused tax losses to the extent that it is probable that the taxable profit will be available against which the deductible timing differences and the carry-forward of unused tax credits and unused tax losses, can be utilised.

The carrying value of a deferred tax asset is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be realised. An unrecognised deferred tax asset is reassessed at each balance sheet date and is recognised to the extent that it reflects the probability that future taxable profit will allow the deferred tax asset to be recovered.

The provision for deferred tax is created in the amount of the income tax that will be payable in future due to positive timing differences, i.e. the differences that will increase the taxable base in the future.

The assets and provisions for deferred tax are valued at the tax rates that are expected to be applicable to the year when the asset component is realised or the provision is released, assuming as the basis the tax rates (and tax regulations) that are legally or actually applicable as at the balance sheet date.

The income tax for the items recognised outside of the income statement is recognised outside of the income statement, that is in other comprehensive income for items recognised as other comprehensive income or directly in the shareholders' equity for items recognised as the shareholders' equity.

The assets and provisions for deferred tax are offset by the Company only if a legally enforceable right exists to offset the current tax assets against current tax liabilities and the deferred tax relates to the same taxable entity and the same taxation authority.

Dividends

Dividends are recognised when the shareholders' rights to receive the payment are established.

Earnings per share

Earnings per share for each reporting period is calculated as the quotient of the net profit for the given accounting period and the weighted average of shares in that period.

7.5. Key figures based on professional judgement and basis for estimates

In addition to the accounting estimations, when applying the accounting policies in relation to the issues described below, the most significant was the professional judgement and the assumptions made by the management.



Budgets of the construction projects

The decision to purchase real estate (land) is based upon analysis, where the so called "purchase budget" is the major component. This budget is prepared to assess the future profitability of projects. The budgets for these construction projects are updated based on management's best knowledge and experience from when the real estate is purchased. The budgets for all construction projects are verified and updated when necessary, at least once every three months. Updated project budgets are the basis for:

- verification of their profitability and any potential inventory impairment write down,
- preparation of financial forecasts, annual budgets and medium term plans.

Recognition of revenue from the sale of products

The revenue from the sale of real estate (housing units, commercial space, etc.) is recognised at the moment when control over the real estate is transferred to the buyer of said real estate together with the transfer of significant risks and rewards typical to the ownership rights. According to the Company's judgement this occurs at the moment of handover of the real estate to the buyer, which is based on a handover document signed by both parties and subject to the condition that the buyer has made 100% payment of the sale price for the real estate.

7.6. Intangible assets

	Other intangible assets	Computer software	Total
GROSS VALUE			
Balance as at 1 January 2016	6 029	4 821	10 850
Increments	2 662	671	3 333
(Disposals)	(45)	-	(45)
Balance as at 31 December 2016	8 646	5 492	14 138
Increments	2 484	970	3 454
(Disposals)	-	(1 335)	(1 335)
Balance as at 31 December 2017	11 130	5 127	16 257
DEPRECIATION			
Balance as at 1 January 2016	3 519	3 827	7 346
Increments	2 175	732	2 907
(Disposals)	(38)	-	(38)
Balance as at 31 December 2016	5 656	4 559	10 215
Increments	2 602	787	3 389
(Disposals)	-	(1 335)	(1 335)
Balance as at 31 December 2017	8 258	4 011	12 269
NET VALUE			
as at 31 December 2016	2 990	933	3 923
as at 31 December 2017	2 872	1 116	3 988

Intangible assets are depreciated throughout their estimated economic useful lives, which for computer software is 2-3 years on average. There are no intangible assets with an undefined useful life.

As at 31 December 2017 there were no circumstances that would require the Company to create revaluation write downs for its intangible assets.

The costs of depreciating intangible assets were disclosed in selling costs and general administrative expenses.

No collaterals have been established on intangible assets.



7.7. Tangible fixed assets

TANGIBLE FIXED ASSETS	31.12.2017	31.12.2016
Tangible fixed assets, including:		
- plants and equipment	865	734
- vehicles	4 510	3 913
- other tangible fixed assets	2 482	2 326
Total tangible fixed assets	7 857	6 973

TANGIBLE FIXED ASSETS	Land and buildings	Vehicles	Equipment and other tangible fixed assets	Total
GROSS VALUE				
Balance as at 1 January 2016	-	8 057	8 508	16 565
Increments	-	1 398	1 376	2 774
(Disposals)	-	(1 301)	(742)	(2 043)
Balance as at 31 December 2016	-	8 154	9 142	17 296
Increments	-	1 968	2 092	4 060
(Disposals)	-	(519)	(3 319)	(3 838)
Balance as at 31 December 2017	-	9 603	7 915	17 518
ACCUMULATED DEPRECIATION				
Balance as at 1 January 2016	-	3 943	5 590	9 533
Increments	-	1 379	1 110	2 489
(Disposals)	-	(1 081)	(618)	(1 699)
Balance as at 31 December 2016	-	4 241	6 082	10 323
Increments	-	1 371	1 271	2 642
(Disposals)	-	(519)	(2 785)	(3 304)
Balance as at 31 December 2017	-	5 093	4 568	9 661
NET VALUE				
as at 31 December 2016	-	3 913	3 060	6 973
as at 31 December 2017	-	4 510	3 347	7 857

The additions to tangible fixed assets are the result of tangible fixed assets purchased.

As at 31 December 2017 there were no circumstances that would require the Company to create revaluation write downs for its tangible fixed assets.

No collaterals have been established on fixed assets.

All tangible fixed assets were owned by the Company on the balance sheet date.



7.8. Lease

As at the balance sheet date the Company is not a party (as a lessee) to lease agreements relating to fixed assets which are recorded in the books as financial lease.

The Company is a party to the lease agreement for office space and parking places for the purpose of its headquarters in Warsaw (operating lease). The agreement was entered into for a period of ten years and will expire on 31 March 2027. The rent is determined in Euro and is indexed on an annual basis by the Consumer Price Index.

7.9. Investments in subsidiaries, associates and jointly controlled entities

INTEREST IN SUBSIDIARIES, ASSOCIATES AND JOINTLY CONTROLLED ENTITIES	Status as at 31.12.2017				Status as at 31.12.2016			
	Company's interest (%)	Value of total investment	Value of impairment write down	Net investment carrying value	Company's interest (%)	Value of total investment	Value of impairment write down	Net investment carrying value
Fort Mokotów sp. z o.o. w likwidacji	49%	1 960	1 960	-	49%	1 960	1 960	-
Dom Development Grunty spółka z o.o.	46%	24	24	-	46%	24	24	-
Dom Development Morskie Oko sp. z o.o. w likwidacji	100%	50	-	50	100%	50	-	50
Dom Development Wrocław Sp. z o.o.	100%	39 447	-	39 447	100%	14 647	-	14 647
Fort Mokotów Inwestycje sp. z o.o. w likwidacji	-	-	-	-	100%	136 411	-	136 411
Dom Development Kredyty spółka z o.o.	100%	505	-	505	-	-	-	-
Mirabelle Investments sp. z o.o.	100%	58	-	58	-	-	-	-
Euro Styl S.A.	100%	265 473	-	265 473	-	-	-	-
Euro Styl Development spółka z o.o.	100%	252	-	252	-	-	-	-
Total		307 769	1 984	305 785		153 092	1 984	151 108

- Fort Mokotów sp. z o.o. w likwidacji (under liquidation)

The Company holds 49.00% of the share capital in Fort Mokotów sp. z o.o. w likwidacji (a joint venture). The nominal value of the shares owned by the Company in the joint venture is PLN 1 960 thousand and equals the historical amount paid for the shares less the share revaluation write down, namely PLN 1 960 thousand as at 31 December 2017 and as at 31 December 2016.

- Dom Development Grunty spółka z o.o.

The Company holds 46.00% shares in the share capital of Dom Development Grunty spółka z o.o. That is a company participating in property (land) transactions within the Group. The nominal value of the shares in this entity disclosed in the Company's balance sheet is PLN 24 thousand. Due to negative accumulated financial results presented by the company in the previous years and based on the Company's Management assessment, it was necessary to make revaluation write downs for the total value of the shares as at 31 December 2016 and 31 December 2017.



- Dom Development Morskie Oko sp. z o.o. w likwidacji (under liquidation)

The Company holds 100.00% of the share capital in Dom Development Morskie Oko spółka z o.o. w likwidacji. The nominal value of the shares owned by the Company in this entity is PLN 50 thousand and equals the historical amount paid for the shares. As at 31 December 2017 and 31 December 2016, the carrying value of these shares equals the purchase price paid.

- Dom Development Wrocław sp. z o.o.

This company was registered on 22 March 2016. On 9 March 2016, subscribed capital in the amount of PLN 4 000 thousand was paid up. All of the capital has been subscribed by Dom Development S.A.

In 2017, the Company has made repayable additional contributions to the share capital in the total amount of PLN 24 800 thousand. The aggregate value of such repayable additional contributions as at 31 December 2017 was PLN 35 445 thousand.

The scope of operations of this company involves real estate development projects in the Wrocław area.

Description of material changes in the period from 1 January until 31 December 2017

- Winding up of Fort Mokotów Inwestycje sp. z o.o. w likwidacji

On 28 July 2016, the Company purchased 100% of the shares in Fort Mokotów Inwestycje Sp. z o.o. (hereinafter "FMI") for PLN 129 353 thousand. Along with the purchase of shares the Company took up 4 250 newly issued shares with PLN 1 000 nominal value each, and paid them up in cash. These funds were almost entirely intended for the repayment of the loan of the company. Consequently, the Company indirectly acquired the perpetual usufruct right to the land in Warsaw owned by FMI.

On 19 May 2017, FMI was wound up, and as a result the perpetual usufruct right to the land and cash of FMI have been transferred to the Company.

Due to the nature of the said transaction, this purchase was disclosed in the consolidated financial statements of the Dom Development S.A. Capital Group as purchase of assets rather than purchase of an enterprise.

- Establishment of Dom Development Kredyty so. z o.o.

On 6 October 2017 Dom Development Kredyty sp. z o.o. (*a limited liability company*) was established, with 100% of shares held by Dom Development S.A. The share capital of this company is PLN 500 thousand and has been paid cash.

As scope of operations as defined in the articles of association of this newly established company is to provide credit intermediation services to financial institutions.

- Acquisition of Mirabelle Investments Sp. z o.o.

On 7 September 2017 a purchase agreement and transfer agreement concerning perpetual usufruct of real properties located in the Żoliborz District, Warsaw, where the Company intends to develop a multi-phase real estate project, were entered into by the Company and Acciona Nieruchomości Żoliborz sp. z o.o.

Moreover, as a result of the fulfilment of the conditions set out in the conditional share purchase agreement and conditional purchase agreement concerning rights in a real estate development project that were entered into by the Company on 27 July 2017 with respectively: Alicionak Spółka z ograniczoną odpowiedzialnością spółka komandytowa with its registered office in Warsaw and Fasby Bears Sociedad Limitada with its registered office in La Coruña, and Apricot Capital Group sp. z o.o. with its registered office in Warsaw and Mirabelle Investments Sp. z o.o. with its registered office in Warsaw, on 7 September 2017 the Company acquired 100% of shares in the share capital of the company under the business name of Mirabelle Investments Sp. z o.o. with its registered office in Warsaw and the copyrights to the project which may be developed on the above mentioned properties. Mirabelle Investments Sp. z o.o. is the addressee of administrative decisions and the party to the agreements required for the development of housing project on the above mentioned properties.

The shares in Mirabelle Investments Sp. z o.o. were acquired by the Company for PLN 58 thousand.



It is not the Company's intention to carry out operations through Mirabelle Investments Sp. z o.o., and the project on the said real estate is to be developed directly by Development S.A.

- Acquisition of Euro Styl Capital Group through the purchase of Euro Styl S.A. and Euro Styl Development sp. z o.o.

On 8 June 2017, the Company acquired 100% of the shares in Euro Styl S.A. with its registered office in Gdańsk for PLN 259 750 thousand and 100% of the shares in the share capital of Euro Styl Development sp. z o.o. with its registered office in Gdańsk for PLN 250 thousand from Forum IV fundusz inwestycyjny zamknięty (*closed-end investment fund*) with its registered office in Cracow (the "Transaction"). The entire price was paid in cash. As a result of the Transaction, Dom Development S.A. controls the Euro Styl S.A. Capital Group that is a residential developer in the market of Tricity and its vicinity. The composition of Euro Styl Group as of 31 December 2017 is presented in the table below:

Companies operating within the Euro Styl Group	Percentage share in the SPVs operating within the Euro Styl Group as at 31.12.2017	
	Euro Styl SA	Euro Styl Development spółka z o.o.
Euro Styl Construction Sp. z o.o.	100.00%	-
Euro Styl OLIWA PARK Sp. z o.o. (formerly Euro Styl Development Sp. z o.o. OLIWA PARK Sp.k.)	100.00%	-
Euro Styl MORSKIE Sp. z o.o. (formerly Euro Styl Development Sp. z o.o. MORSKIE Sp.k.)	100.00%	-
Euro Styl VIRIDIS Sp. z o.o. (formerly Euro Styl Development Sp. z o.o. VIRIDIS Sp.k.)	100.00%	-
Euro Styl ŻNIWNA Sp. z o.o. (formerly Euro Styl Development Sp. z o.o. ŻNIWNA Sp.k.)	100.00%	-
Euro Styl CYTRUSOWE Sp. z o.o. (formerly Euro Styl Development Sp. z o.o. CYTRUSOWE Sp.k.)	100.00%	-
Euro Styl SPEKTRUM Sp. z o.o. (formerly Euro Styl Development Sp. z o.o. SPEKTRUM Sp.k.)	100.00%	-
Euro Styl GAMMA Sp. z o.o. (formerly Euro Styl Development Sp. z o.o. GAMMA Sp.k.)	100.00%	-
Euro Styl Development Sp. z o.o. FUTURA PARK Sp.k. (formerly K&L sp. z o.o. Futura Park Sp.k.)	99.98%	0.02%
Euro Styl Development Sp. z o.o. KWARTET POLANKI Sp.k. (formerly K&L sp. z o.o. Kwartet Polanki Sp.k.)	99.975%	0.025%

The purpose of the acquisition for Dom Development S.A. Capital Group was to establish its presence in the Tricity market where the Euro Style Group operates, and ensure a significant increase in the consolidated revenues and profits of the Company.

The cost of this transaction in the amount of PLN 5 725 thousand has been accounted for in the balance sheet as investment in subsidiaries. Additional acquisition costs of PLN 1 824 thousand which were not incurred as a condition for the transactions (such as due diligence in many areas) has been recognized directly in the income statement as "other operating expenses".

7.10. Long-term receivables

As at 31 December 2017 and 31 December 2016, the Company disclosed long-term receivables in the amount of PLN 1 538 thousand and PLN 1 523 thousand respectively. As at 31 December 2017 the long-term receivables included refundable deposits in the amount of PLN 1 384 thousand and other long-term receivables amounting to PLN 154 thousand. As at 31 December 2016 the long-term receivables included refundable deposits in the amount of PLN 1 329 thousand and other long-term receivables amounting to PLN 194 thousand. All these receivables are denominated in PLN.

There is no need to create a write down revaluating the value of long-term receivables.



7.11. Inventory

INVENTORY	31.12.2017	31.12.2016
Advances on deliveries	67 999	40 046
including: at purchase prices/production costs	67 999	40 215
write down to the net realisable value	-	(169)
Semi-finished goods and work in progress	1 242 585	1 060 476
including: at purchase prices/production costs	1 274 549	1 082 276
write down to the net realisable value	(31 964)	(21 800)
Finished goods	260 724	259 849
including: at purchase prices/production costs	270 523	268 172
write down to the net realisable value	(9 799)	(8 323)
Total	1 571 308	1 360 371

INVENTORY REVALUATION WRITE DOWNS	01.01- - 31.12.2017	01.01- - 31.12.2016
Opening balance	30 292	16 760
Increments	15 573	15 744
Decrease	(4 102)	(2 212)
Closing balance	41 763	30 292

The value of inventory revaluation write downs have resulted from the impairment tests and analysis performed by the Company.

The methodology of inventory impairment reviews has been described in note 7.4 "Significant accounting policies".

CARRYING VALUE OF INVENTORY USED TO SECURE THE PAYMENT OF LIABILITIES AND VALUE OF THE MORTGAGES ESTABLISHED	31.12.2017	31.12.2016
Carrying value of inventory used to secure liabilities	352 500	300 000
Mortgages:		
Value of mortgages established to secure real estate purchase agreements	-	-
Value of mortgages established to secure loan agreements (cap)	352 500	300 000

Preparatory works

If there is no certainty as to the possibility of purchasing land for a potential project, the costs of preparatory works associated with the project are disclosed as costs in the Company's income statement during the period in which they occur. Remaining preparatory works are capitalised under work in progress.

The below table presents the cost of preparatory works recognised in the income statement.

	01.01- -31.12.2017	01.01- -31.12.2016
Preparatory works	399	992



7.12. Trade and other receivables

TRADE AND OTHER RECEIVABLES	31.12.2017	31.12.2016
Trade receivables	13 364	5 277
Receivables from related entities	1 000	171
Tax receivables	13 977	2 567
Other receivables	1 165	1 216
Total	29 506	9 231

The tax receivables incorporate VAT receivables in the amount of PLN 13 977 thousand and PLN 2 567 thousand as at 31 December 2017 and 31 December 2016 respectively.

The Company made receivables revaluation write downs, which have been disclosed under "Other operating costs".

The revaluation write downs have been made based on the Company's best knowledge and experience as well as analysis of particular balances.

AGING STRUCTURE OF TRADE RECEIVABLES	31.12.2017	31.12.2016
Up to 3 months	12 770	4 752
From 3 to 6 months	134	109
From 6 months to 1 year	262	235
Over 1 year	2 284	2 611
Gross trade receivables	15 450	7 707
Receivables revaluation write downs	(2 086)	(2 430)
Net trade receivables	13 364	5 277

The write downs fully relate to overdue trade receivables.

CHANGE IN THE WRITE DOWNS FOR TRADE AND OTHER RECEIVABLES	01.01- -31.12.2017	01.01- -31.12.2016
Opening balance	3 430	3 975
a) Additions	184	2
b) Disposals	(528)	(547)
Closing balance	3 086	3 430

The balance of revaluation write down as at 31 December 2017 included the write down for trade receivables in the amount of PLN 2 086 thousand and of receivables from related entities in the amount of PLN 1 000 thousand. As at 31 December 2016, such amounts were PLN 2 430 thousand and PLN 1 000 thousand, respectively.

As of the balance sheet dates there were no trade or other receivables in foreign currencies.

The costs and revenues associated with the creation and reversal of receivables revaluation write downs are recognised under other operating expenses or other operating income respectively.

7.13. Other current assets

OTHER CURRENT ASSETS	31.12.2017	31.12.2016
Deferred costs	2 812	1 995
Accrued financial income on deposits	119	617
Total	2 931	2 612



7.14. Short-term financial assets

SHORT-TERM FINANCIAL ASSETS	31.12.2017	31.12.2016
Bank deposits with a maturity over three months	49	49
Cash in open-end residential escrow accounts	25 150	21 483
Cash in other escrow accounts	-	1 231
Total	25 199	22 763

Bank deposits with a maturity over three months as of the date when they are made are presented in "Bank deposits with a maturity over three months".

The Company makes bank deposits with various maturity based on current analysis of cash needs and realizable rate of return on deposits offered by banks.

Cash received from the Company's customers as advances for the sale of products which is deposited in open-end residential escrow accounts until the relevant requirements specified in the "Act on the Protection of Rights of a Dwelling Unit or House Buyer" are met, is presented in "Cash in open-end residential escrow accounts".

7.15. Cash and cash equivalents

Cash and cash equivalents are represented by cash at bank and cash in hand, including short-term bank deposits with up to three months maturity on the date when they are made. The book value of these assets corresponds to their fair value.

CASH AND CASH EQUIVALENTS	31.12.2017	31.12.2016
Cash in hand and at bank	4 600	4 032
Short-term deposits	197 440	408 280
Other	43	23
Total	202 083	412 335

7.16. Share capital

Description of changes to the share capital in the Company in the period from 1 January until 31 December 2017

In the period from 1 January until 31 December 2017 the following change to the share capital in the Company took place:

Change in the reporting period	Share capital		Share premium
	Number of shares	Value at the nominal value	
Balance as at 31.12.2016	24 782 592	24 782	234 986
Change	85 830	86	3 402
Balance as at 31.12.2017	24 868 422	24 868	238 388

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 bearer shares as a part of the authorised capital from PLN 24 782 592 up to PLN 24 868 422, that is by PLN 85 830. The W series shares were issued in a private placement procedure addressed to participants in Management Share Option Programme 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.



The ordinary bearer shares were registered in the National Depository for Securities (Krajowy Depozyt Papierów Wartościowych S.A.; KDPW) and were introduced into trading in the regulated market under the standard procedure on 10 March 2017.

In the Company balance sheet as at 31 December 2016 these shares were not disclosed in the share capital, and the payments in the amount of PLN 3 488 thousand for the subscription of these shares were disclosed as "short-term liabilities".

SHARE CAPITAL (STRUCTURE) AS AT 31.12.2017

Series/ issue	Type of share	Type of preference	Limitation of right to shares	Number of shares	Nominal value of series/issue (PLN)	Capital covered with	Registration date	Right to dividends (from)
A	Bearer	-	-	21 344 490	21 344 490	cash	12.09.2006	12.09.2006
F	Bearer	-	-	2 705 882	2 705 882	cash	31.10.2006	31.10.2006
H	Bearer	-	-	172 200	172 200	cash	14.02.2007	14.02.2007
I	Bearer	-	-	92 700	92 700	cash	14.02.2007	14.02.2007
J	Bearer	-	-	96 750	96 750	cash	14.02.2007	14.02.2007
L	Bearer	-	-	148 200	148 200	cash	14.02.2007	14.02.2007
ł	Bearer	-	-	110 175	110 175	cash	12.03.2012	07.05.2012
M	Bearer	-	-	24 875	24 875	cash	03.10.2012	09.11.2012
N	Bearer	-	-	20 000	20 000	cash	03.10.2012	09.11.2012
O	Bearer	-	-	26 000	26 000	cash	05.03.2013	17.05.2013
P	Bearer	-	-	925	925	cash	31.10.2013	23.12.2013
R	Bearer	-	-	11 000	11 000	cash	31.10.2013	23.12.2013
S	Bearer	-	-	17 075	17 075	cash	20.03.2014	02.05.2014
T	Bearer	-	-	1 000	1 000	cash	14.01.2015	27.03.2015
U	Bearer	-	-	10 320	10 320	cash	17.05.2016	01.06.2016
V	Bearer	-	-	1 000	1 000	cash	17.05.2016	01.06.2016
W	Bearer	-	-	85 830	85 830	cash	10.01.2017	07.03.2017
Total number of shares				24 868 422				
Total share capital					24 868 422			
Nominal value per share = PLN 1								

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 31 December 2017.

Status 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 Kielpsz	1 280 750	5.15	1 280 750	5.15

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



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 31 December 2017.

Status as at 31 December 2017			
	Shares	Share options	Total
The Management Board			
Jarosław Szanajca	1 454 050	-	1 454 050
Małgorzata Kolarska *)	31 500	500 000	531 500
Janusz Zalewski	350 000	-	350 000
Janusz Stolarczyk **)	122 030	-	122 030
Terry Roydon	58 500	-	58 500
The Supervisory Board			
Grzegorz Kiełpsz	1 280 750	-	1 280 750
Mark Spiteri	900	-	900

*) details on options granted to Ms Małgorzata Kolarska under Management Option Programme IV have been described in note 7.44

**) Mr Janusz Stolarczyk ceased to serve as a Member of the Management Board of the Company on 31 December 2017 (see note 7.48)

7.17. Share premium

In the twelve-month period ended 31 December 2017, the value of the item "Share premium" changed by PLN 3 402 thousand as a result of the increase of the share capital, described in note 7.16.

The value of the share premium was PLN 238 388 thousand and PLN 234 986 thousand as at 31 December 2017 and 31 December 2016 respectively.

7.18. Additional information on shareholders' equity

As at 31 December 2017 and 31 December 2016 the Company's shares were not owned by any of its subsidiaries.

In the twelve-month period ended 31 December 2017 and 2016 the Company did not hold any treasury shares.

7.19. Dividend and profit distribution

On 25 May 2017, the Ordinary General Meeting of the Shareholders of the Company resolved to appropriate PLN 125 585 531.10 from the Company's profit for 2016 to dividends. This implies the payment of PLN 5.05 per share. While the amount of PLN 2 155 024.36 was allocated to the increase of the Company's supplementary capital.

The dividend day was set at 26 June 2017 and the dividend payment day was set at 04 July 2017. The dividend was paid out in accordance with the adopted resolution.

In the preceding year, PLN 80 543 424.00 was appropriated to dividends and the dividend payment amounted to PLN 3.25 per share, while PLN 103 942.31 was allocated to the increase of the Company's supplementary capital.

7.20. Loans

Description of material changes in the twelve-month period ended 31 December 2017

On 3 February 2017 the PLN 50 million revolving loan agreement in the credit facility account between mBank S.A. and Dom Development S.A.

On 31 March 2017 a loan agreement was entered into between mBank S.A. as one party and Dom Development S.A. and Dom Development Wrocław Sp. z o.o. as the other party. The bank has committed to make a PLN 85 million revolving loan available to Dom Development S.A. on the terms and conditions laid down in the agreement, with the funds intended to provide finance for the current operations of the Company. Under the agreement, Dom Development Wrocław Sp. z o.o. may use some (up to PLN 35 million) of the credit limit granted to Dom Development S.A.



The structure of these liabilities in terms of their maturity has been presented in the table below.

LOANS DUE WITHIN	31.12.2017	31.12.2016
Less than 1 year	50 000	-
More than 1 year and less than 2 years	-	-
More than 2 years and less than 5 years	-	-
Over 5 years	-	-
Total loans	50 000	-
including: long-term	-	-
short-term	50 000	-

As at 31 December 2017 and 31 December 2016 all the loans taken by the Company were expressed in Polish zloty.

BANK LOANS AS AT 31.12.2017						
Bank	Registered office	Loan amount as per agreement	Currency	Outstanding loan amount (less accrued interest)	Currency	Due date
mBank	Warsaw	50 000*)	PLN	-	PLN	21.05.2019
PKO BP SA	Warsaw	100 000*)	PLN	50 000	PLN	26.07.2019
mBank	Warsaw	85 000**)	PLN	-	PLN	01.03.2021
Total bank loans				50 000	PLN	

*) Revolving loan in the credit facility account

***) Revolving loan in the credit facility account up to PLN 85 million. Pursuant to the agreement with the bank, Dom Development Wrocław Sp. z o.o. may use up to PLN 35 million of this credit limit. As at 31 December 2017 Dom Development Wrocław Sp. z o.o. drawn PLN 35 000 thousand from the said credit limit, and Dom Development S.A. has not drawn any funds therefrom.

In the "Loans" item the Company states the nominal value of loan liabilities, and the interest charged as at the balance sheet date are presented separately in the item "Accrued interest on loans and bonds".

Due to the fact that the interest on the loans is correlated to the WIBOR interest rate, the Company's Management Board estimates that the fair value of the loans taken by the Company approximately equals their book value, including accrued interest.

7.21. Bonds

BONDS	31.12.2017	31.12.2016
Nominal value of the bonds issued, long-term portion	260 000	260 000
Nominal value of the bonds issued, short-term portion	50 000	120 000
Nominal value of the bonds issued	310 000	380 000

In the "Bonds" item the Company states the nominal value of the bond liabilities, and the interest charged as at the balance sheet date are presented separately in the item "Accrued interest on loans and bonds".

Due to the fact that the interest on the bonds is correlated to the WIBOR interest rate, the Company's Management Board estimates that the fair value of the bonds issued by the Company approximately equals their book value, including accrued interest.



Core details concerning the bonds issued

- Agreement with PeKaO S.A.

On 5 November 2007, the Company and Bank BPH S.A. (currently Pekao S.A.) signed a Bond Issue Programme Agreement, pursuant to which Dom Development S.A. is allowed to issue mid-term bonds (with a maturity over 1 year and under 7 years) with an aggregate value of no more than PLN 400 million, which is to be construed as the nominal value of all issued and unredeemed bonds on any day during the term of the Programme.

On 5 November 2014, the Company and Pekao S.A. signed an Annex to the Bond Issue Programme Agreement dated 5 November 2007, pursuant to which the period of bond issue programme has been extended by 7 years (until 5 November 2021).

- Agreement with Trigon Dom Maklerski S.A. with its registered office in Cracow and Trigon Investment Banking Spółka z ograniczoną odpowiedzialnością & Wspólnicy S.K.

On 17 November 2017, the Company signed an agreement with Trigon Dom Maklerski S.A., with its registered office in Cracow, and with Trigon Investment Banking Spółka z ograniczoną odpowiedzialnością & Wspólnicy S.K., with its registered office in Warsaw, concerning the launch by the Company of the Dom Development S.A. Bond Issue Programme with a total value of no more than PLN 400 million understood as the nominal value of all bonds issued and outstanding (the "Programme"). The limit of the program is renewable.

In accordance with the agreement, bonds may be issued by the Company in various series over the period of ten years following the date of signing of the Programme Agreement. The bonds shall be issued in accordance with art. 33 par. 2 of the Bonds Act of 15 January 2015, i.e. otherwise than in a public placement, and shall be ordinary bearer bonds.

Description of material changes in the twelve-month period ended 31 December 2017

On 2 February 2017, the Company redeemed 12 000 bearer bonds with the nominal value of PLN 10 000 each and the aggregate nominal value of PLN 120 million as maturing on this date.

On 15 December 2017, the Company issued 50 000 unsecured bearer bonds with the nominal value of PLN 1 000 each and the aggregate nominal value of PLN 50 million. The maturity date for these bonds is 15 December 2022. The issue value equals their nominal value. The interest rate is set at WIBOR 6M plus margin, and will be paid semi-annually. No purpose for the bond issue was specified in the terms of issue.

BONDS ISSUED AS AT 31 December 2017

Series	Issue date	Amount	Currency	Contractual maturity date
IV	26.03.2013	50 000	PLN	26.03.2018
V	12.06.2016	100 000	PLN	12.06.2020
VI	15.11.2016	110 000	PLN	15.11.2021
VII	15.12.2017	50 000	PLN	15.12.2022
Total:		310 000	PLN	

7.22. Accrued interest on loans and bonds

ACCRUED INTEREST ON LOANS AND BONDS	31.12.2017	31.12.2016
Accrued interest on bonds	1 368	3 897
Accrued interest on loans	-	-
Total accrued interest on loans and bonds	1 368	3 897



7.23. Deferred tax assets and provisions

Deferred tax is the outcome of the following items:

	Balance sheet		Income statement / Statement of comprehensive income	
	31.12.2017	31.12.2016	01.01- 31.12.2017	01.01- 31.12.2016
Deferred tax provision				
Foreign exchange differences	-	1	(1)	(4)
Accrued interest	23	117	(95)	41
Discounting of liabilities	1 147	793	354	260
Result on the sale of units – without legal ownership transfer agreements	41 895	25 945	15 950	1 917
Capitalised financial costs	3 215	3 441	(224)	(1 114)
Other	2	2	-	(2)
Total deferred tax provision	46 282	30 299	15 984	1 098
Deferred tax assets				
Foreign exchange differences	1	-	1	-
Inventory revaluation	7 935	5 723	2 212	2 571
Receivables revaluation write downs and other provisions	113	178	(65)	(15)
Provision for employee benefits	4 800	3 298	1 503	992
Provision for other costs	4 380	4 102	279	696
Financial costs	-	-	-	-
Valuation of financial assets	90	(30)	119	(105)
Other	5	5	-	-
Total deferred tax assets	17 324	13 276	4 049	4 139
Deferred tax expense concerning income statement			11 989	(3 119)
Deferred tax expense concerning other net comprehensive income			(54)	78
Deferred tax provision shown in the balance sheet, net	28 958	17 023		

7.24. Long-term provisions

LONG-TERM PROVISIONS	31.12.2017	31.12.2016
Provision for repair costs, long-term portion	13 603	13 875
Provision for retirement benefits	621	471
Total	14 224	14 346

LONG-TERM PROVISIONS – CHANGES	01.01- -31.12.2017	01.01- -31.12.2016
Opening balance	14 346	11 354
Provisions created in the financial year	1 641	4 193
Provisions used/reversed in the financial year	(1 763)	(1 201)
Closing balance	14 224	14 346



7.25. Other long-term liabilities

OTHER LONG-TERM LIABILITIES	31.12.2017	31.12.2016
Guarantee retentions, long-term portion	47 411	31 157
Other	5 791	3 212
Closing balance	53 202	34 369

7.26. Trade payables, tax and other liabilities

TRADE PAYABLES, TAX AND OTHER LIABILITIES	31.12.2017	31.12.2016
Trade payables, including guarantee retentions (short-term portion)	165 023	157 982
Tax liabilities	2 664	4 754
Accrued costs	77 043	57 048
Company Social Benefits Fund	15	43
Total liabilities	244 745	219 827
Accrued costs structure	77 043	57 048
- estate construction costs	53 743	40 087
- employee costs	18 346	13 368
- rent for office space	1 358	410
- other	3 596	3 183

Trade payables are not interest-bearing liabilities. In addition to the guarantee retentions (as described below), the maturity for the trade payables is from 14 to 60 days.

The table below presents the carrying value of liabilities due to guarantee retentions connected to the execution of real estate development projects. The short-term and long-term portion of these liabilities are disclosed in relevant items of short-term and long-term liabilities.

	31.12.2017	31.12.2016
Guarantee retentions, short-term portion	34 960	32 357
Guarantee retentions, long-term portion	47 411	31 157
Total guarantee retentions	82 371	63 514

7.27. Short-term provisions

SHORT-TERM PROVISIONS	31.12.2017	31.12.2016
Provision for repair costs, short-term portion	4 535	4 625
Provision for disputes	2 281	921
Total	6 816	5 546

SHORT-TERM PROVISIONS – CHANGES	01.01- -31.12.2017	01.01- -31.12.2016
Opening balance	5 546	7 112
Provisions created in the financial year	6 139	4 625
Provisions used/reversed in the financial year	(4 869)	(6 191)
Closing balance	6 816	5 546



7.28. Deferred income

DEFERRED INCOME	31.12.2017	31.12.2016
Deferred income related to the payments received from customers for the purchase of products, not yet included as income in the income statement	423 113	349 052
Other	6	6
Total	423 119	349 058

7.29. Benefits after employment

The Company does not operate a special employee benefits programme after termination of employment.

7.30. Financial assets and liabilities

Categories of financial assets and liabilities, and maximum credit risk exposure

FINANCIAL ASSETS AND LIABILITIES	31.12.2017	31.12.2016
FINANCIAL ASSETS		
Long-term receivables	1 538	1 523
Trade and other receivables	14 529	6 493
Receivables from related entities	1 000	171
Total borrowings and receivables	17 067	8 187
Other	43	23
Financial assets valued at their fair value through the income statement (designated for trading)		
Cash in hand and at bank	4 600	4 032
Short-term deposits	197 440	408 280
Short-term financial assets	25 199	22 763
Maximum credit risk exposure	244 349	443 285
FINANCIAL LIABILITIES		
Loans	50 000	-
Own bonds issued	311 368	383 897
Trade payables, accrued and other liabilities	295 268	249 399
Financial liabilities valued at amortised cost	656 636	633 296

Fair value of financial assets and liabilities of the Company is not materially different from their carrying value.

7.31. Financial risk management

The Company is exposed to the following types of financial risk:

- market risk (interest rate risk)
- credit risk
- liquidity risk



Market risk

The market risk is a type of risk which reflects the impact of changes in market prices, such as currency exchange rates, interest rates or prices of capital instruments, on the Company's financial results or the value of financial instruments held.

The market risk generally incorporates risks such as:

- currency risk
- interest rate risk

Currency risk

If there are significant foreign currency items, the Company uses foreign currency derivatives (forward and swap) to hedge its significant F/X transactions.

As at 31 December 2017 and 31 December 2016, the Company did not have any significant assets, liabilities and future payments in foreign currencies, therefore there was no need to have hedging currency derivatives.

Interest rate risk

The fixed interest rate bank loans expose the Company to the risk of changes in the loan fair value. The variable interest rate loans and borrowings result in the cash flow risk.

The current financing structure implies that the Company does not have fixed rate loans or bonds. Currently, the Company has short-term, medium-term and long-term variable interest rate loans and bonds which results in the cash flow risk exposure.

Furthermore, the Company has short-term bank deposits which bear variable interest, the gains from which depend on the benchmark interest rate change and partially offsets the cash flow risk associated with financing.

As at the balance sheet date the Company did not have fixed interest rate long-term financial instruments.

A great deal of interest rate risk is limited naturally by holding both financial liabilities and financial assets bearing variable interest rate. Interest rate risk exposure for bond debt is reduced through hedging instruments such as:

- CAP options where a bank warrants to reimburse to the Company any difference resulting from an increase in market interest rates above the level agreed under the option. The Company hedges in that manner against increases in interest rates while maintaining the possibility to take advantage of any possible decrease of the interest rates,
- IRS (Interest Rate Swap) - the transaction that involves a swap with the bank of interest payments calculated according to one interest rate for interest payments calculated according to a different interest rate. The Company swaps a variable interest rate for a fixed interest rate. Both interest payments are calculated on the basis of the nominal amount agreed in the transaction and their settlement takes place on the agreed dates through comparing the relevant reference rate with the contracted interest rate.

The structure of variable interest rate financial instruments as at the balance sheet date is as follows:

VARIABLE INTEREST RATE INSTRUMENTS	31.12.2017	31.12.2016
Financial assets	227 239	435 075
Financial liabilities	361 368	383 897
Net total	(134 129)	51 178

Interest bearing financial assets, i.e. bank deposits, are disclosed as financial assets. Interest bearing financial liabilities, i.e. loans and own bond, are disclosed as financial liabilities.



Analysis of financial result sensitivity to interest rate change

A 100-basis point (bp) change in the interest rate of instruments as at the balance sheet date would increase (decrease) the net assets and income statement (after tax) by the amounts listed in the table below. The analysis prepared for twelve-month periods ended 31 December 2017 and 31 December 2016 assumes that all other variables remain unchanged.

	Income statement		Net assets	
	Increase by 100 bp	Decrease by 100 bp	Increase by 100 bp	Decrease by 100 bp
31 December 2017				
Variable interest rate assets	614	(614)	614	(614)
Variable interest rate liabilities*	(976)	976	(976)	976
Net sensitivity	(362)	362	(362)	362
31 December 2016				
Variable interest rate assets	1 175	(1 175)	1 175	(1 175)
Variable interest rate liabilities*	(1 037)	1 037	(1 037)	1 037
Net sensitivity	138	(138)	138	(138)

* The financial costs which are related to loans and bonds, and financial income related to deposits are capitalized by the Company to work-in-progress. These costs (and income) are gradually moved to the income statement together with the manufacturing costs of the inventories sold. It has been assumed in the above analysis that one third of the financial costs and income accrued in a given period are disclosed in the income statement, while the remaining portion is capitalised in the inventory and will be disclosed in the income statement in the following accounting periods.

Credit risk

Cash at bank, cash in hand, trade receivables and other receivables constitute the Company's main financial assets, and represent its highest exposure to credit risk in relation to financial assets.

The Company's credit risk is mostly related to trade receivables. The amounts presented in the balance sheet are net amounts and include write-downs revaluating bad debts, estimated by the Company's Management Board on the basis of previous experience, specific nature of the operations and analysis of the current economic environment.

Credit risk relating to the liquid funds and derivative financial instruments is limited since the transactions were concluded with reputable banks, enjoying high credit ratings awarded by international rating agencies.

In order to maintain the financial liquidity and the expected level of funds availability the Company has a specialised unit that monitors this aspect. The unit monitors the liquid funds and the forecasted cash flow on a current basis and decides on their allocation in order to maximise the attainable financial income while hedging the Company against the credit risk.

Credit risk is not highly concentrated in the Company. The risk is spread over a large number of partners and customers. Furthermore, it has to be pointed out that the receivables from the main activity of the Company, i.e. the sale of apartments, retail units and garages, are fully secured because release of the sold product takes place after a buyer has paid the full price as set out in the preliminary sales agreement.

The aging structure of trade receivables has been presented in note 7.12 "Trade and other receivables".



Liquidity risk

The liquidity risk is the risk that the Company will not be able to pay its financial liabilities when they become due. The Company's objective is to ensure, to the highest possible extent, that its liquidity will always be maintained at a level, which enables paying the liabilities when they become due, without incurring unacceptable losses or facing the risk of compromising the Company's reputation.

The table below presents the total value of future non-discounted cash flows for Company's financial liabilities, broken up by the maturity dates as set out in the contracts:

	Total	0 – 6 months	6 – 12 months	1 – 2 years	2 – 5 years
31 December 2017					
Loans	50 004	50 004	-	-	-
Own bonds issued	347 300	55 700	5 200	10 400	276 000
Trade and other payables	303 826	241 187	7 130	14 680	40 829
Total	701 130	346 891	12 330	25 080	316 829
31.12.2016					
Loans	-	-	-	-	-
Own bonds issued	415 320	125 180	4 810	58 233	227 097
Trade and other payables	249 399	204 011	8 754	6 464	30 170
Total	664 719	329 191	13 564	64 697	257 267

The Company manages its liquidity mostly by:

- short-, medium- and long-term planning of cash flow; detailed short-term plans are updated at least once a month,
- selection of appropriate financing sources on the basis of analysis of the Company needs and the market,
- day-to-day monitoring of ratios resulting from agreements with banks,
- diversification of financing sources for the conducted development activity,
- co-operation with stable and reputable financial institutions.

Capital management

It is fundamental for the policy of the Management Board to maintain a strong capital base in order to secure the trust of investors, creditors and the market as well as to ensure further growth of the Company.

For the years ended 31 December 2017 and 2016 the return on equity (calculated as net profit to the annual average value of shareholders' equity) amounted to 19.3% and 14.1%, respectively. In that period, the average weighted cost of interest on the Company's debt amounted to 3.9% in 2017 and 4.2% in 2016.

As at 31 December 2017 and 2016 the net financial leverage ratio (calculated as the loans and bonds payable less cash and cash equivalents and short-term financial assets divided by equity) amounted to 13.3% and (5.9)%, respectively.

The Company does not have in place a defined plan of buy-out of the treasury shares.

The Company is not a subject to any external capital requirements, except for the legal regulations of the Code of Commercial Companies.



7.32. Earnings per share

CALCULATION OF BASIC AND DILUTED EARNINGS PER SHARE	01.01-31.12.2017	01.01-31.12.2016
Basic earnings per share		
Profit for calculation of the basic earnings per share	186 113	127 740
The weighted average number of ordinary shares for the calculation of basic earnings per share	24 866 070	24 778 324
Basic earnings per share (PLN)	7.48	5.16
Diluted earnings per share		
Profit for calculation of the diluted earnings per share	186 113	127 740
Potential diluting shares related to the Management Share Option Programme	10 655	21 980
The weighted average number of ordinary shares for the calculation of diluted earnings per share	24 876 725	24 800 304
Diluted earnings per share (PLN)	7.48	5.15

As the Company has no discontinued operations, the earnings per share from the continued operations equal the earnings per share calculated above.

7.33. Income tax

INCOME TAX	01.01-31.12.2017	01.01-31.12.2016
Current income tax	33 822	33 606
Deferred tax	11 989	(3 119)
Total	45 811	30 487

The corporate income tax payables of the Company as at 31 December 2017 and 2016 was PLN 25 200 thousand and PLN 23 057 thousand, respectively.

The difference between the income tax calculated as the product of the gross profit before tax and the statutory tax rate and the actual income tax expense accounted for in the income statement of the Company is presented in the table below.

RECONCILIATION	01.01-31.12.2017	01.01-31.12.2016
Gross profit before tax	231 924	158 227
As per 19% tax rate	44 066	30 063
Permanent differences not subject to the current and deferred tax in the financial statements (except for cost of the management options)	908	424
Tax effect of management options permanently not being a tax deductible cost	837	-
Actual income tax expense	45 811	30 487
Effective tax rate:	19.75%	19.27%

Regulations concerning value added tax, corporate income tax and social security contributions are subject to frequent change. These frequent changes result in a lack of reference points, incoherent interpretations and the scarcity of applicable case law. The regulations in force are also riddled with ambiguities, which gives rise to contradictory opinions regarding the interpretation of tax regulations, both among government authorities and business entities.

Tax settlements and other activities (such as customs or foreign currency matters) may be audited by competent authorities, which have the right to impose substantial penalties and fines; any additional tax imposed as a result of an audit carries a hefty interest rate. Accordingly, the tax risk is higher in Poland than in other countries with a more mature tax system.



Consequently, notwithstanding the fact that the Company's tax policies have been very cautious and conservative, it is unlikely but not impossible that the figures presented and disclosed in the financial statements may be subject to change in the future as a result of a final decision of a tax audit authority.

Starting from 15 July 2016, General Anti-Avoidance Rules (GAAR) have been introduced to the Polish Tax Code. The purpose of the GAAR is to prevent the establishment and exploitation of artificial legal schemes aimed at the avoidance of paying taxes in Poland. The GAAR defines tax avoidance as an arrangement whose main purpose is to obtain a tax advantage that defeats, in the given circumstances, the object or purpose of a tax regulation. According to the GAAR, such an arrangement may not result in a tax advantage if it was artificial. Any occurrence of: (i) the division of a transaction into several steps without a valid reason, (ii) the employment of an intermediary despite the absence of an economic or commercial reason to do so, (iii) elements that offset or cancel out one another and/or (iv) any other arrangements similar to those mentioned above may be deemed a premise of an artificial arrangement that is subject to the GAAR provisions. These new regulations will require the courts to exercise a significantly higher degree of consideration when assessing the tax effects of a transaction.

The GAAR provision shall apply to transactions made following its entry into force and to those transactions that were made prior to the entry into force of the GAAR provision but in respect of which tax advantages have been obtained following the entry into force of the GAAR provision. The introduction of the above mentioned regulations will allow Polish tax audit authorities to question the taxpayers' legal arrangements and understandings such as the restructuring and reorganisation of a group.

7.34. Segment reporting

The operations of the Company are generally in a single segment and involve mainly the development and sale of residential and retail (commercial) units and related support activities. The Company operates only in the Warsaw market, while Dom Development S.A. Capital Group with the Company as the parent, also operates on the Tricity and Wrocław markets. The operations on the Wrocław and Tricity markets are carried out through the Group's subsidiaries.

In view of the above, segmentation for reporting purposes was made on the basis of the geographical location within the Group:

- the Warsaw segment
- the Tricity segment
- the Wrocław segment

The results of the individual segments are assessed mainly on the basis of sale revenues and profit, and gross margin on sales generated by the individual segments.

Due to the fact that the Company's operating activities are carried out in the Warsaw market, i.e. within one segment, these financial statements do not include segment-specific information.

Information on the business segments is provided in the consolidated financial statements of the Company, which shows the operating activities on all the above mentioned markets (operating segments and reporting segments).

7.35. Operating income

REVENUE BREAKDOWN	01.01- 31.12.2017	01.01- 31.12.2016
Sales of finished goods	1 272 643	1 118 101
Sales of services	26 075	18 921
Sales of goods (land)	-	24 951
Total	1 298 718	1 161 973



7.36. Operating costs

OPERATING COSTS	01.01- 31.12.2017	01.01- 31.12.2016
Cost of sales		
Cost of finished goods sold	(899 843)	(832 342)
Cost of services sold	(25 578)	(21 662)
Cost of goods sold	-	(22 384)
Inventory write down to the net realisable value	(11 640)	(14 436)
Total cost of sales	(937 061)	(890 824)
Selling costs, and general administrative expenses		
Selling costs	(56 174)	(47 389)
General administrative expenses	(61 466)	(57 500)
Total selling costs, and general administrative expenses	(117 640)	(104 889)
Selling costs, and general administrative expenses by kind		
Depreciation	(6 031)	(5 396)
Cost of materials and energy	(14 718)	(10 885)
External services	(31 755)	(29 199)
Taxes and charges	(138)	(117)
Remuneration	(49 566)	(48 380)
Social security and other benefits	(6 230)	(5 407)
Management Option Programme	(4 406)	-
Other prime costs	(4 796)	(5 505)
Total selling costs, and general administrative expenses by kind	(117 640)	(104 889)

7.37. Payroll costs

PAYROLL COST AND AVERAGE EMPLOYMENT (including the management)	01.01- 31.12.2017	01.01- 31.12.2016
Individual personnel categories (number of staff)	179	163
White-collar workers	179	163
Blue-collar workers		
General remuneration elements, including:	55 796	53 787
Remuneration	49 566	48 380
Social security and other benefits	6 230	5 407

The cost of management option programme that accounted for PLN 4 406 thousand and PLN 0 in the years ended 31 December 2017 and 2016, respectively, have not been disclosed in the table above.

7.38. Other operating income

OTHER OPERATING INCOME	01.01- 31.12.2017	01.01- 31.12.2016
Revenues from contractual penalties, arrangements and compensations	414	354
Reversal of provision for costs	200	2 533
Other	470	403
Total	1 084	3 290



7.39. Other operating expenses

OTHER OPERATING EXPENSES	01.01- 31.12.2017	01.01- 31.12.2016
Provision for penalties and arrangements	1 232	51
Donations	1 290	467
Provision for other costs	1 631	261
Bad debt written down	249	309
Cost of repairs and defects (including change in provision)	6 026	8 766
Costs of discontinued projects	270	356
Cost of subsidiary acquisition	1 888	-
Loss on sale and liquidation of assets	845	-
Other	515	371
Total	13 946	10 581

7.40. Financial income

FINANCIAL INCOME	01.01- 31.12.2017	01.01- 31.12.2016
Interest on bank deposits and borrowings (non-capitalized part of interest)	750	994
Revenue from discounting receivables and payables	1 865	1 367
Other interest	19	69
Foreign exchange differences	-	-
Total	2 634	2 430

7.41. Financial costs

FINANCIAL COSTS	01.01- 31.12.2017	01.01- 31.12.2016
Interest on loans and bonds (non-capitalized part of interest)	638	2 629
Other interest	45	27
Commissions and fees	296	246
Foreign exchange differences	54	11
Cost from discounting receivables and payables	-	250
Valuation of long-term investments (CAP options)	832	9
Total	1 865	3 172

7.42. Interest cost

INTEREST COST	01.01- 31.12.2017	01.01- 31.12.2016
Financial costs (interest) capitalised under work in progress*)	8 091	10 129
Financial costs (interest) disclosed in the income statement	683	2 656
Total interest costs	8 774	12 785

*) The financial costs incurred as a result of the financing of real estate development projects are generally capitalised as work in progress and relate to the costs of interest, commissions and fees on bonds and loans taken for the execution of the projects. This amount consists of the difference between financial costs on the above mentioned sources of financing and financial income obtained as a result of investing free cash into short-term deposits and similar financial instruments.



7.43. Transactions with related entities

In the twelve-month periods ended 31 December 2017 and 2016, the Company was a party to transactions with related entities, as listed below. Descriptions of the transactions have been presented in the tables. In exceptional cases, descriptions of particular agreements or explanations have also been provided.

DOM DEVELOPMENT S.A. AS A BUYER OF GOODS OR SERVICES			
Counterparty	Transaction description	01.01- 31.12.2017	01.01- 31.12.2016
Woodsford Consulting Limited	Consulting services as per the agreement dated 27.6.07 as annexed	1 902	1 834
Hansom Property Company Limited	Consulting services as per the agreement dated 2.01.2001 as annexed	848	511
Kirkley Advisory Limited	Consulting services as per the agreement dated 29.09.2017	48	124
M & M Usługi Doradcze M. Kolarski	Consulting services	73	136
Fort Mokotów Inwestycje sp. z o.o., under liquidation	Other	150	180
Dom Land sp. z o.o.	Marketing services	285	204
Dom Development Grunty sp. z o.o.	Services performed as per the contract of mandate for the activities related to the purchase of land and management thereof	293	322
Dom Development Grunty sp. z o.o.	Other	94	-
Dom Development Wrocław sp. z o.o.	Cooperation Agreements	541	-
Dom Development Wrocław sp. z o.o.	Other	22	8
Małgorzata Kolarska – Vice President of the Management Board	Performance under the specific work contract	-	2 360

DOM DEVELOPMENT S.A. AS A SELLER OF GOODS OR SERVICES			
Counterparty	Transaction description	01.01- 31.12.2017	01.01- 31.12.2016
Fort Mokotów sp. z o.o., under liquidation	Repair services as per the agreement dated 22 July 2005	96	96
Dom Development Grunty sp. z o.o.	Other	18	6
Dom Development Morskie Oko sp. z o.o., under liquidation	Other	5	5
Fort Mokotów Inwestycje sp. z o.o. under liquidation	Other	2	15
Euro Styl S.A.	Cooperation Agreement	812	-
Dom Land sp. z o.o.	Other	11	5
Dom Development Wrocław sp. z o.o.	Cooperation Agreements	326	-
Dom Development Wrocław sp. z o.o.	Other	142	201
Dom Development Kredyty sp. z o.o.	Cooperation Agreements	1	-
Mirabelle Investments sp. z o.o.	Other	3	-

DOM DEVELOPMENT S.A. AS A LENDER			
Counterparty	Transaction description	01.01- 31.12.2017	01.01 - 31.12.2016
Dom Development Grunty sp. z o.o.	Repayment received for a portion of the borrowing	200	200
Dom Development Grunty sp. z o.o.	Interest accrued on the borrowing	5	10



DOM DEVELOPMENT S.A. AS A SUBSCRIBER FOR SHARES IN SHARE CAPITAL OF SUBSIDIARIES:

Counterparty	Transaction description	01.01- 31.12.2017	01.01 - 31.12.2016
Dom Development Wrocław sp. z o.o.	Share capital contribution *)	-	4,000
Dom Development Wrocław sp. z o.o.	Additional contribution to the share capital *)	24 800	10 645
Fort Mokotów Inwestycje sp. z o.o., under liquidation	Share capital increase	2 100	4 250
Dom Development Kredyty sp. z o.o.	Share capital contribution *)	500	-

*) share capital contribution and additional contribution to the share capital of the subsidiaries have been recognised in the balance sheet under "Investments in subsidiaries, associates and jointly controlled entities".

DOM DEVELOPMENT S.A. AS A TRANSFEREE OF ASSETS FOLLOWING THE LIQUIDATION OF SUBSIDIARIES:

Counterparty	Transaction description	01.01- 31.12.2017	01.01- 31.12.2016
Fort Mokotów Inwestycje sp. z o.o., under liquidation	Right of perpetual usufruct of the land (<i>long-term leasehold</i>)	138 500	-
Fort Mokotów Inwestycje sp. z o.o., under liquidation	Cash receivable	118	-

DOM DEVELOPMENT S.A. AS A DIVIDEND PAYAER

Counterparty	Transaction description	01.01- 31.12.2017	01.01- 31.12.2016
Dom Development B.V.	Dividend paid	73 761	47 860

DOM DEVELOPMENT S.A. AS A PAYER OF PREPAYMENT UNDER THE AGENCY AGREEMENT

Counterparty	Transaction description	01.01- 31.12.2017	01.01- 31.12.2016
Dom Development Grunty sp. z o.o.	(net) prepayment for the purchase of land under the agency agreement	3 186	14 009

DOM DEVELOPMENT S.A. AS A LAND BUYER UNDER AN AGENCY AGREEMENT

Counterparty	Transaction description	01.01- 31.12.2017	01.01- 31.12.2016
Dom Development Grunty sp. z o.o.	(net) purchase of land under the agency agreement	12 783	7 512

DOM DEVELOPMENT S.A. AS A LAND SELLER UNDER A SALE AGREEMENT

Counterparty	Transaction description	01.01- 31.12.2017	01.01- 31.12.2016
Dom Development Wrocław sp. z o.o.	Sale of freehold with the rights to the design	-	8 859
Dom Development Grunty sp. z o.o.	Sale of interest in real property	11 454	-
Dom Land sp. z o.o.	Sale of interest in real property	2 478	-



BALANCES WITH RELATED ENTITIES – balances as in the books of the Company				
Entity	Receivables from related entities		Liabilities to related entities	
	31.12.2017	31.12.2016	31.12.2017	31.12.2016
Total balance	59 184	29 383	146	2 248
Subsidiaries	56 109	29 332	-	1 988
Dom Development Morskie Oko sp. z o.o. under liquidation				
additional contributions to share capital	1 147	1 147	-	-
Dom Development Grunty sp. z o.o.	19 488	17 431	-	-
Dom Development Wrocław sp. z o.o., additional contributions to share capital	35 445	10 645	-	-
Dom Development Wrocław sp. z o.o.	29	95	-	1 988
Fort Mokotów Inwestycje sp. z o.o. under liquidation	-	14	-	-
Jointly controlled entities	20	10	-	-
Fort Mokotów sp. z o.o., under liquidation	20	10	-	-
Other entities	3 055	41	146	260
Dom Land sp. z o.o.	3 055	41	-	45
M&M Usługi Doradcze M. Kolarski	-	-	3	5
Woodsford Consulting Limited	-	-	143	210
Kirkley Advisory Limited	-	-	-	-

DOM DEVELOPMENT S.A. AS A SELLER (PLN)			
Transactions with members of the Management Board and the Supervisory Board	Transaction description	Transaction date	Transaction amount
Małgorzata Kolarska and a person closely related	Agreement on the establishment of a separate ownership title to a non-residential unit, with floor area of 125.52 sq.m, and the sale of the same and the sale agreement for a parking space in the "Dom pod Zegarem" project.	07.03.2017	1 114 341,36
Mark Spiteri and a person closely related	Agreement on the establishment of a separate ownership title to a residential unit, with floor area of 58.27 sq.m, and the sale of the same and the sale agreement for a parking space in the "Apartamenty Mokotów nad Skarpą" project.	18.07.2017	571 937,61
Grzegorz Kielpsz and a person closely related	Agreement on the establishment of a separate ownership title to a residential unit, with floor area of 97.15 sq.m, and the sale of the same and the sale agreement for a parking space in the "Rezydencja Mokotów" project.	26.10.2017	1 529 518,95
Marek Moczulski and a person closely related	Agreement on the establishment of a separate ownership title to a residential unit, with floor area of 90.51 sq.m, and the sale of the same and the sale agreement for a parking space in the "Apartamenty Mokotów nad Skarpą" project.	09.11.2017	905 988,34

The allotment of share options to Ms Małgorzata Kolarska (Vice President of the Management Board and Chief Operating Officer) has been described in note 7.44.

The transactions with the related entities are based on the arm's length principle.



7.44. Incentive Plan – Management Option Programmes

As at 31 December 2017 there was one active Management Option Programmes adopted as part of the Incentive Scheme for the Management staff of the Company.

Name of the Programme	Options in the programme (number of shares)	Options granted (number of shares)	Options exercised (number of shares)	Options in the programme (number of shares)	Options granted (number of shares)	Options exercised (number of shares)
	31.12.2017			31.12.2016		
Program IV	500 000	500 000	-	-	-	-

Management Option Programme IV

On 1 December 2017, the Supervisory Board of the Company acting pursuant to the power of attorney granted by the Ordinary General Shareholders Meeting of the Company, passed a resolution concerning the acceptance of the Rules for Management Option Programme IV regarding allotment of 500 000 shares in Dom Development S.A. ("Programme IV") to Ms Małgorzata Kolarska, Vice President of the Management Board and Chief Operating Officer. In accordance with Program IV, Mrs Małgorzata Kolarska have received one-off options authorising her to subscribe for 500 000 shares in Dom Development S.A. for the price of PLN 35.00 per share. The exercise of these options will be limited to 100 000 shares in any 12-month consecutive period, starting from 1 January 2018, and the non-exercised options may be exercised at a later time, however not later than by 31 December 2027.

Grant of new share options

In the twelve-month period ended 31 December 2017 the Company granted new share options under Programme IV as described above.

The fair value of the options convertible into shares granted under this tranche was estimated as on the grant date based on the Black-Scholes-Merton model, taking into account the conditions existing on the grant date. The preliminary assumptions taken in the model for the valuation of these options under the third tranche of Programme II are as follows:

Options grant date	1 December 2017
Options exercise period start date	5 tranches of 100 000 options each, every 12 months from 1 January 2018
Options maturity date	31 December 2027
Dividend yield (%) for subsequent tranches	0.00; 7.26; 7.92 ; 7.97; 7.86
Anticipated volatility index (%)	23.50
Risk-free interest rate (%)	2.10
Anticipated options exercise period:	31 March 2018; 31 March 2019; 31 March 2020; 31 March 2021; 31 March 2022
Exercise price per option (PLN)	35.00
Current share price (PLN)	74.00

The value of the options calculated based on the above model and assumptions on the grant date was PLN 14 924 thousand. The value of the options for each of the tranches is recognized evenly to the income statement for the period from the date of the grant to the expected date of the beginning of each individual tranche.

Exercise of the share options

In the twelve-month period ended 31 December 2017 no share options were exercised at the Company.

On 5 December 2016, the Management Board of the Company adopted a resolution on the increase of share capital in the Company by issuing 85 830 W series ordinary bearer shares. The shares were issued in a private placement procedure addressed to participants in Management Share Option Programme II. These shares were registered by the District Court for the capital city of Warsaw on 10 January 2017 (this was described in note 7.16).



Expiry of share options

In the twelve-month period ended 31 December 2017 no share options expired.

Cost of Management Option Programmes accounted for in the income statement and the shareholders' equity

In the twelve-month period ended 31 December 2017 and 2016 the amounts of PLN 4 406 and PLN 0 thousand respectively, were accounted for in the income statement for the management options granted and in the supplementary capital.

Share options granted and exercisable as at respective balance sheet dates, and changes in the presented periods:

SHARE OPTIONS		01.01- 31.12.2017	01.01- 31.12.2016
Unexercised options at the beginning of the period	Number of options	-	150 410
	Total exercise price	-	6 116
Options granted in the period	Number of options	500 000	-
	Total option exercise value	17 500	-
Options expired in the period	Number of options	-	53 260
	Total option exercise value	-	2 164
Options exercised in the period	Number of options	-	97 150
	Total option exercise value	-	3 952
	Weighted average exercise price per share (PLN per share)	-	40,68
Unexercised options at the end of the period	Number of options	500 000	-
	Total exercise price	17 500	-
Exercisable options at the beginning of the period	Number of options	-	150 410
	Total exercise price	-	6 116
Exercisable options at the end of the period	Number of options	-	-
	Total exercise price	-	-

7.45. Remuneration of members of the Company's management and supervisory bodies

Remuneration for key executives	01.01- 31.12.2017	01.01- 31.12.2016
1. The Management Board		
Remuneration	7 778	6 713
including payments from profit	-	-
Non-pay benefits	104	83
Total remuneration	7 882	6 796
2. The Supervisory Board		
Remuneration	1 297	1 409



The cost of management option programme that accounted for PLN 4 406 thousand and PLN 0 in the years ended 31 December 2017 and 2016, respectively, have not been disclosed in the table above.

The composition of the Management Board and the Supervisory Board as at 31 December 2017 has been presented in note 7.48.

Service agreements between members of the management and supervisory bodies and the Company or its subsidiaries defining the benefits to be paid upon termination of the employment contracts

Members of the Management Board of the Company: Jarosław Szanajca, Małgorzata Kolarska, Janusz Zalewski and Janusz Stolarczyk (who was a Member of the Management Board up until 31 December 2017) are employed by the Company under contracts of employment.

Under these contracts, the employment of individual Members of the Management Board may be terminated pursuant to the following conditions:

Full name of the member of the Management Board	Notice period (months) when given by		Comments
	the Company	the Employee	
Szanajca Jarosław	8	8	First payment of 50% of 8-times monthly remuneration to be paid after providing a termination notice The balance of 50% to be paid in 5 equal monthly payments
Małgorzata Kolarska	6	6	No special clauses
Janusz Zalewski	6	6	No special clauses
Stolarczyk Janusz*)	9	3	First payment of 50% of 9-times monthly remuneration to be paid after providing a termination notice The balance of 50% to be paid in 8 equal monthly payments

*) Mr Janusz Stolarczyk ceased to serve as a Member of the Management Board of the Company on 31 December 2017

7.46. Contingent liabilities

CONTINGENT LIABILITIES	31.12.2017	31.12.2016
Guarantees	111	111
Sureties	365	-
Total	476	111

Additionally, some of the Company's liabilities are secured with promissory notes:

COLLATERALS FOR LIABILITIES	31.12.2017	31.12.2016
Promissory notes, including:		
- promissory notes as an additional guarantee for PKO BP bank in respect of claims arising from the granted loan	100 000	100 000
- promissory notes as other guarantees	2 000	-
Total	102 000	100 000

7.47. Material court cases as at 31 December 2017

As at 31 December 2017 the Company was not a party to any material court cases.



7.48. Changes in the composition of the Management Board and the Supervisory Board of the Company

The Management Board

As at 31 December 2017 the Management Board of Dom Development S.A. was composed of 5 members:

Jarosław Szanajca, President of the Management Board
Małgorzata Kolarska, Vice President of the Management Board
Janusz Zalewski, Vice President of the Management Board
Terry R. Roydon, Member of the Management Board.
Janusz Stolarczyk, Member of the Management Board *)

*) On 4 December 2017, the Company received a statement by Mr Janusz Stolarczyk of his resignation from the position as a Member of the Management Board of Dom Development S.A. for personal reasons, with effect from 31 December 2017

Mr Janusz Stolarczyk still holds the position of the Director of the Development Department.

The Supervisory Board

No changes in the composition of the Management Board took place in 2017.

As at 31 December 2017 the Supervisory Board of Dom Development S.A. was composed of 7 members:

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

7.49. Additional information on the operating activity of the Company

In the twelve-month period ended 31 December 2017 the following material changes in the portfolio of the Company's ongoing development investments in the Warsaw market took place:



Projects where the construction was commenced by the Company in the period from 1 January 2017 until 31 December 2017:

Project	Standard	Number of apartments	Number of commercial units	Started in
Wilno VI, phase 1	Popular	300	9	Q1 2017
Forma, phase 1	Popular	89	6	Q1 2017
Premium 5, phase 3	Popular	109	4	Q1 2017
Cybernetyki 17, phase 1	Popular	145	1	Q2 2017
Cybernetyki 17, phase 2	Popular	236	11	Q2 2017
Moderna, phase 3	Popular	163	24	Q2 2017
Premium 4, stage 2 phase 2	Popular	248	0	Q2 2017
Wille Lazurowa, phase 2	Popular	102	0	Q2 2017
Forma, stage 2 phase 1	Popular	192	7	Q2 2017
Amsterdam, phase 2	Popular	307	7	Q2 2017
Wilno VI, phase 2	Popular	209	2	Q3 2017
Osiedle Port Żerań, phase 1	Popular	361	1	Q3 2017
Apartamenty Mokotów nad Skarpą 2	Apartments	190	0	Q3 2017
Apartamenty Park Szcześliwicki	Apartments	46	0	Q3 2017
Dom na Bartyckiej	Popular	127	4	Q3 2017
Forma, stage 2 phase 2	Popular	210	3	Q4 2017
Regaty, phase 1	Popular	69	3	Q4 2017
Total		3 103	82	

Projects where the construction was completed by the Company in the period from 1 January 2017 until 31 December 2017:

Project	Standard	Number of apartments	Number of commercial units	Completed in
Premium 1, stage 1 phase 1	Popular	191	15	Q1 2017
Moderna, phase 1	Popular	167	4	Q2 2017
Osiedle Przyjaciół, phase 3	Popular	93	2	Q2 2017
Apartamenty Mokotów nad Skarpą	Popular	183	1	Q2 2017
Palladium, phase 1	Popular	214	1	Q3 2017
Premium 2, stage 1 phase 2	Popular	236	0	Q3 2017
Osiedle pod Różami, phase 3	Popular	47	3	Q3 2017
Ursynovia (Anody), phase 1	Popular	72	7	Q4 2017
Ursynovia (Anody), phase 2	Popular	111	0	Q4 2017
Saska III	Popular	347	12	Q4 2017
Żoliborz Artystyczny, phase 5	Popular	117	9	Q4 2017
Żoliborz Artystyczny, phase 6	Popular	125	12	Q4 2017
Żoliborz Artystyczny, phase 7	Popular	127	13	Q4 2017
Moderna, phase 2	Popular	194	0	Q4 2017
Wilno III, phase 2	Popular	125	4	Q4 2017
Wilno III, phase 3	Popular	111	0	Q4 2017
Wille Taneczna	Popular	119	0	Q4 2017
Total		2 579	83	

Moreover, in 2017 Dom Development Capital Group carried out real property development projects in the Wrocław market through its subsidiary Dom Development Wrocław Sp. z o.o. and in the Tricity market through Euro Styl Capital Group, which it controls in 100% (see note 7.9).



7.50. Material post-balance sheet events

- Exercise of Company share options

On 17 January 2018, the Management Board increased the share capital of the Company from the current amount of PLN 24 868 422.00 to PLN 24 968 422.00, i.e. by PLN 100 000.00, by way of issue of 100 000 series Y bearer ordinary shares with the nominal value of PLN 1.00 each. The issue of series Y shares took place through a private placement. The purpose of the series "Y" shares issue was to enable the Company to fulfil its obligations arising from Management Options Programme IV for Ms Małgorzata Kolarska related to 500 000 shares in Dom Development S.A. (see note 7.44) The Supervisory Board of the Company agreed to fully deprive the existing shareholders of their pre-emptive right to 100 000 series Y bearer ordinary shares. The reason for the exclusion of the pre-emptive right from the existing shareholders is that the issue of series Y shares is addressed only to Ms Małgorzata Kolarska as a participant in Programme IV and in order to allow her to exercise her rights under subscription warrants.

On 25 January 2018, Ms Małgorzata Kolarska exercised her share options in the Company by exercising her rights under subscription warrants and subscribing for the shares. The issue price for the new series "Y" shares was PLN 35.00 per share.

On 30 January 2018, the Management Board of the Company adopted a resolution on the allocation of 100 000 series Y shares to Ms Małgorzata Kolarska.

7.51. Approval of the financial statements for 2016

On 25 May 2017 the Ordinary General Shareholders Meeting of Dom Development S.A. approved the financial statements of Dom Development S.A. for the year ended on 31 December 2016, the Management's report of activities of Dom Development S.A. in 2016 and the consolidated financial statements of Dom Development S.A. Capital Group for the year ended on 31 December 2016 and the Management's report of activities of Dom Development S.A. Capital Group in 2016, as presented by the Management Board. The Ordinary General Shareholders Meeting gave a vote of approval for the Management Board for the year 2016.

7.52. Forecasts

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

7.53. Information on remuneration of the statutory auditor or the entity authorised to audit financial statements

Fee (net, exclusive of VAT) of Ernst & Young Audyt Polska spółka z o.o. spółka komandytowa that is the entity authorised to audit financial statements of the Company and other Ernst & Young group companies, paid or due for the year ended 31 December 2017 and 31 December 2016 broken up by services, is presented in the table below:

SERVICES	01.01- -31.12.2017	01.01- -31.12.2016
– Obligatory audit of annual and review of semi-annual financial statements **)	371	244
– Training *)	1	29
– Other services *)	425	70
Total	797	343

*) services provided by other Ernst & Young group companies

***) the fee does not include the fee due for the work on the audit of financial statements for 2017 that was carried out in 2018, in the amount of PLN 81 thousand. Likewise, the amount for 2016 does not include the fee due for work on the audit of financial statements for 2016 that was carried out in 2017, in the amount of PLN 92 thousand



7.54. Selected financial data translated into EURO

In accordance with the financial reporting requirements the following financial data of the Company have been translated into euro:

SELECTED DATA FROM THE BALANCE SHEET	31.12.2017	31.12.2016
	thousand EURO	thousand EURO
Total current assets	439 000	408 524
Total assets	517 143	447 164
Total shareholders' equity	239 593	210 472
Long-term liabilities	85 445	73 630
Short-term liabilities	192 104	163 062
Total liabilities	277 550	236 692
<i>PLN/EUR exchange rate as at the balance sheet date</i>	<i>4.1709</i>	<i>4.4240</i>

SELECTED DATA FROM THE INCOME STATEMENT	01.01- -31.12.2017	01.01- -31.12.2016
	thousand EURO	thousand EURO
Sales revenue	305 962	265 551
Gross profit on sales	85 202	61 967
Operating profit	54 457	36 330
Profit before tax	54 638	36 160
Net profit	43 846	29 193
<i>Average PLN/EUR exchange rate for the reporting period</i>	<i>4.2447</i>	<i>4.3757</i>