DOM DEVELOPMENT S.A.

CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED

31 DECEMBER 2018

Prepared in accordance
with the International Financial Reporting Standards

CONTENTS

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

These consolidated financial statements for the year ended on 31 December 2018, comprising:

- consolidated balance sheet prepared as at 31 December 2018 with the balance of assets and liabilities in the amount of PLN 2 538 953 thousand;
- consolidated income statement for the twelve-month period ended 31 December 2018 showing a net profit of PLN 227 023 thousand;
- consolidated statement of comprehensive income for the twelve-month period ended 31 December 2018 showing a net comprehensive income of PLN 224 691 thousand;
- consolidated cash flow statement for the twelve-month period ended 31 December 2018 with the PLN 282 492 thousand net cash and cash equivalents as at 31 December 2018;
- consolidated statement of changes in shareholders' equity in the twelve-month period ended 31 December 2018 showing the PLN 1 046 542 thousand balance of shareholders' equity as at 31 December 2018;
- additional notes to the consolidated financial statements

were prepared and approved by the Management Board of the Company on 6 March 2019.

The Management Board of Dom Development S.A. declares that to the best of its knowledge, these annual consolidated financial statements for 2018 with comparative data have been prepared in accordance with the applicable accounting policies, and reflect a true and fair economic and financial position of the Dom Development S.A. Capital Group and its financial result.

Jarosław Szanajca,
President of the Management Board

Janusz Zalewski,
Vice President of the Management Board

Małgorzata Kolarska,
Vice President of the Management Board

Mikołaj Konopka,
Member of the Management Board

Terry R. Roydon,
Member of the Management Board

(all amounts in thousands PLN unless stated otherwise)

2. CONSOLIDATED BALANCE SHEET

ASSETS	Note	31.12.2018	31.12.2017
Fixed assets			
Intangible assets	7.6	10 356	10 444
Tangible fixed assets	7.7	12 024	10 528
Deferred tax assets	7.23	2 410	1 434
Long-term receivables	7.10	1 618	1 612
Other long-term assets		23 532	6 767
Total fixed assets		**49 940**	**30 785**
Current assets			
Inventory	7.11	2 113 540	1 989 052
Trade and other receivables	7.12	52 344	34 942
Other current assets	7.13	5 325	3 971
Income tax receivables		424	486
Short-term financial assets	7.14	34 888	51 506
Cash and cash equivalents	7.15	282 492	279 653
Total current assets		**2 489 013**	**2 359 610**
Total assets		**2 538 953**	**2 390 395**

EQUITY AND LIABILITIES	Note	31.12.2018	31.12.2017
Shareholders' equity			
Share capital	7.16	24 968	24 868
Share premium	7.17	241 788	238 388
Other capital (supplementary capital)		551 395	549 257
Reserve capital from valuation of cash flow hedges		(2 148)	184
Reserve capital from reduction of share capital		510	510
Unappropriated profit		229 960	189 052
Equity attributable to the shareholders of parent company		**1 046 473**	**1 002 259**
Non-controlling interests		69	67
Total shareholders' equity		**1 046 542**	**1 002 326**
Liabilities			
Long-term liabilities			
Loans, long-term portion	7.20	35 000	35 000
Bonds, long-term portion	7.21	310 000	260 000
Deferred tax provision	7.23	29 565	45 192
Long-term provisions	7.24	16 620	14 321
Other long-term liabilities	7.25	61 087	56 188
Total long-term liabilities		**452 272**	**410 701**
Short-term liabilities			
Trade payables, tax and other liabilities	7.26	322 637	271 442
Loans, short-term portion	7.20	50 000	50 000
Bonds, short-term portion	7.21	-	50 000
Accrued interest on loans and bonds	7.22	1 180	1 373
Corporate income tax payables	7.33	30 137	27 531
Short-term provisions	7.27	11 337	8 716
Deferred income	7.28	624 848	568 306
Total short-term liabilities		**1 040 139**	**977 368**
Total liabilities		**1 492 411**	**1 388 069**
Total equity and liabilities		**2 538 953**	**2 390 395**

(all amounts in thousands PLN unless stated otherwise)

3. CONSOLIDATED INCOME STATEMENT

	Note	Year ended 31.12.2018	31.12.2017
Sales revenue	**7.35**	1 653 933	1 404 683
Cost of sales	**7.36**	(1 198 824)	(1 018 947)
Gross profit on sales		**455 109**	**385 736**
Selling costs	**7.36**	(69 818)	(62 781)
General administrative expenses	**7.36**	(91 740)	(75 617)
Other operating income	**7.38**	3 275	8 702
Other operating expenses	**7.39**	(14 807)	(20 648)
Operating profit		**282 019**	**235 392**
Financial income	**7.40**	2 701	3 114
Financial costs	**7.41**	(2 078)	(2 274)
Profit before tax		**282 642**	**236 232**
Income tax	**7.33**	(55 619)	(45 445)
Net profit		**227 023**	**190 787**
Net profit attributable to:			
Shareholders of the parent company		**227 021**	**190 674**
Non-controlling interests		2	113
Earnings per share:			
Basic, from the profit for the period, attributable to parent company's shareholders (PLN)	**7.32**	**9.10**	**7.67**
Diluted, from the profit for the period, attributable to parent company's shareholders (PLN)	**7.32**	**9.04**	**7.66**

(all amounts in thousands PLN unless stated otherwise)

4. CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Year ended	
	31.12.2018	**31.12.2017**
Net profit	**227 023**	**190 787**
Other comprehensive income		
Net change to cash flow hedges	(2 879)	(285)
Income tax	547	54
Other net comprehensive income	**(2 332)**	**(231)**
Total net comprehensive income	**224 691**	**190 556**
Net comprehensive income attributable to:		
Shareholders of the parent company	224 689	190 443
Non-controlling interests	2	113

(all amounts in thousands PLN unless stated otherwise)

5. CONSOLIDATED CASH FLOW STATEMENT

	Note	Year ended 31.12.2018	31.12.2017
Cash flow from operating activities			
Profit before tax		**282 642**	**236 232**
Adjustments:			
Depreciation		9 594	7 330
(Profit)/loss on foreign exchange differences		(3)	11
(Profit)/loss on investments		3	(6 545)
Interest cost/(income)		10 084	13 005
Share options valuation		5 785	4 406
Changes in the operating capital			
Changes in provisions		4 920	609
Changes in inventory		(124 344)	(163 773)
Changes in receivables		(7 547)	(20 436)
Changes in short-term liabilities, excluding loans and bonds		60 510	43 721
Changes in prepayments and deferred income		70 682	131 002
Other adjustments		286	(11)
Cash flow generated from operating activities		**312 612**	**245 551**
Interest received		2 148	3 353
Interest paid		(12 720)	(14 838)
Income tax paid		(69 253)	(35 930)
Net cash flow from operating activities		**232 787**	**198 136**
Cash flow from investing activities			
Proceeds from the sale of intangible assets and tangible fixed assets		659	695
Other income from financial assets		484	-
Borrowings granted		(32 500)	-
Acquisition of intangible and tangible fixed assets		(11 394)	(7 643)
Acquisition of financial assets and additional contributions to the capital		(589)	-
Acquisition of subsidiaries and financial assets less cash acquired in the acquired subsidiary		-	(205 973)
Net cash flow from investing activities		**(43 340)**	**(212 921)**
Cash flows from financing activities			
Proceeds from issue of shares (exercise of share options)		3 500	-
Proceeds from contracted loans	**7.20**	50 000	190 000
Commercial papers issued	**7.21**	50 000	50 000
Repayment of loans and borrowings	**7.20**	(50 000)	(113 990)
Redemption of commercial papers	**7.21**	(50 000)	(120 000)
Dividends paid	**7.19**	(189 760)	(125 586)
Payment of lease liabilities		(348)	(296)
Net cash flow from financing activities		**(186 608)**	**(119 872)**
Increase / (decrease) in net cash and cash equivalents		**2 839**	**(134 657)**
Cash and cash equivalents – opening balance	**7.15**	**279 653**	**414 310**
Cash and cash equivalents – closing balance	**7.15**	**282 492**	**279 653**

(all amounts in thousands PLN unless stated otherwise)

6. CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

	Share capital	Share premium less treasury shares	Other capital (supplementary capital)	Reserve capital		Accumulated unappropriated profit (loss)	Equity attributable to the shareholders of parent company	Non-controlling interests	Total shareholders' equity
				from reduction of share capital	from valuation of cash flow hedges				
Balance as at 1 January 2018	**24 868**	**238 388**	**549 257**	**510**	**184**	**189 052**	**1 002 259**	**67**	**1 002 326**
Share capital increase by exercising share options (note 7.16, 7.17)	100	3 400	-	-	-	-	**3 500**	-	**3 500**
Profit transfer from supplementary capital (note 7.19)	-	-	(3 647)	-	-	3 647	**-**	-	**-**
Dividends paid to shareholders (note 7.19)	-	-	-	-	-	(189 760)	**(189 760)**	-	**(189 760)**
Creation of reserve capital from the valuation of the share options (note 7.44)	-	-	5 785	-	-	-	**5 785**	-	**5 785**
Net profit for the reporting period	-	-	-	-	-	227 021	**227 021**	2	**227 023**
Other net comprehensive income for the reporting period	-	-	-	-	(2 332)	-	**(2 332)**	-	**(2 332)**
Balance as at 31 December 2018	**24 968**	**241 788**	**551 395**	**510**	**(2 148)**	**229 960**	**1 046 473**	**69**	**1 046 542**

	Share capital	Share premium less treasury shares	Other capital (supplementary capital)	Reserve capital		Accumulated unappropriated profit (loss)	Equity attributable to the shareholders of parent company	Non-controlling interests	Total shareholders' equity
				from reduction of share capital	from valuation of cash flow hedges				
Balance as at 1 January 2017	**24 782**	**234 986**	**542 696**	**510**	**415**	**126 118**	**929 507**	**(46)**	**929 461**
Share capital increase by exercising share options.	86	3 402	-	-	-	-	**3 488**	-	**3 488**
Transfer of profit to supplementary capital	-	-	2 155	-	-	(2 155)	**-**	-	**-**
Dividends paid to shareholders (note 7.19)	-	-	-	-	-	(125 585)	**(125 585)**	-	**(125 585)**
Creation of reserve capital from the valuation of the share options (note 7.44)	-	-	4 406	-	-	-	**4 406**	-	**4 406**
Net profit for the reporting period	-	-	-	-	-	190 674	**190 674**	113	**190 787**
Other net comprehensive income for the reporting period	-	-	-	-	(231)	-	**(231)**	-	**(231)**
Balance as at 31 December 2017	**24 868**	**238 388**	**549 257**	**510**	**184**	**189 052**	**1 002 259**	**67**	**1 002 326**

(all amounts in thousands PLN unless stated otherwise)

7. ADDITIONAL NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

7.1. General information about the parent company of the Dom Development S.A. Capital Group and the Group

General information about the parent company of the Dom Development S.A. Capital Group

The parent company of Dom Development S.A. Capital Group ("the Group") is the public limited company Dom Development S.A. ("the Company" / "the parent company") with its registered office in Warsaw (00-078 Warsaw, Plac Piłsudskiego 3) 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.

The Company is a majority-owned subsidiary of Dom Development B.V. with its registered office in the Netherlands. As at 31 December 2018 the parent company Dom Development S.A. was controlled by Dom Development B.V. which held 56.70% of the Company's shares.

General information about the Group

The Group's structure and the parent company interest in the share capital of the entities comprising the Group as at 31 December 2018 is presented in the table below:

Entity	Country of registration	% of the share capital held by the parent company	% of the votes held by the parent company	Consolidation method
Subsidiaries				
Dom Development Grunty sp. z o.o.	Poland	46%	100%	full consolidation
Dom Development Kredyty sp. z o.o.	Poland	100%	100%	full consolidation
Dom Development Morskie Oko sp. z o.o. w likwidacji (under liquidation)	Poland	100%	100%	full consolidation
Dom Development Wrocław sp. z o.o.	Poland	100%	100%	full consolidation
Dom Land sp. z o.o.	Poland	-	-	full consolidation
Euro Styl S.A.*	Poland	100%	100%	full consolidation
Euro Styl Development sp. z o.o.*	Poland	100%	100%	full consolidation
Mirabelle Investments sp. z o.o.	Poland	100%	100%	full consolidation
Dom Construction sp. z o.o.	Poland	100%	100%	full consolidation
M2 Biuro sp. z o.o.	Poland	100%	100%	full consolidation
M2 Hotel sp. z o.o.	Poland	100%	100%	full consolidation

* Euro Styl S.A. is the parent company of the Euro Styl S.A. Capital Group, with non-controlling interests held by Euro Styl Development sp. z o.o. As a result of the acquisition of both these companies, Dom Development S.A. has full control over the Euro Styl S.A. Capital Group.

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

Dom Development Grunty sp. z o.o. is fully consolidated as its financial and operational policy is managed by members of the management board nominated by Dom Development S.A. The area of activities of this subsidiary is the purchase of real estate to be further developed by the Group.

All companies operating within the Group conduct business activities in the territory of Poland under the Code of Commercial Companies and Partnerships and their term of operation is unlimited, except for Dom Development Morskie Oko sp. z o.o. w likwidacji (under liquidation).

In the twelve-month period ended 31 December 2018 the Group did not discontinue any of its activities.

Material changes to the Group structure, including as a result of a merger, acquisition or sale of the companies operating within the capital group, long-term investments, demerger, restructuring or discontinuation of activities.

- Establishment of Dom Construction sp. z o.o.

In the first quarter of 2018, the Management Board of Dom Development S.A. decided to diversify the manner of developing projects by the Company. Dom Development S.A. projects have been developed by a third-party general contractor up until now. The Company intends to make use of the expertise and experience of Euro Styl S.A., a Tricity developer acquired in June 2017, which through its in-house contractor company has been successfully developing its projects. Dom Development S.A. will progressively introduce the development of projects with its own resources. Eventually, this is to complement the existing model of cooperation with third-party general contractors.

For this purpose, a subsidiary company Dom Development Construction sp. z o.o. (current name: Dom Construction sp. z o.o.) was established on 13 March 2018, with 100% shares held by Dom Development S.A. The share capital of this company is PLN 100 thousand and has been paid up in full. This company was registered with the National Court Register (KRS) on 11 April 2018.

The Management Board is of the opinion that the change in the manner of project development will allow it the current efficiency of the Company's operations to be sustained.

- Completion of winding up of Fort Mokotów sp. z o.o. w likwidacji (under liquidation)

The joint venture Fort Mokotów Inwestycje sp. z o.o, w likwidacji (under liquidation) was wound up on 26 April 2018. This has been described in note 7.9.

- Establishment of M2 Biuro sp. z o.o. and M2 Hotel sp. z o.o.

On 11 December 2018 the Company created two limited liability companies under the business name of M2 Biuro sp. z o.o. and M2 Hotel sp. z o.o. The share capital of both newly created companies was partially covered with non-cash contribution in the form of a share in the perpetual usufruct right to land and in the documentation, including the copyrights attached to this documentation. These companies were formed in connection with the planned sale by the Company of some land situated near Żwirki i Wigury street and Racławicka street in Warsaw and earmarked for hotel, office and service development.

Additional information concerning these companies is disclosed in note 7.50 Material post-balance sheet events.

Within the twelve-month period ended 31 December 2018, the Group did not make any other material changes in the structure of investing in subsidiaries, associates and joint ventures, except for the events described hereinabove.

7.2. Basis for the preparing of the consolidated financial statements

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

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

The functional currency of the parent company and other companies incorporated in these consolidated financial statements id Polish zloty PLN. These consolidated financial statements are stated in Polish zloty (PLN). Financial data included in the consolidated financial statements are expressed in thousands of PLN unless stated otherwise.

The principles of measurement of assets, liabilities and financial result presented in the additional information to the consolidated financial statements are consistent with the accounting principles adopted by the parent company.

7.3. Compliance statement

Polish law requires the Group to prepare its consolidated 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 Group, in the context of accounting policies applied by the Group 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 2018.

These consolidated 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").

Certain companies operating within the Group keep their books of accounts in accordance with accounting policies (principles) specified in the Accounting Act dated 29 September 1994 ("the Accounting Act") as amended and the regulations issued based on that Act ("Polish Accounting Standards"). The consolidated financial statements incorporate certain adjustments, not included in the books of account of such companies operating within the Group, which were made in order to align the financial statements to IFRS.

These consolidated financial statements are prepared based on the same accounting principles (policies) as for the consolidated financial statements of the Group for the year ended 31 December 2017, except for the following amendments to existing standards and new interpretations that are effective for annual periods beginning on 1 January 2018:

- IFRS 15 *Revenue from Contracts with Customers* published on 24 May 2014) (and Clarifications to IFRS 15 *Revenue from Contracts with Customers* published on 12 April 2016).
  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). As a result of the said analysis no material changes in relation to the accounting policy applied by the Company in this area to date have been identified by the Management Board.
- IFRS 9 *Financial Instruments* (published on 24 July 2014),
- Amendments to IFRS 2 *Classification and Measurement of Share-based Payment Transactions* (published on 20 June 2016),
- IFRIC 22 *Foreign Currency Transactions and Advance Consideration* (published on 8 December 2016),
- *Improvements resulting from IFRS reviews 2014-2016* (published on 8 December 2016).

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

The Group has not decided for earlier adoption of any standard, interpretation or improvement/amendment, which was published and has not yet come into force.

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 16 *Lease Accounting* (published on 13 January 2016) – effective for annual periods beginning on or after 1 January 2019. The new standard have replaced IAS 17 Leases and interpretations relating to such types of agreements. IFRS 16 defines the principles for the recognition, measurement, presentation and disclosure of leases (see note 7.8),
- IFRS 17 *Insurance Contracts* (published on 18 May 2017) – 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,
- Amendments to IAS 19 *Employee Benefits* – 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 10 and IAS 28 *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture* (published on 11 September 2014) – effective date has not been defined by International Accounting Standards Board.
- Amendments to IFRS 3 *Business Combinations* – the amendments are effective for annual periods beginning on or after 1 January 2020; not endorsed by the EU until the date of approval of these financial statements.
- *Annual improvements resulting from IFRS reviews 2015-2017* (published in December 2017) – effective for annual periods beginning on or after 1 January 2019,

The Management Board is verifying effect of the above standards on the Group's financial position, operating results or the scope of information presented in the Company's financial statements. Apart from IFRS 16 *Lease Accounting* that have already been endorsed by the European Union, which the Group decided to implement from 1 January 2019 (as described in note 7.8), the Management Board of the Company does not expect the new standards and amendments to existing standards to have a significant impact on the consolidated financial statements of the Group for the period of initial application.

7.4. Significant accounting policies

Basis of consolidation

These consolidated financial statements comprise the financial statements of Dom Development S.A. and its subsidiaries prepared for the year ended 31 December 2018. The financial statements of the subsidiaries, after giving consideration to the adjustments made to achieve conformity with IFRS, are prepared for the same reporting period as those of the parent company, using consistent accounting policies, and based on the same accounting policies applied to similar business transactions and events. Adjustments are made to bring into line any dissimilar accounting policies that may exist.

All significant intercompany balances and transactions, including unrealised gains arising from intra-group transactions, have been eliminated in full. Unrealised losses are eliminated unless they indicate an impairment.

Subsidiaries are consolidated from the date on which control is transferred to the Group and cease to be consolidated from the date on which control is transferred out of the Group. Control is exercised by the parent company when the parent company holds, directly or indirectly, through its subsidiaries, more than half of the votes at the shareholders' meeting of that subsidiary, unless it is possible to prove that such holding does not represent control. Control is also exercised if the Company has the power to govern the financial or operating policy of a subsidiary.

Changes in the ownership interest of the parent company which do not result in the loss of control over a subsidiary are accounted for as equity transactions. In such cases, the Group adjusts the carrying value of the controlling interests and non-controlling interests in order to reflect the relative changes in the interests in the subsidiary. All differences between the value of the adjustment to the non-controlling interests and the fair value of the amount paid or received, are accounted for as the shareholders' equity and attributed to the owners of the parent company.

Investments in associates and jointly controlled entities

Investment in associates and jointly controlled entities are accounted for using the equity method. Associates and jointly controlled entities are entities in which the parent company has, either directly or through its subsidiaries, significant influence and which are not its subsidiaries. The financial statements of the associates and jointly controlled entities are the basis for valuation of shares held by the parent company using the equity method. The reporting periods applied by the associates and the parent company are the same. These entities apply accounting policies as defined in the Accounting Act. Relevant adjustments are made to align financial data of the associates and jointly controlled entities with IFRS applied by the Group, before the share in their net assets is calculated. Investments in the associates and jointly controlled entities are disclosed in the balance sheet at cost plus post-purchase changes in the parent's share in the associates' and the entities' net assets, less any impairment losses. The consolidated income statement reflects the parent's share in the results of the associated and jointly controlled entities. A carrying value adjustment may also be required due to a change in proportion of the share in the associated or the jointly controlled entity, resulting from changes in other comprehensive income of this entity. The Group's share in these changes is disclosed in other comprehensive income of the Group.

Impairment assessment of the investment in associates and jointly controlled entities takes place when there are reasons indicating that such impairment occurred or when impairment write down made in the past years is no longer required.

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 Group: 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

IFRS 9 introduces a new concept for estimating impairment allowances for financial assets. The model of incurred losses as applied in IAS 39 has been replaced by a new model based on expected losses.

Due to the nature of our receivables, despite introducing the f changes required by the standard, the impairment allowance has remained at a similar level as calculated according to the principles in force before 1 January 2018. The implementation of IFRS 9 had a negligible impact.

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 companies operating within the Group have 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 Group 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 Group'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 Group 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.

(all amounts in thousands PLN unless stated otherwise)

7.6. Intangible assets

	Other intangible assets	Computer software	Trademark	Total
GROSS VALUE				
Balance as at 1 January 2017	**8 646**	**5 492**	**-**	**14 138**
Additions, acquisition of Euro Styl Group	669	-	6 990	7 659
Additions, other	2 570	969	-	3 539
(Disposals)	(4)	(1 335)	-	(1 339)
Balance as at 31 December 2017	**11 881**	**5 126**	**6 990**	**23 997**
Additions, other	3 079	1 910	0	4 989
(Disposals)	(9)	-	-	(9)
Balance as at 31 December 2018	**14 951**	**7 036**	**6 990**	**28 977**
ACCUMULATED DEPRECIATION				
Balance as at 1 January 2017	**5 656**	**4 559**	**-**	**10 215**
Additions, acquisition of Euro Styl Group	471	-	-	471
Additions, other	2 720	787	699	4 206
(Disposals)	(4)	(1 335)	-	(1 339)
Balance as at 31 December 2017	**8 843**	**4 011**	**699**	**13 553**
Additions, other	2 754	925	1 398	5 077
(Disposals)	(9)	-	-	(9)
Balance as at 31 December 2018	**11 588**	**4 936**	**2 097**	**18 621**
NET VALUE				
as at 31 December 2017	**3 038**	**1 115**	**6 291**	**10 444**
as at 31 December 2018	**3 363**	**2 100**	**4 893**	**10 356**

Intangible assets are amortised throughout their estimated economic useful lives, which for computer software is 3 years on average. The value of the Euro Styl trademark (purchased and measured at the moment of acquisition of Euro Styl Capital Group), which is amortized over a period of 5 years, has been recognised as item trademark.

There are no intangible assets with an undefined useful life.

As at 31 December 2018 there were no circumstances that would require the Group to create revaluation write downs for its intangible assets. No collaterals have been established on intangible assets.
The costs of amortising intangible assets were disclosed in selling costs and general administrative expenses.

7.7. Tangible fixed assets

TANGIBLE FIXED ASSETS	31.12.2018	31.12.2017
Tangible fixed assets, including:		
- plants and equipment	1 415	1 229
- vehicles	6 598	6 421
- other tangible fixed assets	4 011	2 878
Total tangible fixed assets	**12 024**	**10 528**

(all amounts in thousands PLN unless stated otherwise)

TANGIBLE FIXED ASSETS	Land and buildings	Vehicles	Equipment and other tangible fixed assets	Total
GROSS VALUE				
Balance as at 1 January 2017	**8**	**8 585**	**9 367**	**17 960**
Additions, acquisition of Euro Styl Group	121	2 655	1 216	3 992
Additions, other	-	2 840	2 429	5 269
(Disposals)	(8)	(1 615)	(3 520)	(5 143)
Balance as at 31 December 2017	**121**	**12 465**	**9 492**	**22 078**
Additions	341	2 912	3 612	6 865
(Disposals)	-	(1 190)	(543)	(1 733)
Balance as at 31 December 2018	**462**	**14 187**	**12 561**	**27 210**
ACCUMULATED DEPRECIATION				
Balance as at 1 January 2017	**8**	**4 284**	**6 092**	**10 384**
Additions, acquisition of Euro Styl Group	30	799	803	1 632
Additions, other	5	1 792	1 533	3 330
(Disposals)	(8)	(831)	(2 957)	(3 796)
Balance as at 31 December 2017	**35**	**6 044**	**5 471**	**11 550**
Additions	24	2 258	2 562	4 844
(Disposals)	(1)	(713)	(494)	(1 208)
Balance as at 31 December 2018	**58**	**7 589**	**7 539**	**15 186**
NET VALUE				
as at 31 December 2017	**86**	**6 421**	**4 021**	**10 528**
as at 31 December 2018	**404**	**6 598**	**5 022**	**12 024**

The additions to tangible fixed assets were made as a result of acquisition (also of the acquisition of subsidiaries).

As at 31 December 2018 there were no circumstances that would require the Group to create revaluation write downs for its tangible fixed assets.

No collaterals have been established on fixed assets.

7.8. Lease

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

The Group has decided to implement IFRS 16 *Leases* beginning on 1 January 2019.

This standard sets the principles for recognition, measurement, presentation and reporting of leases. All lease transactions result in the lessee obtaining the right to use the leased asset and incurring a liability for the payment obligation. Hence, IFRS 16 eliminates the classification of leases as either operating leases or financial leases, as previously defined by IAS 17, and introduces a single model for lease accounting by the lessee. The lessee will be required to recognize:

- assets and liabilities for all leasing transactions concluded for a period of 12 months or more, except when the asset is of low value; and

- depreciation of leased assets separately from interest on lease liabilities in the income statement.

The analysis conducted by the Management Board has shown that, as at the date of initial application of IFRS 16, the following new significant assets that meet the criteria of the new standard will be recognized in the Group's balance sheet:

- right-of-use of office space, on the basis of lease agreements,

- rights of perpetual usufruct of land.

For the above mentioned agreements/rights, the Group as lessee will recognize lease liabilities as measured at the present value of unavoidable future lease payments, discounted at the marginal interest rates of the Group, and recognize assets arising from the right-of-use at an amount equal to the lease liabilities.

Depending on the type of leased assets, leasing costs will be recognized as follows:

- right-of-use of office space –will be depreciated and financial costs due to leasing will be recognized;

- right of perpetual usufruct of land - as before, costs will be allocated to inventories (in "Semi-finished goods and work in progress") while a real estate development project is under way.

The choice of this method of allocating the fees for perpetual usufruct right of land is due to the fact that these rights concern the properties on which the Group carries out its housing development projects. Consequently, current perpetual usufruct fees are expensed as inventories (work in progress), and subsequently expensed, together with the cost of sales of finished goods, to the profit and loss account in the period in which the finished goods are delivered to clients (i.e. at the point in time when sales are recognized).

With the entry into force of the Act of 20 July 2018 on conversion of the perpetual usufruct right to land developed for housing purposes into ownership right of this land, in the case of land on which residential buildings are constructed and for which Occupancy Permits have been issued prior to 1 January 2019, the perpetual usufruct right to land developed for housing purposes should generally be converted into ownership right of this land as of that date. As regards land developed with multi-family residential buildings that have not yet been put into service, the conversion date for such properties will be the day on which the decision permitting the occupancy of the building becomes final.

The Group will treat land subject to the above-described conversion in a similar way as the land of which it has been the existing perpetual usufructuary, accounting for conversion fees just as for perpetual usufruct fees.

Impact of IFRS 16 on the financial statements of the Group

The Group has decided to implement IFRS 16 using the simplified approach, i.e. retrospectively, with the cumulative effect of first-time adoption of this standard recognized as at the date of its initial application. This eliminates the need for converting comparative data and allows for the effect of application of this standard to be recognized as an adjustment to the opening balance of retained profits as at the date of its initial application.

As a result of the analysis of lease agreements, the Management Board takes the view that that the adoption of this new standard will have no effect on the financial results presented by the Group and there will be no need for any adjustment to the opening balance of retained profits as at 1 January of 2019.

The Group has decided to present right-of-use assets within the same item in which the relevant underlying assets would be presented if they were owned by the lessee (Group):

- right-of-use of office space - will be shown in the balance sheet in *Tangible fixed assets*

- right of perpetual usufruct of land - will be shown in the balance sheet in *Inventory*.

Accordingly, lease liability will be also recognised as broken down into long- and short-term liabilities.

In the opinion of the Management Board, the implementation of IFRS 16 will have a significant impact on the financial statements because it will result in an increase of the sum of assets and liabilities, and consequently affect certain financial ratios which relate to these figures. At the same time the implementation of the new standard will result in increased depreciation costs and financial costs while reducing the cost of services (i.e. costs of rental of office space presented to date in Selling costs and in General administrative expenses), thus leading to an improved EBITDA.

(all amounts in thousands PLN unless stated otherwise)

The impact of initial application of IFRS 16 as at 1 January of 2019 is presented in the following table:

Assets	**01.01.2019**	**adjustments**	**31.12.2018**
Fixed assets			
Tangible fixed assets	49 622	37 598	12 024
Current assets			
Inventory	2 200 584	87 044	2 113 540

Equity and liabilities	**01.01.2019**	**adjustments**	**31.12.2018**
Shareholders' equity			
Unappropriated profit	229 960	-	229 960
Liabilities			
Long-term liabilities			
Non-current portion of lease liabilities	115 069	115 069	-
Short-term liabilities			
Current portion of lease liabilities	9 573	9 573	-

As described above, due to the application of IFRS 16 assets and liabilities on account of perpetual usufruct right of land must be recognized at the present value of unavoidable future payments of perpetual usufruct fees.

In accordance with the new standard, the Group is obligated to discount all future payments arising from its being the holder of perpetual usufruct right, to be made during the period for which such right is granted in respect of individual properties (and which may be up to 99 years). This period does not depend on the period of time during which the Group expects to remain the holder of such perpetual usufruct right.

On the basis of the plans for conducting real estate development projects on the individual properties for which the Group holds perpetual usufruct rights (and for which the lease-related asset and liability was calculated and recognised above, and determined in accordance with IFRS 16 at PLN 87 044 thousand), the Management Board estimates that the sum of discounted expected future payments, before the perpetual usufruct rights to that land is transferred to the clients, is PLN 7 478 thousand as at 1 January 2019.

7.9. Investment in the joint venture

The joint venture Fort Mokotów sp. z o.o, w likwidacji (under liquidation) was wound up on 26 April 2018. As a result of the liquidation the Company received cash in the amount of PLN 484 thousand. The nominal value of the shares owned by the Company at PLN 1 960 thousand was reduced by the share revaluation write down, which on the date of winding up of the company and as at 31 December 2017 was PLN 1 960 thousand.

7.10. Long-term receivables

As at 31 December 2018 and 31 December 2017, the Group disclosed long-term receivables in the amount of PLN 1 618 thousand and PLN 1 612 thousand, respectively. As at 31 December 2018 the long-term receivables included refundable deposits in the amount of PLN 1 458 thousand and other long-term receivables amounting to PLN 160 thousand. As at 31 December 2017 the long-term receivables included refundable deposits in the amount of PLN 1 458 thousand and other long-term receivables amounting to PLN 154 thousand. All these receivables are denominated in PLN.

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

(all amounts in thousands PLN unless stated otherwise)

7.11. Inventory

INVENTORY	31.12.2018	31.12.2017
Advances on deliveries	**89 918**	**68 628**
including: at purchase prices/production costs	89 918	68 628
write down to the net realisable value	-	-
Semi-finished goods and work in progress	**1 688 902**	**1 640 470**
including: at purchase prices/production costs	1 721 596	1 672 939
write down to the net realisable value	(32 694)	(32 469)
Finished goods	**334 720**	**279 954**
including: at purchase prices/production costs	343 364	289 987
write down to the net realisable value	(8 644)	(10 033)
Total	**2 113 540**	**1 989 052**

INVENTORY REVALUATION WRITE DOWNS	01.01-31.12.2018	01.01-31.12.2017
Opening balance	**42 502**	**30 292**
Increments, including:	1 227	16 611
Revaluation write down in the Euro Styl S.A. Group at the time of acquisition	-	534
Other increments	1 227	16 077
Decreases	(2 391)	(4 401)
Closing balance	**41 338**	**42 502**

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

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	31.12.2018	31.12.2017
Carrying value of inventory used to secure liabilities	351 764	375 600
Mortgages: Value of mortgages established to secure real estate purchase agreements	-	-
Value of mortgages established to secure loan agreements (cap)	352 500	375 600

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.

	01.01-31.12.2018	01.01-31.12.2017
Preparatory works	1 025	539

(all amounts in thousands PLN unless stated otherwise)

7.12. Trade and other receivables

TRADE AND OTHER RECEIVABLES	31.12.2018	31.12.2017
Trade receivables	11 331	16 099
Receivables from related entities	-	22
Tax receivables	23 522	17 198
Other receivables	17 491	1 623
Total	**52 344**	**34 942**

The tax receivables incorporate VAT receivables in the amount of PLN 23 522 thousand and PLN 17 198 thousand as at 31 December 2018 and 31 December 2017 respectively.

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

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

AGING STRUCTURE OF TRADE RECEIVABLES	31.12.2018	31.12.2017
Up to 3 months	12 199	15 486
From 3 to 6 months	973	150
From 6 months to 1 year	874	264
Over 1 year	2 358	2 325
Gross trade receivables	**16 404**	**18 225**
Receivables revaluation write downs	(5 073)	(2 126)
Net trade receivables	**11 331**	**16 099**

The write downs fully relate to overdue trade receivables.

CHANGE IN THE WRITE DOWNS FOR TRADE AND OTHER RECEIVABLES	01.01-31.12.2018	01.01-31.12.2017
Opening balance	**2 126**	**2 430**
Increments, including:	3 009	224
Revaluation write down in the Euro Styl Group at the time of acquisition	-	40
Other increments	3 009	184
Decreases	(62)	(528)
Closing balance	**5 073**	**2 126**

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	31.12.2018	31.12.2017
Deferred costs	5 261	3 851
Accrued financial income on deposits	64	120
Total	**5 325**	**3 971**

(all amounts in thousands PLN unless stated otherwise)

7.14. Short-term financial assets

SHORT-TERM FINANCIAL ASSETS	31.12.2018	31.12.2017
Bank deposits with a maturity over three months	50	49
Cash in open-end residential escrow accounts	34 838	51 457
Cash in other escrow accounts	-	-
Total	**34 888**	**51 506**

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 Group 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 Group'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	31.12.2018	31.12.2017
Cash in hand and at bank	63 687	77 755
Short-term deposits	218 787	201 855
Other	18	43
Total	**282 492**	**279 653**

7.16. Share capital

Description of changes to the share capital in the Company in the period from 1 January until 31 December 2018

Change in the reporting period	Share capital		Share premium
	Number of shares	Value at the nominal value	
Balance as at 1.01.2018	**24 868 422**	**24 868**	**238 388**
Change	100 000	100	3 400
Balance as at 31.12.2018	**24 968 422**	**24 968**	**241 788**

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.

(all amounts in thousands PLN unless stated otherwise)

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.

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 29 March 2018. These shares have been introduced to trading on the stock exchange in the regulated market on 17 May 2018, and they were registered with the National Depository for Securities (Krajowy Depozyt Papierów Wartościowych S.A.) on 21 May 2018.

SHARE CAPITAL (STRUCTURE) AS AT 31.12.2018

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	10.03.2017
Y	Bearer	-	-	100 000	100 000	cash	29.03.2018	21.05.2018
Total number of shares				**24 968 422**				
Total share capital					**24 968 422**			
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 2018.

	Status as at 31 December 2018			
	Shares	**% of capital**	**Number of votes at the GSM**	**% of votes at the GSM**
Dom Development B.V.	14 155 941	56.70	14 155 941	56.70
Jarosław Szanajca	1 454 050	5.82	1 454 050	5.82
Aviva Powszechne Towarzystwo Emerytalne Aviva Santander SA*)	1 313 383	5.26	1 313 383	5.26
Grzegorz Kiełpsz	1 280 750	5.13	1 280 750	5.13

*) Shareholding of Aviva OFE Aviva Santander (formerly Aviva OFE Aviva BZ WBK) has been presented as per the latest notice as of 11.07.2011 received by the Company from Aviva PTE Aviva BZ WBK S.A.

(all amounts in thousands PLN unless stated otherwise)

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 2018.

	Status as at 31 December 2018		
	Shares	**Share options**	**Total**
The Management Board			
Jarosław Szanajca	1 454 050	-	1 454 050
Małgorzata Kolarska *)	131 500	400 000	531 500
Janusz Zalewski	350 000	-	350 000
Terry Roydon	58 500	-	58 500
Mikołaj Konopka	1 292	-	1 292
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

7.17. Share premium

In the twelve-month period ended 31 December 2018, the value of the item "Share premium" changed by PLN 3 400 thousand as a result of the increase of the share capital, described in note 7.16.

The value of the share premium was PLN 241 788 thousand and PLN 238 388 thousand as at 31 December 2018 and 31 December 2017 respectively.

7.18. Additional information on shareholders' equity

As at 31 December 2018 and 31 December 2017 the Company's shares were not owned by any of its subsidiaries.

In the twelve-month period ended 31 December 2018 and 2017 the Company did not hold any treasury shares.

7.19. Dividend and profit distribution

The Ordinary General Meeting of the Company resolved on 7 June 2018 to assign PLN 189 760 007.20 to dividends, including:
- PLN 186 112 545.02 net profit of Dom Development S.A. for the year ended 31 December 2017;
- PLN 3 647 462.18 that is a portion of the Dom Development S.A. supplementary capital derived from the profit carried forward

that is PLN 7.60 per each share.

The dividend day was set at 26 June 2018 and the dividend payment day was set at 4 July 2018. The dividend was paid out in accordance with the resolution.

In the preceding year, PLN 125 585 531.10 was appropriated to dividends and the dividend payment amounted to PLN 5.05 per share, while 2 155 024.36 was allocated to the increase of the Company's supplementary capital.

(all amounts in thousands PLN unless stated otherwise)

7.20. Loans

Description of material changes in the twelve-month period ended 31 December 2018

On 25 May 2018, the loan agreement between Euro Styl S.A. and PKO BP S.A. was terminated by agreement of the parties. In accordance with the agreement, the facility was to be repaid on 29 September 2018.

There were no other loan agreements or any other agreements within the Group that expired in the twelve-month period ended 31 December 2018. Total loan liabilities remained unchanged.

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

LOANS DUE WITHIN	31.12.2018	31.12.2017
Less than 1 year	50 000	50 000
More than 1 year and less than 2 years	-	-
More than 2 years and less than 5 years	35 000	35 000
Over 5 years	-	-
Total loans	**85 000**	**85 000**
including: long-term	35 000	35 000
short-term	50 000	50 000

As at 31 December 2018 and 31 December 2017 all the loans taken by the Company were expressed in Polish zloty.

BANK LOANS AS AT 31.12.2018						
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	35 000	PLN	01.03.2021
Total bank loans				**85 000**	**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 2018 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 Group states the nominal value of the 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 Group approximately equals their book value, including accrued interest.

7.21. Bonds

BONDS	31.12.2018	31.12.2017
Nominal value of the bonds issued, long-term portion	310 000	260 000
Nominal value of the bonds issued, short-term portion	-	50 000
Nominal value of the bonds issued	**310 000**	**310 000**

In the "Bonds" item the Group 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".

(all amounts in thousands PLN unless stated otherwise)

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 ograczniczoną 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 Programme 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 2018

On 26 March 2018, the Company redeemed 5 000 bearer bonds with the nominal value of PLN 10 000 each and the aggregate nominal value of PLN 50 000 thousand as maturing on this date.

On 09 October 2018, the Company issued 50 000 unsecured bonds with the nominal value of PLN 1 000 each and the aggregate nominal value of PLN 50 000 thousand. The maturity date for these bonds is 09 October 2023. The issue value equals nominal value of the bonds. The interest rate is set at WIBOR 6M plus margin and will be paid semi-annually. No purpose for the bond issue was specified. The funds from the issue have been designated for current operations of the Company.

BONDS ISSUED AS AT 31 DECEMBER 2018				
Series	**Issue date**	**Amount**	**Currency**	**Contractual maturity date**
DOMDE5120620	12.06.2016	100 000	PLN	12.06.2020
DOMDE6151121	15.11.2016	110 000	PLN	15.11.2021
DOMDET1151222	15.12.2017	50 000	PLN	15.12.2022
DOMDET2091023	09.10.2018	50 000	PLN	09.10.2023
	Total:	**310 000**	**PLN**	

(all amounts in thousands PLN unless stated otherwise)

7.22. Accrued interest on loans and bonds

ACCRUED INTEREST ON LOANS AND BONDS	31.12.2018	31.12.2017
Accrued interest on bonds	1 180	1 368
Accrued interest on loans	-	5
Total accrued interest on loans and bonds	**1 180**	**1 373**

7.23. Deferred tax assets and provisions

Deferred tax is the outcome of the following items:

	Balance sheet		Income statement / Statement of comprehensive income	
	31.12.2018	**31.12.2017**	**01.01-31.12.2018**	**01.01-31.12.2017**
Deferred tax provision				
Foreign exchange differences		-	-	(1)
Accrued interest	12	23	(11)	(94)
Discounting of liabilities	1 257	1 147	110	354
Result on the sale of units – without legal ownership transfer agreements	48 747	60 240	(11 493)	34 295
Capitalised financial costs	3 326	3 263	63	(178)
Lease	72	75	(3)	75
Trademark	930	1 195	(265)	1 195
Other	151	2	149	-
Total deferred tax provision	**54 495**	**65 945**	**(11 450)**	**35 646**
Deferred tax assets				
Foreign exchange differences	1	1	-	1
Inventory revaluation	8 463	8 439	24	2 716
Receivables revaluation write downs and other provisions	115	113	2	(65)
Provision for employee benefits	7 458	5 052	2 406	1 754
Provision for other costs	6 284	5 183	1 101	1 081
Elimination of margin on intragroup transactions	993	907	86	907
Euro Styl Group acquisition cost	1088	1 088	-	1 088
Valuation of financial assets	627	90	537	120
Tax loss possible to be settled	2 231	1 309	922	880
Other	80	5	75	-
Total deferred tax assets	**27 340**	**22 187**	**5 153**	**8 482**
Change in provision for deferred tax resulting from the acquisition of subsidiaries, determined as of the date of the acquisition.				**21 306**
Deferred tax expense concerning income statement			**(16 056)**	**5 912**
Deferred tax expense concerning other net comprehensive income			**(547)**	**(54)**
Deferred tax assets shown in the balance sheet	**2 410**	**1 434**		
Deferred tax provision shown in the balance sheet, net	**29 565**	**45 192**		

(all amounts in thousands PLN unless stated otherwise)

7.24. Long-term provisions

LONG-TERM PROVISIONS	31.12.2018	31.12.2017
Provision for repair costs, long-term portion	15 735	13 655
Provision for retirement benefits	885	666
Total	**16 620**	**14 321**

LONG-TERM PROVISIONS – CHANGES	01.01-31.12.2018	01.01-31.12.2017
Opening balance	**14 321**	**14 346**
Provisions created in the financial year	3 045	1 738
Provisions used/reversed in the financial year	(746)	(1 763)
Closing balance	**16 620**	**14 321**

7.25. Other long-term liabilities

OTHER LONG-TERM LIABILITIES	31.12.2018	31.12.2017
Guarantee retentions, long-term portion	54 362	50 071
Other	6 725	6 117
Closing balance	**61 087**	**56 188**

7.26. Trade payables, tax and other liabilities

TRADE PAYABLES, TAX AND OTHER LIABILITIES	31.12.2018	31.12.2017
Trade payables, including guarantee retentions (short-term portion)	189 732	177 283
Tax liabilities	2 599	3 351
Accrued costs	127 617	87 526
Company Social Benefits Fund	103	16
Other liabilities	2 586	3 266
Total liabilities	**322 637**	**271 442**
Accrued costs structure	**127 617**	**87 526**
- estate construction costs	88 459	61 167
- employee costs	31 405	19 360
- rent for office space	2 645	1 358
- other	5 108	5 641

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.

	31.12.2018	31.12.2017
Guarantee retentions, short-term portion	48 034	37 372
Guarantee retentions, long-term portion	54 362	50 071
Total guarantee retentions	**102 396**	**87 443**

(all amounts in thousands PLN unless stated otherwise)

7.27. Short-term provisions

SHORT-TERM PROVISIONS	31.12.2018	31.12.2017
Provision for repair costs, short-term portion	8 189	6 040
Provision for disputes	3 148	2 676
Total	**11 337**	**8 716**

SHORT-TERM PROVISIONS – CHANGES	01.01-31.12.2018	01.01-31.12.2017
Opening balance	**8 716**	**7 696**
Provisions created in the financial year	8 071	8 022
Opening balance provision in the acquired subsidiary at the acquisition date	-	50
Provisions used/reversed in the financial year	(5 450)	(7 052)
Closing balance	**11 337**	**8 716**

7.28. Deferred income

DEFERRED INCOME	31.12.2018	31.12.2017
Deferred income related to the payments received from customers for the purchase of products, not yet included as income in the income statement	624 779	564 082
Other	69	4 224
Total	**624 848**	**568 306**

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	31.12.2018	31.12.2017
FINANCIAL ASSETS		
Long-term receivables	1 618	1 612
Trade and other receivables	28 822	17 722
Receivables from related entities	-	22
Total borrowings and receivables	**30 440**	**19 356**
Other	18	43
Financial assets valued at their fair value through the income statement (designated for trading)		
Cash in hand and at bank	63 687	77 755
Short-term deposits	218 787	201 855
Short-term financial assets	34 888	51 506
Maximum credit risk exposure	**347 820**	**350 515**
FINANCIAL LIABILITIES		
Loans	85 000	85 005
Own bonds issued	311 180	311 368
Trade payables, accrued and other liabilities	381 022	320 997
Financial liabilities valued at amortised cost	**777 202**	**717 370**

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

(all amounts in thousands PLN unless stated otherwise)

7.31. Financial risk management

The Group 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 Group'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 Group uses foreign currency derivatives (forward and swap) to hedge its significant F/X transactions.

As at 31 December 2018 and 31 December 2017 the Group 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 Group 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 Group does not have fixed rate loans or bonds. Currently, the Group has short-term, medium-term and long-term variable interest rate loans and bonds which results in the cash flow risk exposure.

Furthermore, the Group 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 Group 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	31.12.2018	31.12.2017
Financial assets	317 362	331 116
Financial liabilities	396 180	396 373
Net total	**(78 818)**	**(65 257)**

(all amounts in thousands PLN unless stated otherwise)

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 2018 and 31 December 2017 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 2018				
Variable interest rate assets	857	(857)	857	(857)
Variable interest rate liabilities*	(1 070)	1 070	(1 070)	1 070
Net sensitivity	**(213)**	**213**	**(213)**	**213**
31 December 2017				
Variable interest rate assets	894	(894)	894	(894)
Variable interest rate liabilities*	(1 070)	1 070	(1 070)	1 070
Net sensitivity	**(176)**	**176**	**(176)**	**176**

* 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 Group's main financial assets, and represent its highest exposure to credit risk in relation to financial assets.

The Group’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 Group 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 Group against the credit risk.

Credit risk is not highly concentrated in the Group. 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 Group, 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”.

(all amounts in thousands PLN unless stated otherwise)

Liquidity risk

The liquidity risk is the risk that the Group will not be able to pay its financial liabilities when they become due. The Group'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 Group's reputation.

The table below presents the total value of future non-discounted cash flows for Group'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 2018					
Loans	87 332	50 559	532	1 064	35 177
Own bonds issued	346 798	6 355	6 355	110 489	223 599
Trade and other payables	380 690	317 897	9 044	6 820	46 929
Financial lease liabilities	332	68	62	113	89
Total	**815 152**	**374 879**	**15 993**	**118 486**	**305 794**
31 December 2017					
Loans	88 397	50 540	536	1 071	36 250
Own bonds issued	347 300	55 700	5 200	10 400	276 000
Trade and other payables	329 124	263 825	7 130	15 678	42 491
Financial lease liabilities	431	170	109	32	120
Total	**765 252**	**370 235**	**12 975**	**27 181**	**354 861**

The Group 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 Group 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 Group.

For the years ended 31 December 2018 and 2017 the return on equity (calculated as net profit to the annual average value of shareholders' equity) amounted to 22.2% and 19.3%, respectively. In that period, the average weighted cost of interest on the Company's debt amounted to 3.9% in 2018 and 3.9% in 2017.

As at 31 December 2018 and 2017 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 7.4% and 6.4% respectively.

The companies operating within the Group are not a subject to any external capital requirements, except for the legal regulations of the Code of Commercial Companies and Partnerships.

(all amounts in thousands PLN unless stated otherwise)

7.32. Earnings per share

CALCULATION OF BASIC AND DILUTED EARNINGS PER SHARE	01.01-31.12.2018	01.01-31.12.2017
Basic earnings per share		
Profit for calculation of the basic earnings per share	227 021	190 674
The weighted average number of ordinary shares for the calculation of basic earnings per share	24 944 312	24 866 070
Basic earnings per share (PLN)	**9.10**	**7.67**
Diluted earnings per share		
Profit for calculation of the diluted earnings per share	227 021	190 674
Potential diluting shares related to the Management Share Option Programme	158 115	10 655
The weighted average number of ordinary shares for the calculation of diluted earnings per share	25 102 427	24 876 725
Diluted earnings per share (PLN)	**9.04**	**7.66**

As the Group 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--31.12.2018	01.01--31.12.2017
Current income tax	71 087	39 533
Income tax carried forward *)	588	-
Deferred tax	(16 056)	5 912
Total	**55 619**	**45 445**

**) Adjustment of income tax for 2017. This adjustment have effected in the adjustment of the same amount to the deferred tax.*

The corporate income tax payables of the companies operating within the Group as at 31 December 2018 and 2017 was PLN 30 531 thousand and PLN 27 531 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 Group is presented in the table below.

RECONCILIATION	01.01-31.12.2018	01.01-31.12.2017
Gross profit before tax	**282 642**	**236 232**
As per 19% tax rate	53 702	44 884
Permanent differences not subject to the current and deferred tax in the financial statements (except for cost of the management options)	832	(276)
Tax effect of management options permanently not being a tax deductible cost	1 099	837
Other	(14)	-
Actual income tax expense	**55 619**	**45 445**
Effective tax rate	**19.68%**	**19.24%**

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 tax policies of companies operating within the Group 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 Group 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.

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

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

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

(all amounts in thousands PLN unless stated otherwise)

Financial data grouped together on the basis of the geographical location of the Group's real property development projects have been presented below:

Figures for the 12-month period ended 31.12.2018	Segments			
	Warsaw	Wrocław	Tricity	Total
Sales revenue	1 263 747	54 237	335 949	1 653 933
Gross profit on sales, before the allocation of purchase price**)	372 538	10 908	123 277	506 723
Allocation of the Euro Styl S.A. Capital Group purchase price***)	-	-	(51 614)	(51 614)
Gross profit on sales after the allocation of purchase price	**372 538**	**10 908**	**71 663**	**455 109**
Selling costs, and general administrative expenses				(161 558)
Other operating income and expenses, net				(11 532)
Operating profit				**282 019**
Financial income and costs, net				623
Profit before tax				**282 642**
Income tax				(55 619)
Net profit				**227 023**

Figures for the 12-month period ended 31.12.2017	Segments			
	Warsaw	Wrocław	Tricity *)	Total
Sales revenue	1 273 370	24 154	107 159	1 404 683
Gross profit on sales, before the allocation of purchase price**)	357 826	2 994	39 279	400 099
Allocation of the Euro Styl S.A. Capital Group purchase price***)	-	-	(14 363)	(14 363)
Gross profit on sales after the allocation of purchase price	**357 826**	**2 994**	**24 916**	**385 736**
Selling costs, and general administrative expenses				(138 398)
Other operating income and expenses, net				(11 946)
Operating profit				**235 392**
Financial income and costs, net				840
Profit before tax				**236 232**
Income tax				(45 445)
Net profit				**190 787**

*) information for the Tricity for the period from 8.06.2017 to 31.12.2017.

*) for the Tricity market, the gross profit on sales results from the financial data of the Euro Styl S.A. Group and does not include the additional cost of the Euro Styl S.A. Capital Group acquisition that was allocated in the consolidation as resulting from the measurement of the Euro Styl S.A. Capital Group inventory as of the purchase date at fair value as allocated in the consolidation (see also the comments below).

***) the additional cost resulting from the allocation of the Euro Styl S.A. Capital Group acquisition price. This cost is the difference between the carrying value of the Euro Styl S.A. Capital Group's inventory and the fair value assessed as at the date when the Group was purchased by the Company. This cost in the consolidated financial statements is adequately recognised as production cost of products sold that was accounted for in the income statement in the specific financial period.

(all amounts in thousands PLN unless stated otherwise)

7.35. Operating income

REVENUE BREAKDOWN	01.01-31.12.2018	01.01-31.12.2017
Sales of finished goods	1 626 709	1 374 938
Sales of services	21 165	29 378
Sales of goods (land)	6 059	367
Total	**1 653 933**	**1 404 683**

7.36. Operating costs

OPERATING COSTS	01.01-31.12.2018	01.01-31.12.2017
Cost of sales		
Cost of finished goods sold	(1 174 114)	(976 113)
Cost of services sold	(20 678)	(30 396)
Cost of goods sold	(4 527)	(293)
Inventory write down to the net realisable value	495	(12 145)
Total cost of sales	**(1 198 824)**	**(1 018 947)**
Selling costs, and general administrative expenses		
Selling costs	(69 818)	(62 781)
General administrative expenses	(91 740)	(75 617)
Total selling costs, and general administrative expenses	**(161 558)**	**(138 398)**
Selling costs, and general administrative expenses by kind		
Depreciation	(9 594)	(7 330)
Cost of materials and energy	(15 850)	(14 996)
External services	(48 153)	(43 106)
Taxes and charges	(841)	(397)
Remuneration	(62 842)	(53 447)
Social security and other benefits	(8 618)	(6 904)
Management Option Programme	(5 785)	(4 406)
Other prime costs	(9 875)	(7 812)
Total selling costs, and general administrative expenses by kind	**(161 558)**	**(138 398)**

The selling costs and general administrative expenses in 2018, as compared to 2017, was strongly affected by several factors. The most important ones are fast growth and operational expansion of Dom Development Wrocław Sp. z o.o., establishment of Dom Construction Sp. z o.o. in 2018, and the fact that the 2017 figures included the operational costs of Euro Styl Group only for the period from 8 June 2017, that is from when the company had been acquired by Dom Development Group.

7.37. Payroll costs

PAYROLL COST AND AVERAGE EMPLOYMENT (including the management)	01.01-31.12.2018	01.01-31.12.2017
Individual personnel categories (number of staff)	**308**	**245**
White-collar workers	308	245
Blue-collar workers	-	-
General remuneration elements, including:	**71 460**	**60 351**
Remuneration	62 842	53 447
Social security and other benefits	8 618	6 904

The cost of management option programme that accounted for PLN 5 785 thousand and PLN 4 406 thousand in the years ended 31 December 2018 and 2017, respectively, have not been disclosed in the table above.

(all amounts in thousands PLN unless stated otherwise)

7.38. Other operating income

OTHER OPERATING INCOME	01.01-31.12.2018	01.01-31.12.2017
Revenues from contractual penalties, arrangements and compensations	533	528
Reversal of provision for costs	859	-
Gain from a bargain purchase	-	7 742
Revenues from compensations	834	-
Revenues from the liquidation of a subsidiary	484	-
Other	565	432
Total	**3 275**	**8 702**

7.39. Other operating expenses

OTHER OPERATING EXPENSES	01.01-31.12.2018	01.01-31.12.2017
Provision for penalties and arrangements	1 389	1 732
Donations	1 189	1 301
Provision for other costs	1 376	1 291
Provision for disputes and receivables	-	-
Bad debt written down	37	252
Cost of repairs and defects (including change in provision)	9 252	6 739
Costs of discontinued projects	-	270
Cost of subsidiary acquisition	-	7 613
Loss on sale and liquidation of assets	-	845
Cost of fees	950	-
Other	614	605
Total	**14 807**	**20 648**

7.40. Financial income

FINANCIAL INCOME	01.01-31.12.2018	01.01-31.12.2017
Interest on bank deposits (non-capitalized part of interest)	2 065	793
Revenue from discounting receivables and payables	574	-
Other interest	19	2 305
Foreign exchange differences	43	-
Other	-	16
Total	**2 701**	**3 114**

7.41. Financial costs

FINANCIAL COSTS	01.01-31.12.2018	01.01-31.12.2017
Interest on loans and bonds (non-capitalized part of interest)	676	728
Other interest	113	73
Commissions and fees	636	56
Cost from discounting receivables and payables	-	584
Valuation of long-term investments (CAP options)	653	833
Total	**2 078**	**2 274**

(all amounts in thousands PLN unless stated otherwise)

7.42. Interest cost

INTEREST COST	01.01-31.12.2018	01.01-31.12.2017
Financial costs (interest) capitalised under work in progress*)	9 807	8 246
Financial costs (interest) disclosed in the income statement	843	801
Total interest costs	**10 650**	**9 047**

*) 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 2018 and 2017, 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	01.01-31.12.2018	01.01-31.12.2017
Woodsford Consulting Limited	Consulting services as per the agreement dated 27.06.2007 as annexed	2 154	1 902
Hansom Property Company Limited	Consulting services as per the agreement dated 2.01.2001 as annexed	1 009	848
Kirkley Advisory Limited	Consulting services as per the agreement dated 29.09.2017	96	48
M & M Usługi Doradcze M. Kolarski	Consulting services	277	73

DOM DEVELOPMENT S.A. AS A SELLER OF GOODS OR SERVICES:

Counterparty	Transaction description	01.01-31.12.2018	01.01-31.12.2017
Fort Mokotów sp. z o.o. w likwidacji (under liquidation)	Repair services as per the agreement dated 22 July 2005	32	96

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

Counterparty	Transaction description	01.01-31.12.2018	01.01-31.12.2017
Fort Mokotów sp. z o.o. w likwidacji (under liquidation)	Receipt under the shares	484	-

DOM DEVELOPMENT S.A. AS A DIVIDEND PAYAER:

Counterparty	Transaction description	01.01-31.12.2018	01.01-31.12.2017
Dom Development B.V.	Dividend paid	107 919	73 761

(all amounts in thousands PLN unless stated otherwise)

BALANCES WITH RELATED ENTITIES – balances as in the books of the Company				
Entity	Receivables from related entities		Liabilities to related entities	
	31.12.2018	31.12.2017	31.12.2018	31.12.2017
Total balance	**-**	**20**	**143**	**146**
Jointly controlled entities	**-**	**20**	**-**	**-**
Fort Mokotów sp. z o.o. w likwidacji (under liquidation)	-	20	-	-
Other entities	**-**	**-**	**143**	**146**
M&M Usługi Doradcze M. Kolarski	-	-	3	3
Woodsford Consulting Limited	-	-	140	143

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
Grzegorz Kiełpsz and a person closely related	Sale agreement for real estate comprising the undeveloped plot of land no. 24/46 with an area of 26 sq.m	01.03.2018	33 358.00
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 133.33 sq.m in the "Apartamenty Włodarzewska 30" project in the performance of the promise of sale agreement dated 18.05.2018.	17.10.2018	1 311 967.20
Mikołaj Konopka	Development agreement for a residential unit with floor area of 44.57 sq.m, including a fit-out and the sale agreement for a parking space in the "Apartamenty Mokotów nad Skarpą 2" project.	05.10.2018	607 243.40
A legal person closely related to Mikołaj Konpka	Preliminary sale agreement for 16 non-residential units with aggregate floor area of 992.64 sq.m, 32 surface parking spaces and 10 parking spaces in the Spektrum poject in Gdańsk developed by Euro Styl S.A.	07.12.2018	8 222 852.14
A person closely related to Grzegorz Kiełpsz	Promise of sale agreement for a residential unit with floor area of 43.15 sq.m and a parking space in the "Apartamenty Mokotów nad Skarpą 2" project.	14.12.2018	495 760.00
A person closely related to Grzegorz Kiełpsz	Promise of sale agreement for a residential unit with floor area of 43.15 sq.m and a parking space in the "Apartamenty Mokotów nad Skarpą 2" project.	14.12.2018	502 390.00
Marek Moczulski and a person closely related	Promise of sale agreement for a residential unit with floor area of 86.91 sq.m, including a fit-out, two parking spaces and a storage room in the "Apartamenty Mokotów nad Skarpą 2" project.	11.12.2018	1 132 993.20

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.

(all amounts in thousands PLN unless stated otherwise)

7.44. Incentive Plan – Management Option Programmes

As at 31 December 2018 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)
	31.12.2018			31.12.2017		
Programme IV	500 000	500 000	100 000	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 2018 the Company did not grant any new share options.

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

The fair value of the options convertible into shares granted in 2017 under Programme IV 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 value of the options on the grant date was PLN 14 924 thousand. The values of each tranche options are recognized proportionately in the income statement for the period from the option grant date to the expected date of the start of the exercise period for each individual tranche.

Exercise of the share options

On 17 January 2018, the Management Board of the Company adopted a resolution on the increase of share capital in the Company by issuing 100 000 Y series ordinary bearer shares. The shares were issued in a private placement addressed to Mr Małgorzata Kolarska, Vice President of the Management Board as a participant in Management Options Programme IV (which was described in detail in note 7.16). These shares were registered by the District Court for the capital city of Warsaw on 29 March 2018.

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

Expiry of share options

In the twelve-month periods ended 31 December 2018 and 31 December 2017 no share options expired.

(all amounts in thousands PLN unless stated otherwise)

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

In the twelve-month period ended 31 December 2018 and 2017 the amounts of PLN 5 785 thousand and PLN 4 406 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		01.01-31.12.2018	01.01-31.12.2017
Unexercised options at the beginning of the period	**Number of options**	**500 000**	**-**
	Total exercise price	**17 500**	**-**
Options granted in the period	Number of options	-	500 000
	Total option exercise value	-	17 500
Options expired in the period	Number of options	-	-
	Total option exercise value	-	-
Options exercised in the period	Number of options	100 000	-
	Total option exercise value	3 500	-
	Weighted average exercise price per share (PLN per share)	35.00	-
Unexercised options at the end of the period	**Number of options**	**400 000**	**500 000**
	Total exercise price	**14 000**	**17 500**
Exercisable options at the beginning of the period	Number of options	100 000	-
	Total exercise price	3 500	-
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	01.01-31.12.2018	01.01-31.12.2017
1. The Management Board		
Remuneration	8 124	7 778
including payments from profit	-	-
Non-pay benefits	71	104
Total remuneration	**8 195**	**7 882**
2. The Supervisory Board		
Remuneration	1 300	1 297

The cost of management option programme that accounted for PLN 5 785 thousand and PLN 4 406 in the years ended 31 December 2018 and 2017, respectively, have not been disclosed in the table above.

The composition of the Management Board and the Supervisory Board as at 31 December 2018 has been presented in note 7.48.

(all amounts in thousands PLN unless stated otherwise)

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 and Janusz Zalewski 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	

7.46. Contingent liabilities

CONTINGENT LIABILITIES	31.12.2018	31.12.2017
Guarantees	111	111
Sureties	21 743	365
Total	**21 854**	**476**

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

COLLATERALS FOR LIABILITIES	31.12.2018	31.12.2017
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	4 000	2 000
- promissory notes as a security for lease agreements	139	403
Total	**104 139**	**102 403**

7.47. Material court cases as at 31 December 2018

As at 31 December 2018 the companies operating within the Group were not a party to any material court cases.

7.48. Changes in the composition of the Management Board and the Supervisory Board of the Group parent company

Changes to the composition of the Supervisory Board

- Mr Włodzimierz Bogucki resigned from the held function of a Member of the Supervisory Board of the Company.

Mr. Włodzimierz Bogucki resigned from the position of Member of the Supervisory Board of the Company on 10 April 2018, with effect on 7 June 2018.

The reason for the resignation is that Mr Włodzimierz Bogucki was a Member of the Supervisory Board at Dom Development S.A. for nearly 12 years, and from September 2018 he will have ceased to meet the criterion defining an independent member of the Supervisory Board of Dom Development S.A., a criterion referred to in art. 129 par. 3 point 8) of the Act of 11 May 2017 on statutory auditors, audit firms and public supervision, and in article 7.7.8 of the Company's Articles of Association.

- Appointment of Ms Dorota Podedworna-Tarnowska as Member of the Supervisory Board of the Company.

The General Meeting of Shareholders the Company decided to appoint Ms Dorota Podedworna-Tarnowska to serve for the collective term of office, effective of 7 June 2017, as an independent member of the Supervisory Board, as defined in art. 129 par. 3 of the act on statutory auditors, audit firms and public supervision of 11 May 2017 (Dz.U. 2017 item 1089) and article 7.7 of the Company's Articles of Association.

Ms Dorota Podedworna-Tarnowska was appointed as Member of the Supervisory Board of the Company following the resignation of Mr Włodzimierz Bogucki.

As at 31 December 2018 the Supervisory Board of Dom Development S.A. was composed of 7 members:

Grzegorz Kiełpsz, 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
Dorota Podedworna-Tarnowska, Member of the Supervisory Board
Krzysztof Grzyliński, Member of the Supervisory Board.

Change to the composition of the Management Board

- The appointment of Mr Mikołaj Konopka to be a Member of the Management Board of the Company.

On 10 April 2018, the Supervisory Board of the Company appointed Mr Mikołaj Konopka, effective as of 10 April 2018, as a member of the Management Board of Dom Development S.A. for a joint three-year term of office.

Mr Mikołaj Konopka also holds the position of the President of the Management Board of Euro Styl S.A.

The Management Board

As at 31 December 2018 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
Mikołaj Konopka, Member of the Management Board

(all amounts in thousands PLN unless stated otherwise)

7.49. Additional information on the operating activity of the Group

In the twelve-month period ended 31 December 2018 the following material changes in the portfolio of the Group's development investments under construction took place:

Projects where the construction commenced in the period from 1 January 2018 until 31 December 2018:

Project	Company	Standard	Number of apartments	Number of commercial units	Started in
Cybernetyki 17, phase 3	Dom Development S.A.	Popular	240	-	Q1 2018
Regaty, phase 2	Dom Development S.A.	Popular	198	2	Q1 2018
Amsterdam, phase 3	Dom Development S.A.	Popular	188	14	Q1 2018
Apartamenty Dolny Mokotów	Dom Development S.A.	Apartments	148	5	Q1 2018
Studio Arte	Dom Development Wrocław Sp. z o.o.	Apartments	51	1	Q1 2018
Spektrum, building D	Euro Styl S.A.	Apartments	152	5	Q1 2018
Spektrum, building C	Euro Styl S.A.	Apartments	64	11	Q1 2018
Rezydencje Marina Mokotów	Dom Development S.A.	Apartments	91	6	Q2 2018
Apartamenty Marina Mokotów	Dom Development S.A.	Popular	215	7	Q2 2018
Żoliborz Artystyczny, phase 10	Dom Development S.A.	Popular	261	12	Q2 2018
Port Żerań, phase 2	Dom Development S.A.	Popular	330	-	Q2 2018
Idylla 1	Dom Development Wrocław Sp. z o.o.	Popular	83	-	Q2 2018
Mezzo, building B1	Euro Styl S.A.	Popular	82	-	Q2 2018
Mezzo, building B2	Euro Styl S.A.	Popular	76	-	Q2 2018
Idea building 8	Euro Styl S.A.	Apartments	38	-	Q2 2018
Beauforta, building B4	Euro Styl S.A.	Popular	18	3	Q2 2018
Beauforta, building B5	Euro Styl S.A.	Popular	36	-	Q2 2018
Beauforta, building B6	Euro Styl S.A.	Popular	27	-	Q2 2018
Beauforta, building B7	Euro Styl S.A.	Popular	24	3	Q2 2018
Wille Taneczna 2	Dom Development S.A.	Popular	81	-	Q3 2018
Stacja Grochów, phase 1	Dom Development S.A.	Popular	138	10	Q3 2018
Zielony Południk building B2	Euro Styl S.A.	Popular	26	-	Q3 2018
Zielony Południk building B3	Euro Styl S.A.	Popular	26	-	Q3 2018
Apartamenty Marina Mokotów, phase 2 stage 1	Dom Development S.A.	Popular	215	7	Q4 2018
Apartamenty Marina Mokotów, phase 2 stage 2	Dom Development S.A.	Popular	205	20	Q4 2018
Wilno 3, phase 4	Dom Development S.A.	Popular	116	-	Q4 2018
Wilno 3, phase 5	Dom Development S.A.	Popular	46	-	Q4 2018
Idea building 9	Euro Styl S.A.	Apartments	58	-	Q4 2018
Locus building 1	Euro Styl S.A.	Popular	54	5	Q4 2018
Piękna 21	Dom Development Wrocław Sp. z o.o.	Popular	196	4	Q4 2018
Total			**3 483**	**115**	

* The projects allocated to Euro Styl S.A. also include investments developed by entities from the Euro Styl S.A. Capital Group

(all amounts in thousands PLN unless stated otherwise)

Projects where the construction was completed in the period from 1 January 2018 until 31 December 2018:

Project	Company*	Standard	Number of apartments	Number of commercial units	Completed in
Premium 3 (phase 2, stage 1)	Dom Development S.A.	Popular	134	-	Q1 2018
Apartamenty Włodarzewska 30	Dom Development S.A.	Popular	114	9	Q1 2018
Moderna, phase 4	Dom Development S.A.	Popular	189	-	Q1 2018
Klasyków Wille Miejskie 2, phase 2	Dom Development S.A.	Popular	204	-	Q1 2018
Aura 2	Dom Development Wrocław Sp. z o.o.	Popular	172	-	Q1 2018
Idea building 4	Euro Styl S.A.	Apartments	31	-	Q1 2018
Amsterdam, phase 1	Dom Development S.A.	Popular	53	7	Q2 2018
Forma, phase 1	Dom Development S.A.	Popular	89	6	Q2 2018
Futura Park, building 09	Euro Styl S.A.	Popular	39	3	Q2 2018
Impuls, building D	Euro Styl S.A.	Popular	146	7	Q2 2018
Wilno VI, phase 1	Dom Development S.A.	Popular	300	9	Q3 2018
Premium 5, phase 3	Dom Development S.A.	Popular	109	4	Q3 2018
Cybernetyki 17, phase 1	Dom Development S.A.	Popular	145	1	Q3 2018
Osiedle Viridis building A2	Euro Styl S.A.	Popular	42	-	Q3 2018
Impuls, building C	Euro Styl S.A.	Popular	55	-	Q3 2018
Spektrum, building B	Euro Styl S.A.	Popular	169	-	Q3 2018
Nowy Horyzont building 12	Euro Styl S.A.	Popular	38	-	Q3 2018
Kwartet (Macierzy Szkolnej)	Euro Styl S.A.	Popular	27	-	Q3 2018
Apartamenty Mokotów nad Skarpą 2	Dom Development S.A.	Apartments	190	-	Q4 2018
Apartamenty Park Szczęśliwicki	Dom Development S.A.	Apartments	46	0	Q4 2018
Dom na Bartyckiej	Dom Development S.A.	Popular	127	4	Q4 2018
Cybernetyki 17, phase 2	Dom Development S.A.	Popular	236	11	Q4 2018
Moderna, phase 3	Dom Development S.A.	Popular	163	24	Q4 2018
Premium 4, stage 2 phase 2	Dom Development S.A.	Popular	248	0	Q4 2018
Forma, stage 2 phase 1	Dom Development S.A.	Popular	192	7	Q4 2018
Port Żerań, phase 1	Dom Development S.A.	Popular	361	1	Q4 2018
Regaty, phase 1	Dom Development S.A.	Popular	69	3	Q4 2018
Wille Lazurowa, phase 2	Dom Development S.A.	Popular	102	-	Q4 2018
Wilno 6, phase 2	Dom Development S.A.	Popular	209	2	Q4 2018
Nowy Horyzont building 11	Euro Styl S.A.	Popular	38	-	Q4 2018
Futura Park, building 7	Euro Styl S.A.	Popular	8	-	Q4 2018
Idea building 5	Euro Styl S.A.	Apartments	54	8	Q4 2018
Spektrum, building A	Euro Styl S.A.	Popular	169	-	Q4 2018
Osiedle Viridis building A1	Euro Styl S.A.	Popular	32	-	Q4 2018
Total			**4 300**	**106**	

* The projects allocated to Euro Styl S.A. also include investments developed by entities from the Euro Styl S.A. Capital Group

Information on deliveries of residential and commercial units in the reporting period

Number of residential and commercial units delivered to customers in the twelve-month period ended 31 December 2018 by the companies operating within the Group has been presented in the following table:

Deliveries	01.01 - 31.12.2018	01.01 - 31.12.2017
Apartments and commercial units	3 632	2 929

7.50. Material post-balance sheet events

- Exercise of Company share options

On 24 January 2019, the Management Board increased the share capital of the Company from the current amount of PLN 24 968 422.00 to PLN 25 068 422.00, i.e. by PLN 100 000.00, by way of issue of 100 000 series Z bearer ordinary shares with the nominal value of PLN 1.00 each. The issue of series Z shares took place through a private placement.

The purpose of the series Z 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 Z bearer ordinary shares. The reason for the exclusion of the pre-emptive right from the existing shareholders is that the issue of series Z 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 1 February 2019, 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 Z shares was PLN 35.00 per share.

On 4 February 2019, the Management Board of the Company adopted a resolution on the allocation of 100 000 series Z shares to Ms Małgorzata Kolarska. 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 28 February 2019.

- Registration of M2 Biuro spółka z o.o. and M2 Hotel spółka z o.o.

The newly created companies, M2 Biuro sp. z o.o. and M2 Hotel sp. z o.o., described in note 7.1, were registered in the National Court Register on 14 January 2019 and 28 January 2019, respectively.

On 31 January 2019, the Company concluded the preliminary agreement for the sale of all the shares in the share capital in M2 Biuro sp. z o.o., and on 11 February 2019, the Company concluded the preliminary agreement for the sale of all the shares in the share capital in M2 Hotel sp. z o.o.

- Loan agreements

- On 21 January 2019, mBank S.A. and Dom Development S.A. entered into Annex No. 8 to the Loan Agreement No. 02/197/15/Z/LI for a revolving credit facility in PLN, dated 18 May 2015. Under this annex, a new loan repayment date was fixed, falling on 22 January 2019. The said agreement expired on 22 January 2019.

- On 22 January 2019, mBank S.A. and Dom Development S.A., Dom Development Wrocław Sp. z o.o. and Euro Styl S.A. entered into Annex No. 5 to the "UMBRELLA WIELOPRODUKTOWA" Agreement of multi-product line for group companies No. 02/108/17/Z/UX, together with the consolidated text of that agreement. As a result of the signed annex, the availability period of credit limit was extended until 31 January 2023 and the credit limit amount was increased, which currently stands at PLN 185 million. Under the said agreement, Dom Development S.A. may now use the credit up to the credit limit of PLN 185 million, and Dom Development Wrocław Sp. z o.o. may use part of this credit limit, up to PLN 60 million, and Euro Styl S.A. may use part of this credit limit, up to PLN 100 million.

- On 27 February 2019, PKO Bank Polski S.A. and Dom Development S.A. and Euro Styl S.A. entered into Annex No. 3 to the overdraft facility agreement in account No. 17 1020 1026 0000 1102 0258 6402, dated 27 July 2015. As a result of the signed annex, the availability period of credit limit was extended until 26 February 2023 and the credit limit amount was increased, which currently stands at PLN 150 million. Under the said agreement, Dom Development S.A. may now use the credit up to the credit limit of PLN 150 million, and Euro Styl S.A. may use part of this credit limit, up to PLN 50 million.

7.51. Approval of the financial statements for 2017

On 7 June 2018, 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 2017, the Management's report of activities of Dom Development S.A. in 2017 and the consolidated financial statements of Dom Development S.A. Capital Group for the year ended on 31 December 2017 and the Management's report of activities of Dom Development S.A. Capital Group in 2017, as presented by the Management Board. The Ordinary General Shareholders Meeting gave a vote of approval for the Management Board for the year 2017.

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.

(all amounts in thousands PLN unless stated otherwise)

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

Fee (net, exclusive of VAT) of the entity authorised to audit financial statements of the Company has been presented in the table below.

The financial statements for 2018 were audited by PricewaterhouseCoopers Polska Sp. z o.o. Audit Sp.k. and other PricewaterhouseCoopers Polska group companies.

The financial statements for 2017 were audited by Ernst & Young Audit Polska spółka z o.o. sp.k. and other Ernst & Young group companies.

The fee (net, exclusive of VAT) of the entity authorised to audit financial statements of the Company paid or payable for the year ended 31 December 2018 and 31 December 2017 broken up by services, has been presented in the table below:

SERVICES	**01.01--31.12.2018**	**01.01--31.12.2017*)**
– Obligatory audit of annual and review of semi-annual financial statements **)	245	494
– Training ***)	-	1
– Other services ***)	-	425
Total	**245**	**920**

*) Data for 2017 concern the services provided by the Ernst & Young group companies.

**) the fee does not include the fee due for the work on the audit of financial statements for 2018 that was carried out in 2019, in the amount of PLN 187 thousand. Likewise, the amount for 2017 does not include the fee due for work on the audit of financial statements for 2017 that was carried out in 2018, in the amount of PLN 111 thousand

***) services provided by other companies of the auditor's group

7.54. Selected financial data translated into EURO

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

SELECTED DATA FROM THE CONSOLIDATED BALANCE SHEET	**31.12.2018 thousand EURO**	**31.12.2017 thousand EURO**
Total current assets	578 840	565 732
Total assets	590 454	573 113
Total shareholders' equity	243 382	240 314
Long-term liabilities	105 179	98 468
Short-term liabilities	241 893	234 330
Total liabilities	347 072	332 798
PLN/EUR exchange rate as at the balance sheet date	***4.3000***	***4.1709***

SELECTED DATA FROM THE CONSOLIDATED INCOME STATEMENT	**01.01--31.12.2018 thousand EURO**	**01.01--31.12.2017 thousand EURO**
Sales revenue	387 619	330 926
Gross profit on sales	106 660	90 875
Operating profit	66 095	55 456
Profit before tax	66 241	55 653
Net profit	53 206	44 947
Average PLN/EUR exchange rate for the reporting period	***4.2669***	***4.2447***