



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

ON THE ASSESSMENT OF:

- **FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018,**
- **MANAGEMENT BOARD'S REPORT OF ACTIVITIES OF DOM DEVELOPMENT S.A. IN 2018,**
- **CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018,**
- **MANAGEMENT BOARD'S REPORT OF ACTIVITIES OF DOM DEVELOPMENT S.A. CAPITAL GROUP IN 2018**

**for the period
from 1 January 2018 until 31 December 2018**



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1. ASSESSMENT OF THE FINANCIAL STATEMENTS AND MANAGEMENT BOARD'S REPORT OF ACTIVITIES

1.1. SCOPE OF THE ASSESSMENT

The Supervisory Board of Dom Development S.A. with its registered office in Warsaw examined and assessed:

a) Financial statements for the year ended 31 December 2018

The financial statements for the year ended 31 December 2017 prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the EU, of Dom Development S.A. with its registered office at Pl. Piłsudskiego 3 in Warsaw ("**Company**"), consisting of:

- balance sheet prepared as at 31 December 2018 with the balance of assets and liabilities in the amount of PLN 2 269 792 thousand;
- income statement for the twelve-month period ended 31 December 2018 showing a net profit of PLN 214 098 thousand;
- statement of comprehensive income for the twelve-month period ended 31 December 2018 showing a net comprehensive income of PLN 211 766 thousand;
- cash flow statement for the twelve-month period ended 31 December 2018 with the PLN 209 393 thousand net cash and cash equivalents as at 31 December 2018;
- statement of changes in shareholders' equity in the twelve-month period ended 31 December 2018 showing the PLN 1 030 611 thousand balance of shareholders' equity as at 31 December 2018;
- additional notes to the financial statements.

b) Management Board's report of activities of Dom Development S.A. in 2018

c) consolidated financial statements of Dom Development S.A. Capital Group for the year ended on 31 December 2018

The consolidated financial statements for the year ended on 31 December 2018 prepared in accordance with IFRS, of Dom Development S.A. Capital Group, where Dom Development S.A. with its registered office at pl. Piłsudskiego 3 in Warsaw is the parent company, consisting of:

- consolidated balance sheet prepared as at 31 December 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 financial statements.

d) Management Board's Report of activities of Dom Development S.A. Capital Group in 2018

1.2. Financial statements audit

The financial statements and the consolidated financial statements for the year ended on 31 December 2018 were audited on the basis of an agreement between Dom Development S.A. and PricewaterhouseCoopers sp. z o.o. with its registered office in Warsaw at Al. Armii Ludowej 14, listed by the National Council of Statutory Auditors under number 144. The selection of statutory auditor was approved by resolution no. 05/12/17 adopted on 1 December 2017 by the Supervisory Board of Dom Development S.A.

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

- a) the Act of 11 May 2017 on statutory auditors, audit firms and public supervision,
- b) National Auditing Standards in the wording of the International Standards on Auditing, as adopted by resolution no. 2783/52/2015 of the National Council of Statutory Auditors dated 10 February 2015, as amended,
- c) Regulation No. 537/2014 of the European Parliament and of the Council of 16 April 2014 on specific requirements regarding statutory audit of public-interest entities and repealing Commission Decision 2005/909/EC.

1.3. Assessment by the Supervisory Board

In the opinion of the Supervisory Board:

- a) The financial statements for the year ended on 31 December 2018:
 - give a true and fair view of the assets and financial position of Dom Development as at 31 December 2018, as well as its financial result and cash flow for the period from 1 January 2018 to 31 December 2018,
 - has been prepared in accordance with IFRS,
 - are consistent with the laws and regulations regulating the preparation of financial statements and affecting the presentation and content of the financial statements;
- b) Management Board's report of activities of Dom Development S.A. in 2018:
 - is complete in accordance with the meaning of art. 49 of the Accounting Act and the Regulation by the Minister of Finance dated 29 March 2018 on the current and periodic submissions by securities issuers and the terms of confirming equivalency of information required under the regulations of a non-Member State. The information contained in the Management Board's report of activities of the Company, is consistent with the information contained in the audited financial statements;
- c) The consolidated financial statements of Dom Development S.A. Capital Group for the year ended on 31 December 2018:
 - give a true and fair view of the assets and financial position of Dom Development S.A. Capital Group as at 31 December 2018, as well as its financial result and cash flow for the period from 1 January 2018 to 31 December 2018;
 - have been prepared in accordance with IFRS;
 - are consistent with the laws and regulations regulating the preparation of consolidated financial statements and affecting the presentation and content of the financial statements;



d) The Management Board's Report of activities of Dom Development S.A. Capital Group in 2018:

- is complete in accordance with the meaning of art. 49 of the Accounting Act and the Regulation by the Minister of Finance dated 29 March 2018 on the current and periodic submissions by securities issuers and the terms of confirming equivalency of information required under the regulations of a non-Member State. The information contained in the Management Board's report of activities of the Dom Development S.A. Capital Group, is consistent with the information contained in the audited consolidated financial statements.

The Supervisory Board have also noted that the statements were prepared in line with the books, documents and the facts, and in accordance with the provisions of law.

2. ASSESSMENT OF THE POSITION OF THE COMPANY BASED ON THE FINANCIAL STATEMENTS OF DOM DEVELOPMENT S.A. FOR THE YEAR ENDED 31 DECEMBER 2018 AND THE MANAGEMENT BOARD'S REPORT OF ACTIVITIES OF DOM DEVELOPMENT S.A. IN 2018

2.1. The shareholders of Dom Development S.A. who held, both directly or indirectly through subsidiaries, at least 5% of the overall number of votes at the General Shareholders' Meeting as at 31 December 2018

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.

The table below shows the list of shareholders who have, directly or indirectly through subsidiaries significant shareholdings as at 31 December 2018.

Balance 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 Otwarty Fundusz Emerytalny Aviva Santander*)	1 313 383	5.26	1 313 383	5.26
Grzegorz Kielpsz	1 280 750	5.13	1 280 750	5.13

*) Shareholding of Aviva Otwarty Fundusz Emerytalny Aviva Santander (formerly Aviva OFE Aviva BZ WBK) ("Fund") has been presented as per the latest notice as of 11.07.2011 received by the Company from the Fund.

2.2. Evaluation of basic economic and financial figures disclosed in the annual financial statements of Dom Development S.A. for 2018

2.2.1 Balance sheet

Structure of the Company's assets as at 31 December 2018, and movements since the end of 2017.



ASSETS	31.12.2018 in thousand PLN	Share in assets	31.12.2017 in thousand PLN	Change 2018/2017
Total fixed assets	386 462	17%	325 925	19%
Current assets				
Inventory	1 622 336	71%	1 571 308	3%
Trade and other receivables	27 017	1%	29 506	(8)%
Other current assets	4 083	<1%	2 931	39%
Cash and cash equivalents and Short-term financial assets	229 894	10%	227 282	1%
Total current assets	1 883 330	83%	1 831 027	3%
Total assets	2 269 792	100%	2 156 952	5%

Structure of the Company's shareholders' equity and liabilities as at 31 December 2018, and movements since the end of 2017

EQUITY AND LIABILITIES	31.12.2018 in thousand PLN	Share in equity and liabilities	31.12.2017 in thousand PLN	Change 2018/2017
Shareholders' equity				
Share capital	24 968	1%	24 868	<1%
Share premium less treasury shares	241 788	11%	238 388	1%
Reserve and supplementary capitals, and accumulated unappropriated pr	763 855	34%	736 064	4%
Total shareholders' equity	1 030 611	45%	999 320	3%
Liabilities				
Total long-term liabilities	396 423	17%	356 384	11%
Total short-term liabilities	842 758	37%	801 248	5%
Total liabilities	1 239 181	55%	1 157 632	7%
Total equity and liabilities	2 269 792	100%	2 156 952	5%

2.2.2 Income statement

Income statement of the Company for the year ended 31 December 2018 compared to 2017

	01.01- 31.12.2018 in thousand PLN	sale %	01.01- 31.12.2017 in thousand PLN	Change 2018/2017
Sales revenue	1 267 639	100%	1 298 718	(2)%
Cost of sales	895 843	71%	937 061	(4)%
Gross profit on sales	371 796	29%	361 657	3%
Operating profit	243 057	19%	231 155	5%
Profit before tax	262 133	21%	231 924	13%
Net profit	214 098	17%	186 113	15%
Earnings per share (in PLN)	8.58	-	7.48	15%

In 2018, the Company recognised sales revenue of PLN 1 267 639 thousand, i.e. at the level close to the previous year. The gross profit on sales and operating profit of the Company did not significantly differ from these generated in 2017.

An increase in gross profit by 13% and in net profit by 15% in 2018 resulted primarily from the recognition under financial income of the dividend from the profit for the year 2017 from subsidiaries: PLN 18 850 thousand from Euro Styl S.A. and PLN 800 thousand from Mirabelle Investments sp. z o.o.

2.2.3 Cash flow statement

	(in thousand PLN)		Change
	2018	2017	
Cash and cash equivalents – opening balance	202 083	412 335	(51)%
Net cash flow from operating activities	219 041	236 354	(7)%
Net cash flow from investing activities	(25 471)	(301 020)	na.
Net cash flows from financing activities	(186 260)	(145 586)	na.
Cash and cash equivalents – closing balance	209 393	202 083	4%

The year 2018 opened with a cash and cash equivalents balance of PLN 202 083 thousand and closed with a balance of PLN 209 393 thousand. Therefore in the period from 1 January until 31 December 2018 the balance of cash increased by PLN 7 310 thousand.

In 2018, the Company recorded a net inflow of cash from the operating activities in the amount of PLN 219 041 thousand that is 7% less than in the preceding year.

As compared to 2017, the biggest difference in the structure of the Company's cash flow statement relates to investment activity and is primarily due to exceptionally high investment expenditures of the Company in 2017: the acquisition of Euro Styl S.A. Capital Group, at the carrying amount of net investment of PLN 265 473 thousand and the reimbursable contributions to the equity of subsidiaries as made by the Company in the amount of PLN 26 900 thousand.

In 2018, the Company recorded a net cash outflow from the financing activities in the amount of PLN 186 260 thousand. The excess of financial outflow over the inflow is mainly due to the dividend distributed by the Company in the amount of PLN 189 760 thousand.

2.2.4 Profitability ratios

The ratios showing profitability of the business activity pursued by the Company in 2018 have improved compared to the previous year. This predominantly results from the fact that the average margin generated on products delivered in 2018 was higher than on products delivered in 2017. The return on assets and equity has also improved, this is a result of a net profit growth of 15% with a much lower growth in assets and equity (up by 5% and 3% respectively).

PROFITABILITY RATIOS	2018	2017
Operating profit margin <i>EBITDA / net sales revenue</i>	19.7%	18.3%
Net profit margin <i>Net profit / net sales revenue</i>	16.9%	14.3%
Return on assets (ROA) <i>Net profit / total assets</i>	9.4%	8.6%
Return on equity (ROE) <i>Net profit / shareholders' equity</i>	20.8%	18.6%

2.2.5 Liquidity ratios

Special attention should be given to the fact that financial liquidity has continued to be adequately maintained by the Company.

All the liquidity ratios have remained at a safe level in 2018. None of the presented ratios changed materially in 2018 compared to 2017.

Such good liquidity ratios are due to a number of long-term decisions and actions taken by the Company's Management Board. These high ratios to a high extent result from the relevant financing structure applied, that is predominantly medium-term and long-term, as opposed to short-term and medium-term financing. The liquidity ratios are driven by decisions around financing of current investments (including decisions when to commence the construction of individual estates and concerning the product mix offered for sale) and the strategy of acquiring new land.

The credibility of the Company in the financial market is high which is reflected by a diversified financing structure and by the willingness of banks as well as other financial institutions to grant new loans and other forms of long-term finance (such as bonds) to the Company.

LIQUIDITY RATIOS	2018	2017
Current ratio <i>current assets / short-term liabilities less deferred income</i>	5.14	4.84
Quick ratio <i>current assets less inventory / short-term liabilities less deferred income</i>	0.71	0.69
Cash ratio <i>cash and cash equivalents, and bank deposits with a maturity of over 3 months / short-term liabilities less deferred income</i>	0.57	0.53

2.2.6 Leverage ratios

Appropriate operating policy (i.e. proper commencement and pace of projects as well as controlled purchases of land) and financing policy (the financing structure) ensured that the leverage ratios were maintained at safe levels to support the business activity and maintain the Company's creditworthiness. The leverage ratios with values similar at the end of 2018 to those at the end of 2017 reflect the conservative approach of the Company's governing bodies to the sources of finance for operations. They remain at an appropriate level for the business in the opinion of the Supervisory Board.

LEVERAGE RATIOS	2018	2017
Equity ratio <i>shareholders' equity / total assets</i>	45.4%	46.3%
Liabilities to equity ratio <i>total liabilities / shareholders' equity</i>	120.2%	115.8%
Liabilities to assets ratio <i>total liabilities / total assets</i>	54.6%	53.7%
Interest bearing debt to equity ratio <i>interest bearing liabilities (including accrued interest) / shareholders' equity</i>	35.0%	36.2%
Net interest bearing debt to equity ratio <i>interest bearing liabilities (including accrued interest) less cash and cash equivalents, and bank deposits with a maturity of over 3 month / shareholders' equity</i>	12.7%	13.4%



2.2.7 Summary and assessment

Based on the financial statements of Dom Development S.A. for the financial year 2018 and the Management Board's report of activities of the Company in the financial year 2018, the Supervisory Board is of the opinion that the year 2018 was another very good year for Dom Development S.A. in the context of a strong market.

In 2018, the Company's financial management was focused on seeking sources of long-term external financing for the projects under construction and on maintaining more-than-adequate levels of liquidity. The Management Board regularly analyses both the current financing structure and makes plans for the future optimum financing structure in order to achieve satisfactory financial ratios and financial results over the medium term, and at the same time, ensuring adequate liquidity and the financial security of the Company.

After very good results in 2018 in a constructive economic environment, 2019 also has the potential to be another strong year for the real estate development industry and for the economy as a whole. The residential real estate market will be impacted mostly by macroeconomic factors, such as condition in the labour market or interest rate policy, which is expected to remain supportive, although there are regulatory headwinds and a pressure for an increase in the costs of construction and prices of land for development.

The major responsibility of the Management Board is not only to ensure that the Company is prepared to react quickly to new challenges but most of all to maintain a leading position in an improving residential market, absent any major shocks. The major steps undertaken in this respect included:

- ensuring that adequate sources of finance are available to the Company, both for current and future development projects;
- co-operation with banks, and assisting customers in obtaining mortgages for the purchase of apartments;
- adjusting the Company's sales offer to the market demand;
- aligning land purchases to the Company's existing and future needs;
- utilising the existing land bank in the most appropriate manner;
- generating sales by improving the sales and marketing processes;
- maintaining customer confidence in the 'Dom Development' brand by maintaining quality;
- restructuring the organization and employment levels to the anticipated level of operational activities;
- optimising overhead efficiency; and
- responding to new regulatory hurdles.

In 2018, the activities of the Company generated a significant profit as shown by the income statement.

Having analysed the financial statements for 2018 and the Management Board's report of activities of the Company in 2018, the Supervisory Board shares the opinion of the Management Board as to the strong financial position of Dom Development S.A. at the end of 2018, that provides solid foundations for the continuing development of the Company.

This opinion is based on both the analysis of current operations and the financial standing of the Company, and the analysis of the Management Board's activities and effectiveness of these activities. It relates predominantly to the prompt, effective and professional reaction of the Management Board to changes in the market where the Company has been operating in recent years.

Over the years, the Company has developed an established position as the leader in the Warsaw residential market, gaining considerable experience in terms of execution of development projects as well as the sale and financing of these projects.

The Supervisory Board also appreciates the commitment of the Management Board of the Company in 2018 to the matters relating to the internal control and risk management systems of the Company.



3. ASSESSMENT OF THE POSITION OF THE DOM DEVELOPMENT S.A. CAPITAL GROUP BASED ON THE CONSOLIDATED FINANCIAL STATEMENTS OF DOM DEVELOPMENT S.A. CAPITAL GROUP FOR THE YEAR ENDED 31 DECEMBER 2018 AND THE MANAGEMENT BOARD'S REPORT OF ACTIVITIES OF DOM DEVELOPMENT S.A. CAPITAL GROUP IN 2018

3.1. The shareholders of Dom Development S.A. who held, both directly or indirectly through subsidiaries, at least 5% of the overall number of votes at the General Shareholders' Meeting as at 31 December 2018

As at 31 December 2018 the Group was controlled by Dom Development B.V. which held 56.70% of the shares in Dom Development S.A.

The table below shows the list of shareholders who have, directly or indirectly through subsidiaries significant shareholdings as at 31 December 2018.

Balance 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 Otwarty Fundusz Emerytalny Aviva Santander*)	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 Otwarty Fundusz Emerytalny Aviva Santander (formerly Aviva OFE Aviva BZ WBK) ("Fund") has been presented as per the latest notice as of 11.07.2011 received by the Company from the Fund.

3.2. Evaluation of basic economic and financial figures disclosed in the annual financial statements of Dom Development S.A. Capital Group for 2018

3.2.1 Consolidated balance sheet

Structure of the Group's assets as at 31 December 2018, and movements since the end of 2017.

ASSETS	31.12.2018 in thousand PLN	Share in assets	31.12.2017 in thousand PLN	Change 2018/2017
Total fixed assets	49 940	2%	30 785	62%
Current assets				
Inventory	2 113 540	83%	1 989 052	6%
Trade and other receivables	52 768	2%	35 428	49%
Other current assets	5 325	<1%	3 971	34%
Cash and cash equivalents and Short-term financial assets	317 380	13%	331 159	(4)%
Total current assets	2 489 013	98%	2 359 610	5%
Total assets	2 538 953	100%	2 390 395	6%



Structure of the Group's shareholders' equity and liabilities as at 31 December 2018, and movements since the end of 2017

EQUITY AND LIABILITIES	31.12.2018 in thousand PLN	Share in equity and liabilities	31.12.2017 in thousand PLN	Change 2018/2017
Shareholders' equity				
Share capital	24 968	1%	24 868	<1%
Share premium less treasury shares	241 788	10%	238 388	1%
Reserve and supplementary capitals, and accumulated unappropriated profit (loss)	779 717	31%	739 003	6%
Total shareholders' equity	1 046 473	41%	1 002 259	4%
Non-controlling interests	69	<1%	67	3%
Total shareholders' equity	1 046 542	41%	1 002 326	4%
Liabilities				
Total long-term liabilities	452 272	18%	410 701	10%
Total short-term liabilities	1 040 139	41%	977 368	6%
Total liabilities	1 492 411	59%	1 388 069	8%
Total equity and liabilities	2 538 953	100%	2 390 395	6%

3.2.2 Consolidated income statement

Consolidated income statement of the Group for the year ended 31 December 2018 compared to 2017.

	01.01 - 31.12.2018 in thousand PLN	sale %	01.01 - 31.12.2017 in thousand PLN	Change 2018/2017
Sales revenue	1 653 933	100%	1 404 683	18%
Cost of sales	1 198 824	72%	1 018 947	18%
Gross profit on sales	455 109	28%	385 736	18%
Operating profit	282 019	17%	235 392	20%
Profit before tax	282 642	17%	236 232	20%
Net profit	227 023	14%	190 787	19%
Basic earnings per share (in PLN)	9.10		7.67	19%

As gross sales margin have remained unchanged since 2017 and was 27.5%, and due to slower growth rates for costs of sales and general administrative expenses, the growth was similar for the consolidated gross profit on sales, operating profit and consolidated net profit, which increased by 19% as compared to 2017, reaching the record high in the history of the Group at PLN 227 023 thousand.

3.2.3 Consolidated cash flow statement

	(in thousand PLN)		Change
	2018	2017	
Cash and cash equivalents – opening balance	279 653	414 310	(33)%
Net cash flow from operating activities	232 787	198 136	17%
Net cash flow from investing activities	(43 340)	(212 921)	na.
Net cash flows from financing activities	(186 608)	(119 872)	na.
Cash and cash equivalents – closing balance	282 492	279 653	1%

The year 2018 opened with a cash and cash equivalents balance of PLN 279 653 thousand and closed with a balance of PLN 282 492 thousand. Therefore in the period from 1 January until 31 December 2018 the balance of cash increased by PLN 2 839 thousand.

In 2018, the Group recorded a net inflow of cash from the operating activities in the amount of PLN 232 787 thousand that is 17% more than in the preceding year.

The greatest difference in the Group's cash flows for 2018 has been that for investment activity. It predominantly has been a result of exceptionally high investment expenditures of the Group in 2017 associated with the acquisition of Euro Styl S.A. Capital Group at the carrying amount of net investment of PLN 265 473 thousand.

In 2018, the Group recorded a net cash outflow from the financing activities in the amount of PLN 186 608 thousand. The excess of financial outflow over the inflow is mainly due to the dividend distributed by the Company in the amount of PLN 189 760 thousand.

3.2.4 Profitability ratios

The ratios showing profitability of the business activity pursued by the Group in 2018 have improved compared to the previous year. The return on assets and equity have also increased, this is a result of a net profit growth by 19% with a much lower growth in assets and equity (by 6% and 4% respectively).

PROFITABILITY RATIOS	2018	2017
Operating profit margin EBITDA / net sales revenue	17.6%	17.3%
Net profit margin net profit / net sales revenue	13.7%	13.6%
Return on assets (ROA) net profit / total assets	8.9%	8.0%
Return on equity (ROE) net profit / shareholders' equity	21.7%	19.0%

3.2.5 Liquidity ratios

Special attention should be given to the fact that financial liquidity has continued to be adequately maintained by the Group.

All the liquidity ratios have remained at a safe level in 2018. None of the presented ratios changed materially in 2018 compared to 2017.

Such good liquidity ratios are due to a number of long-term decisions and actions taken by the Company's Management Board. It is also largely a result of the relevant financing structure being applied, with a policy of securing medium and longer term debt maturities. Liquidity is also impacted by decisions regarding the management of construction and financing of current investments (including decisions when to commence the construction of individual projects and concerning the product mix offered for sale), the purchase strategy of new land and management of suitable employment levels and overheads.

The credibility of the Group in the financial market is high which is reflected by a diversified financing structure and by the willingness of banks as well as other financial institutions to grant new loans and other forms of long-term finance (such as bonds) to the Company.



LIQUIDITY RATIOS	2018	2017
Current ratio <i>current assets / short-term liabilities less deferred income</i>	5.99	5.77
Quick ratio <i>current assets less inventory / short-term liabilities less deferred income</i>	0.90	0.91
Cash ratio <i>cash and cash equivalents, and bank deposits with a maturity of over 3 months / short-term liabilities less deferred income</i>	0.68	0.68

3.2.6 Leverage ratios

Appropriate operating policy (i.e. proper commencement and pace of projects as well as controlled purchases of land) and financing policy (the financing structure) ensured that the leverage ratios were maintained at safe levels to support the business activity and maintain the creditworthiness of the Company and the Group. The leverage ratios with values similar at the end of 2018 to those at the end of 2017 reflect the conservative approach of the Company's governing bodies to the sources of finance for operations.

LEVERAGE RATIOS	2018	2017
Equity ratio <i>shareholders' equity / total assets</i>	41.2%	41.9%
Liabilities to equity ratio <i>total liabilities / shareholders' equity</i>	142.6%	138.5%
Liabilities to assets ratio <i>total liabilities / total assets</i>	58.8%	58.1%
Interest bearing debt to equity ratio <i>interest bearing liabilities (including accrued interest) / shareholders' equity</i>	37.9%	39.5%
Net interest bearing debt to equity ratio <i>interest bearing liabilities (including accrued interest) less cash and cash equivalents, and bank deposits with a maturity of over 3 month / shareholders' equity</i>	7.5%	6.5%

3.2.7 Summary and assessment

Based on the consolidated financial statements of the Group for the financial year 2018 and the Management Board's report of activities of the Group in the financial year 2018, the Supervisory Board is of the opinion that the year 2018 was another very good year for Dom Development S.A. Capital Group in the context of a strong market.

In 2017, the Group's financial management was focused on seeking sources of long-term external financing for the projects under construction and on maintaining more-than-adequate levels of liquidity. The Management Board regularly analyses both the current financing structure and makes plans for the future optimum financing structure in order to achieve satisfactory financial ratios and financial results over the medium term, and at the same time, ensuring adequate liquidity and the financial security of the Group.

After very good results in 2018 in a constructive economic environment, 2019 also has the potential to be another strong year for the real estate development industry and for the economy as a whole. The residential real estate market will be impacted mostly by macroeconomic factors, such as condition in the labour market or interest rate policy, which is expected to remain supportive, although there are regulatory headwinds and a pressure for an increase in the costs of construction and prices of land for development.

The major responsibility of the Management Board is not only to ensure that the Group is prepared to react quickly to new challenges but most of all to maintain a leading position in an improving residential market, absent any major shocks. The major steps undertaken in this respect included:

- ensuring that adequate sources of finance are available to the Group, both for current and future development projects;
- geographical diversification of activities of the Group through the development of Euro Styl S.A. Capital Group operating in the Tricity and its vicinity and Dom Development Wrocław Sp. z o.o.;
- co-operation with banks, and assisting customers in obtaining mortgages for the purchase of apartments;
- adjusting the Group's sales offer to the market demand;
- aligning land purchases to the Group's existing and future needs;
- utilising the existing land bank in the most appropriate manner;
- generating sales by improving the sales and marketing processes;
- maintaining customer confidence in the 'Dom Development' brand by maintaining quality;
- restructuring the organization and employment levels to the anticipated level of operational activities;
- optimising overhead efficiency; and
- responding to new regulatory hurdles.

In 2018, the activities of the Group generated a significant profit as shown by the income statement.

Having analysed the consolidated financial statements for 2018 and the Management Board's report of activities of the Company in 2018, the Supervisory Board shares the opinion of the Management Board as to the strong financial position of Dom Development S.A. Capital Group at the end of 2018 that provides solid foundations for the continuing development the Group.

This opinion is based on both, the analysis of current operations and the financial standing of the Group and the analysis of the Management Board's activities and effectiveness of these activities. It relates predominantly to the prompt, effective and professional reaction of the Management Board to changes in the market where the Group has been operating in recent years.

Over the years, the Group has developed an established position as the leader in the Warsaw residential market, gaining considerable experience in terms of execution of development projects as well as the sale and financing of these projects.

The Supervisory Board is of the opinion that an important step towards growth of the Group was the acquisition of Euro Styl S.A. Capital Group in 2017, and in turn Dom Development S.A. Capital Group being ranked third in respect of sales in the Tricity market.

A gradual growth in the scale of operations of Dom Development Wrocław Sp. z o.o., through which the Group operates in the Wrocław market, is also worth recognition. The year 2018 was a period of intensive growth of the potential of the Wrocław-based subsidiary in respect of land purchases and team reinforcement.

The Supervisory Board also appreciates the commitment of the Management Board of the Company in 2018 to the matters relating to the internal control and risk management systems in the Group.



4. PROPOSALS TO THE GENERAL SHAREHOLDERS MEETING OF DOM DEVELOPMENT S.A.

Having examined the submitted statements and reports for the financial year 2018, the Supervisory Board issues a positive opinion on the following documents and recommends that the Ordinary General Shareholders' Meeting of Dom Development S.A. approves:

- Financial statements for the year ended on 31 December 2018;
- Management Board's report of activities of Dom Development S.A. in 2018;
- Consolidated financial statements of Dom Development S.A. Capital Group for the year ended on 31 December 2018;
- Management Board's Report of activities of Dom Development S.A. Capital Group in 2018.