



**MANAGEMENT BOARD'S REPORT OF ACTIVITIES OF
DOM DEVELOPMENT S.A. CAPITAL GROUP
IN 2017**



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**APPROVAL BY THE MANAGEMENT BOARD OF THE MANAGEMENT BOARD'S REPORT OF
ACTIVITIES OF DOM DEVELOPMENT S.A. CAPITAL GROUP IN 2017**

This Management Board's report of activities of Dom Development S.A. Capital Group in 2017 was prepared and approved by the Management Board of the Company on 6 March 2018.

Jarosław Szanajca,
President of the Management Board

Janusz Zalewski,
Vice President of the Management Board

Małgorzata Kolarska,
Vice President of the Management Board

Terry R. Roydon,
Member of the Management Board.



INTRODUCTION

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

Dom Development was established in 1995 by a group of international investors, and Polish management staff joined it in November 1996. Participation of the international investors guaranteed implementation of Western European experience and standards as regards housing developments in the market where the Company operates.

As at 31 December 2017 the Company was controlled by Dom Development B.V. with registered office in the Netherlands which held 57.34% of the Company's shares.

1. GENERAL INFORMATION ABOUT DOM DEVELOPMENT S.A.

1.1. Group's Structure

The Group's structure and the Company's interest in the share capital of the entities comprising the Group as at 31 December 2017 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. 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
The Group has been also engaged in the joint venture:				
Fort Mokotów sp. z o.o. under liquidation	Poland	49%	49%	equity method

* 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.

1.2. Activities of the Company and the Group

The main area of activity of the Company and the subsidiaries operating within the Group is the construction and sale of residential real estate. The Company has been operating, directly or through its subsidiaries, in the three markets of Poland. These are: Warsaw and Tricity with their surroundings, and Wrocław.

The development projects of the Group in Warsaw are carried out directly by Dom Development S.A. The development projects of the Group in Wrocław are carried out by a subsidiary, namely Dom Development Wrocław Sp. z o.o. The construction-related part of development projects in both these markets is predominantly run under a general contracting system with the execution contracted to professional third-party building companies.

The Group operated in the Tricity market through Euro Styl S.A. Capital Group that was acquired in 2017 ("Euro Styl Group"). The projects of the Euro Styl Group (the construction-related part) are run by Euro Styl Construction Sp. z o.o., an SPV operating within the Euro Styl Group which is involved in the management of construction activities by hiring specialised subcontractors for individual types of building works.

In the twelve-month period ended 31 December 2017:

- The Company and the Group did not discontinue any of its activities;
- Acquisition of Euro Styl S.A. Capital Group
On 8 June 2017, the Company acquired 100% of the shares in Euro Styl S.A. with its registered office in Gdańsk and 100% of the shares in the share capital of Euro Styl Development sp. z o.o. with its registered office in Gdańsk for the aggregate amount of PLN 260 million (the "Transaction"). As a result of the Transaction, Dom Development S.A. controls the Euro Styl S.A. Capital Group which is a residential developer in the market of Tricity and its vicinity.
- The Fort Mokotów Inwestycje sp. z o.o., under liquidation was wound up on 19 May 2017.
As a result the perpetual usufruct right to the land and cash of FMI have been transferred to the Company. This liquidation did not have any significant impact on the operations of the Company and the Group.
- Acquisition of Mirabelle Investments Sp. z o.o.
On 7 September 2017, the Company acquired 100% shares in the share capital of Mirabelle Investments sp. z o.o. with its registered office in Warsaw, for a total amount of PLN 58 thousand. Mirabelle Investments sp. z o.o. is an addressee of administrative decisions and the contracts that are necessary to develop a housing project with 1 350 units on the real properties in the Żoliborz district in Warsaw. The right of perpetual usufruct to these properties was acquired by the Company on 7 September 2017. It is not the Company's intention to carry out operations through Mirabelle Investments sp. z o.o.
- Establishment of Dom Development Kredyty so. z o.o.
On 6 October 2017 Dom Development Kredyty sp. z o.o. (*a limited liability company*) was established, with 100% of shares held by Dom Development S.A. The share capital of this company is PLN 500 thousand and has been paid cash. The scope of operations as defined in the articles of association of this newly established company is to provide credit intermediation services to financial institutions.
- Acquisition of K&L sp. z o.o. Futura Park Sp.k. and K&L sp. z o.o. Kwartet Polanki Sp.k. by the Euro Styl S.A. Capital Group
On 26 October 2017, Euro Styl S.A. Capital Group acquired K&L sp. z o.o. Futura Park Sp.k. and K&L sp. z o.o. Kwartet Polanki Sp.k. For the total price of PLN 11 732 thousand. The entire price was paid in cash.
The acquired companies operate as a developer in the housing segment in in the Tricity market and in the surrounding areas. The purpose of this acquisition was for Euro Styl S.A Capital Group to enter to two major locations in the Tricity market and increase total revenue and profit of the Group. Due to the nature of the transaction, the purchase as described below was considered as purchase of assets rather than purchase of an enterprise.
- The Group did not make any other material capital investments within the framework of the Capital Group. All free cash was invested by the companies operating within the Group in short-term bank deposits.

1.3. Information on core products

The main aim of the Group has always been the construction of affordable flats in the so-called popular segment (mid-market). The Group's offer is supplemented with other market segment products.

Currently, product assortment of the Group comprises multi-family buildings (flats and apartments), which can be divided into the following market segments:

- *Popular flats* (mid-market) – flats in residential buildings and housing estates are usually located outside of the immediate city centre, normally with at least 200 flats.
- *Apartments* (high-end) – apartments in residential buildings or small groups of buildings located in prestigious city centre locations and in popular residential districts, e.g. Żoliborz, Mokotów, Ochota in Warsaw, Oliwa in Gdańsk, Dolny Sopot in Sopot, Orłowo in Gdynia and Biskupin in Wrocław.

Flats and apartments are offered in two standards: "turn-key" and unfinished. The unfinished flats/apartments are finished by buyers on their own account. Various finishing options are available for "turn-key" flats/apartments.

- Commercial space – mainly shops constructed by the Company as part of residential buildings. The revenues from the sale of such space account for an insignificant part of the total revenue but they enable the possibility to offer such facilities as shops, which increases the attractiveness of a given project.

In addition to this, the tasks of the companies operating within the Group include the management of housing estates constructed under development projects conducted by the Group. This management activities will be performed only for a limited period of time, i.e. until the final management company is chosen by the common hold associations which take over the managerial duties from the Group.

In 2017, the Group's revenue from the sale of products and services related to real estate management were as follows:

REVENUE STRUCTURE	01.01- -31.12.2017 in thousand PLN	01.01- -31.12.2016 in thousand PLN	Change 2017/2016
Revenue from the sale of flats/apartments, houses and commercial space	1 374 938	1 118 101	23%
Revenue from the sale of real estate management services	9 018	7 480	21%
Revenue from other sales	20 727	27 435	(24)%
Total	1 404 683	1 153 016	22%

1.4. Information on the markets, customers and sources of supply of production materials

In 2017 the activity of the Company and the Group was mainly concentrated in Warsaw. The portfolio of offered apartment products and projects that were being prepared, was predominantly made up of investments in the popular segment, likewise in 2016. This has already been reflected in both, the sales structure in 2017 and the structure of planned investment projects.

In 2017, the Group also operated in the Wrocław market through its subsidiary, namely Dom Development Wrocław Sp. z o.o.. The operations of the Group in the said market focused on expanding the strategic potential through acquisitions of land for future residential developments. The Company holds 100.00% shares in Dom Development Wrocław Sp. z o.o.

Since mid 2017 the Group has also been operating in the Tricity market, which it entered by acquiring Euro Styl S.A. Group. As a result of the acquisition the Group has a 10% share in the Tricity market, holding a leading position as a residential developer.

1.4.1 Dom Development S.A. Capital Group sales structure

NUMBER OF PRODUCTS SOLD BY PRODUCT GROUPS	2017	2016	Change
Popular (mid-market) units	3 715	2 691	38%
High-end apartments and retail units (including luxury apartments)	260	44	491%
Total	3 975	2 735	45%

The Group does not depend on any of its customers because the sales are dispersed amongst a large, varied and changing group of buyers of residential and commercial units. The majority of the Group's customers are natural persons.

The sales in the table above covers signed preliminary agreements, to include withdrawals that are specific for current operations of the Group.

1.4.2 Major contractors

The main costs incurred by the Group in the real estate development activity are the costs of construction services provided by third parties, not related to the Group and the purchase costs of land for the investment projects.

As regards the land, despite individual transactions of significant value, the Company does not depend on one supplier.

As regards the construction services, contractors are chosen in internally organised tender procedures. The Group uses the services of various construction companies operating in the Warsaw, Tricity and Wrocław markets.

The Group's major contractors in 2017, in terms of the value of services purchased in this period, were:

CONTRACTOR	01.01- -31.12.2017 in thousand PLN
UNIBEP S.A.	196 787
FUNDAMENTAL GROUP S.A.	92 103
NDI S.A.	72 635
PPHU RODEX SP.Z O.O.	66 310
WARBUD S.A.	43 269
KALTER SP.ZOO	40 102
REMBUD Sp. z o.o.	39 844
ERBUD S.A.	37 393

The entire turnover shown above concern services purchased by the Company and accounts for approximately 46% of the sum spent by the Company on construction and design services in 2017.

2. OPERATIONS OF DOM DEVELOPMENT S.A. CAPITAL GROUP

2.1. Operations of Dom Development S.A. Capital Group in 2017

In 2017 the Group continued its development activities, being the construction and sale of residential real estates. The construction works have been conducted predominantly in the general contractor system, and the works are contracted to specialized third-party building companies. Euro Styl Construction sp. z o.o., a subsidiary of Euro Styl S.A. is the general contractor for projects developed by Euro Styl S.A. Group.

There are over forty development projects that are simultaneously conducted by the Group. The Management Board of the Company regularly reviews and gives its opinion on:

- current projects during their implementation in relation to both, the progress of construction works, and current and anticipated sales revenue,
- the best possible manner in which the plots of land from the land-bank may be used and adjustment of the product offer to best meet the expectations and demand in the market,
- the potential plots of land which may be purchased for further development projects to be carried out in the following years, also in major Polish cities other than Warsaw,
- optimization of financing of the Group's operating activities.

2.1.1 Development projects commenced and completed

In 2017, the following material changes in the portfolio of the Group's real estate development investments under construction took place:

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

Project	Company*	Standard	Number of apartments	Number of commercial units	Started in
Wilno VI, phase 1	Dom Development S.A.	Popular	300	9	Q1 2017
Forma, phase 1	Dom Development S.A.	Popular	89	6	Q1 2017
Premium 5, phase 3	Dom Development S.A.	Popular	109	4	Q1 2017
Kwartet (Macierzy Szkolnej)**	Euro Styl S.A.	Apartments	27	0	Q1 2017
Idea building 4	Euro Styl S.A.	Apartments	31	0	Q1 2017
Cybernetyki 17, phase 1	Dom Development S.A.	Popular	145	1	Q2 2017
Cybernetyki 17, phase 2	Dom Development S.A.	Popular	236	11	Q2 2017
Moderna, phase 3	Dom Development S.A.	Popular	163	24	Q2 2017
Premium 4, stage 2 phase 2	Dom Development S.A.	Popular	248	0	Q2 2017
Wille Lazurowa, phase 2	Dom Development S.A.	Popular	102	0	Q2 2017
Forma, stage 2 phase 1	Dom Development S.A.	Popular	192	7	Q2 2017
Amsterdam, phase 2	Dom Development S.A.	Popular	307	7	Q2 2017
Nowy Horyzont, buildings 11 and 12	Euro Styl S.A.	Popular	76	0	Q2 2017
Osiedle Viridis building A1	Euro Styl S.A.	Popular	32	0	Q2 2017
Osiedle Viridis building A2	Euro Styl S.A.	Popular	42	0	Q2 2017
Scena Apartamenty	Euro Styl S.A.	Apartments	55	6	Q2 2017
Wilno VI, phase 2	Dom Development S.A.	Popular	209	2	Q3 2017
Osiedle Port Żerań, phase 1	Dom Development S.A.	Popular	361	1	Q3 2017
Apartamenty Mokotów nad Skarpą 2	Dom Development S.A.	Apartments	190	0	Q3 2017
Apartamenty Park Szczęśliwicki	Dom Development S.A.	Apartments	46	0	Q3 2017
Dom na Bartyckiej	Dom Development S.A.	Popular	127	4	Q3 2017
Idea building 5	Euro Styl S.A.	Apartments	54	8	Q3 2017
Forma, stage 2 phase 2	Dom Development S.A.	Popular	210	3	Q4 2017
Regaty, phase 1	Dom Development S.A.	Popular	69	3	Q4 2017
Beauforta, building B1	Euro Styl S.A.	Popular	21	5	Q4 2017
Idea building 6	Euro Styl S.A.	Apartments	42	0	Q4 2017
Idea building 7	Euro Styl S.A.	Apartments	27	0	Q4 2017
Księża Nowe	Dom Development Wrocław Sp. z o.o.	Popular	130	2	Q4 2017
Total			3 640	103	

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

** The project initiated by K&L sp. z o.o. Quartet Polanki Sp.k., which was acquired by Euro Styl S.A. Capital Group on 26 October 2017.

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

Project	Company*	Standard	Number of apartments	Number of commercial units	Completed in
Premium 1, stage 1 phase 1	Dom Development S.A.	Popular	191	15	Q1 2017
Idea, building 1**	Euro Styl S.A.	Apartments	86	2	Q1 2017
Brama Żuław, buildings B and C	Euro Styl S.A.	Popular	63	0	Q1 2017
Nowe Morskie ** buildings C1, C1A, C1B, C2	Euro Styl S.A.	Popular	63	0	Q1 2017
Moderna, phase 1	Dom Development S.A.	Popular	167	4	Q2 2017
Osiedle Przyjaciół, phase 3	Dom Development S.A.	Popular	93	2	Q2 2017
Apartamenty Mokotów nad Skarpą	Dom Development S.A.	Popular	183	1	Q2 2017
Palladium, phase 1	Dom Development S.A.	Popular	214	1	Q3 2017
Premium 2, stage 1 phase 2	Dom Development S.A.	Popular	236	0	Q3 2017
Osiedle pod Różami, phase 3	Dom Development S.A.	Popular	47	3	Q3 2017
Idea building 2	Euro Styl S.A.	Apartments	52	0	Q3 2017
Cytrusowe, building 12 and 13	Euro Styl S.A.	Popular	46	0	Q3 2017
Brama Żuław, building A	Euro Styl S.A.	Popular	49	0	Q3 2017
Viridis, building A3	Euro Styl S.A.	Popular	58	0	Q3 2017
Ursynovia (Anody), phase 1	Dom Development S.A.	Popular	72	7	Q4 2017
Ursynovia (Anody), phase 2	Dom Development S.A.	Popular	111	0	Q4 2017
Saska III	Dom Development S.A.	Popular	347	12	Q4 2017
Żoliborz Artystyczny, phase 5	Dom Development S.A.	Popular	117	9	Q4 2017
Żoliborz Artystyczny, phase 6	Dom Development S.A.	Popular	125	12	Q4 2017
Żoliborz Artystyczny, phase 7	Dom Development S.A.	Popular	127	13	Q4 2017
Moderna, phase 2	Dom Development S.A.	Popular	194	0	Q4 2017
Wilno III, phase 2	Dom Development S.A.	Popular	125	4	Q4 2017
Cytrusowe, building 16 and 17	Euro Styl S.A.	Popular	46	0	Q4 2017
Idea, building 3	Euro Styl S.A.	Apartments	58	0	Q4 2017
Wilno III, phase 3	Dom Development S.A.	Popular	111	0	Q4 2017
Wille Taneczna	Dom Development S.A.	Popular	119	0	Q4 2017
Total			3 100	85	

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

** The projects completed by Euro Styl S.A. Capital Group before the acquisition by Dom Development S.A. Capital Group.

2.1.2 Current and future development projects

As at 31 December 2017, there are 41 projects under development at the Group with 5 221 units to be built (apartments and retail units) in total. The new development projects with the potential of 8 447 units in total are defined and planned by the Group.

2.1.3 Agreements significant for the business activity of the Group

Major contractors with agreements to a total value exceeding 10% of the shareholders' equity of the Company that were concluded in the financial year

In the financial year 2017 the Group concluded agreements with a total value exceeding 10% of shareholders' equity of the Company with the following entities:

- Fundamental Group S.A. (formerly Budner S.A.) - agreements with a total value of PLN 170 699 thousand,
- Unibep S.A. - agreements with a total value of PLN 169 885 thousand,
- Erbud S.A. - agreements with a total value of PLN 150 335 thousand.

All the agreements were general contractor agreements for the Company's projects.

Other major agreements

On 8 June 2017, the Company entered into sales agreements with Forum IV Fundusz Inwestycyjny Zamknięty (*closed-end investment fund*) with its registered office in Cracow under which the Company acquired 100% of the shares in Euro Styl S.A. with its registered office in Gdańsk and 100% of the shares in the share capital of Euro Styl Development sp. z o.o. with its registered office in Gdańsk for the aggregate amount of PLN 260 000 thousand. As a result of the said transaction, Dom Development S.A. controls the Euro Styl S.A. Capital Group that is a residential developer in the market of Tricity and its vicinity. As at the date of the aforementioned transaction Euro Styl S.A. Group cash and cash equivalents amounted to PLN 81.4 million, and the interest bearing liabilities were PLN 2.1 million. The acquisition of Euro Styl S.A. Group resulted in an incremental increase in the Group's business activities and expanded its operating territory to include the Tricity area.

On 7 September 2017 a purchase agreement and transfer agreement concerning perpetual usufruct of real properties located in the Żoliborz District, Warsaw, where the Company intends to develop a multi-phase real estate project with 1 350 units, were entered into by the Company and Acciona Nieruchomości Żoliborz sp. z o.o. Moreover, on 7 September 2017 the Company acquired 100% of the shares in the share capital of Mirabelle Investments sp. z o.o. with its registered office in Warsaw and the copyrights to the project, which may be developed on the aforementioned real properties. Mirabelle Investments Sp. z o.o. is the addressee of administrative decisions and the party to the agreements required for the development of housing project on the above mentioned properties. It is not the Company's intention to carry out operations through Mirabelle Investments sp. z o.o. Total fees paid by the Company as a result of the aforementioned transactions were PLN 184 606 thousand.

2.1.4 Agreements with shareholders

Dom Development S.A. Capital Group has no information on any possible agreements between the shareholders concluded in 2017.

2.1.5 Cooperation agreements

In 2017, Dom Development S.A. Capital Group did not conclude any significant cooperation agreements with other entities.

2.1.6 Transactions with related entities

All transactions made by the Company or its subsidiaries with related entities are based on the arm's length principle.

Transactions with the related entities are presented in note 7.43 to the consolidated financial statements for the period ended 31 December 2017.

2.1.7 Litigations

Proceedings before the courts, arbitration or public administration authority

As of 31 December 2017 there was no individual proceeding before any court, authority competent for arbitration or public administration body, concerning the liabilities or receivables of the Company or its subsidiaries, the value of which would be at least 10% of the Company's shareholders' equity.

As of 31 December 2017 there were not two or more proceedings before any court, authority competent for arbitration or public administration body, concerning the liabilities or receivables, the value of which would be at least 10% of the Company's shareholders' equity.

As of 31 December 2017, the Company was a party to proceedings concerning liabilities and receivables, the total value of which was approx. PLN 32 371 thousand, including the total value of proceedings concerning liabilities at approx. PLN 30 356 thousand and the total value of proceedings concerning receivables at approx. PLN 2 015 thousand.

The proceedings involving the Company have no significant impact on the activity of the Company and the Group.

2.2. Development of Dom Development S.A. Capital Group, risk factors

2.2.1 Significant risk factors and factors important for development of the Group

Significant risk factors and threats to the business activity conducted by the Group have been presented below.

Macroeconomic factors

The Group's business activities are significantly affected by global developments, and in particular by their impact on the Polish economy. The most important macroeconomic factors for the Group's financial condition and results include: economic growth rate (risk of growth deceleration), unemployment rate (risk of growing unemployment), position of financial institutions (risk of a deterioration of the financial standing of these institutions). The business activities of the Group are affected by the following macroeconomic factors, which have an impact on the state of the Polish economy: GDP, level of investments, household income, interest rates, inflation, unemployment, the condition of the real estate development and construction industries, and the real estate market.

In 2017, the macroeconomic environment had a positive effect on the Group's activities. The key positive factors for the housing market were the continuing record-low interest rates and the very good situation in the labour market. In Warsaw, Wrocław and Tricity, the unemployment rate was around the natural rate, while salaries were gradually increasing. The Management Board expects that these favourable conditions will continue in the year 2018.

Availability of mortgages

In 2017, access to mortgages was relatively high. The interest rates on a mortgage were stable in the past year, at values around the historic minimum. Growth in salaries and low inflation had a positive impact on the disposable income of households, thus increasing creditworthiness.

The increase in the required minimum deposit up to 20% did not significantly affect the credit market. It is still possible to obtain a loan with a loan to value ratio of 90%, but this requires down payment insurance to be obtained, which increases the cost of the mortgage.

The volume of new bank loans picked up in 2017 as compared to 2016, although the majority of real estate purchases were still made by cash. At Dom Development S.A., cash transactions accounted for approximately 40% of sales in the previous year.

Foreign exchange risk

As Recommendation S issued by the Polish Financial Supervision Authority came in effect early in January 2014, foreign exchange loans are to be provided only when majority of income is earned in a specific currency. This is to prevent speculations and reduce foreign exchange risk.

The historic foreign currency loans that were taken at lower exchange rates than they are at the present due to PLN depreciation against EUR or CHF, often exceed the real value of the properties bought that constitute security for mortgages. Nevertheless, the drop in the Swiss franc exchange rate from PLN 4.41 at the beginning of January 2017 to PLN 3.56 at the end of December had a significant positive impact on the situation of borrowers with loans denominated in this currency.

Concentration of operations in the Warsaw market

The Group's present activity is concentrated in the Warsaw market. This makes the Group's results highly dependent on the situation in this market. However, the Management Board of the Company is of the opinion that in the long-term this will be the most dynamic residential real estate market in Poland, and the Group already has a well-established position and therefore the possibility of further development.

In 2017, the Company made significant changes in its Group structure. They were intended to intensively expand the Group's activities in the Tricity and Wrocław markets. It should be expected that in the upcoming years these markets will increase their respective share in the Group's operating activities and financial results. Activities outside Warsaw are conducted through the Company's subsidiaries, i.e. the Euro Styl S.A. Group operating in the Tricity market and Dom Development Wrocław Sp. z o.o.

Opportunity to purchase land for new projects

The future success of the Group is founded on the ability to continually and effectively acquire attractive land for new development projects at the right times and competitive prices. This will allow the generation of satisfactory project contributions. A limited supply of land in prime locations where the legal status is not a hindrance means that the ability to acquire new land is a significant source of competitive advantage in the real estate development market.

The housing market upturn resulted in an increased demand for land, therefore in order to maintain the volume and quality of the offer, developers must regularly replenish their land banks. Land prices went up driven by fierce competition for investment properties. The Management Board places great emphasis on acquiring affordable land for new investments so that the Group has broad and varied real estate reserves that secure its activity for at least the next two years. The Group's success in securing the land bank for the purpose of new projects is predominantly due to the experience of the Group's personnel and significant cash resources that allow for the quick closing of even the largest transactions.

Administrative decisions

The nature of real estate development projects requires a number of licenses, approvals and arrangements to be obtained by the Company and the Group at every stage of the development process. Despite significant caution applied in the project execution schedules there is always a risk of delay in their obtainment, challenges of decisions which have already been issued (also due to appeals with no consequences for appellants) or even failing to obtain them. All these affect the ability to conduct and complete the executed and planned projects.

The fundamental activity adopted by the Group so as to reduce the exposure to market risks is proper assessment of potential and control of current development projects based on investment models and decision-making procedures developed in the Company. The adherence to such procedures is closely monitored by the Management Board of the Company.

The activities of the Group are also affected by administrative decisions at a central level such as the conditions for subsidies under the Homes for the Young programme, the decision to terminate this programme or restrictions on land transactions.

Potential future changes in the legislation also constitute a risk that could directly or indirectly affect the Group's activities and results. In particular this type of risks include the possibility of introducing a mandatory close-end escrow account as a form of security for buyers of apartments. The Management Board assesses, however, that the possible introduction of such an obligation may have a negative impact on the Group's activities to a lesser extent than on other market operators, primarily due to our comfortable financial situation and also because of the trust and good reputation, which Dom Development S.A. enjoys among financial institutions.

There has been a formalised risk management procedure in operation within the Company since 2000. Under this procedure the risk is managed through the identification and assessment of the risk areas for all aspects of the activities, in which the Company and the Group are involved, together with defining activities required to reduce or eliminate such risks (including through the procedures and internal audit system) The risk management procedure is subject to periodic revision and is updated by the Management Board jointly with the key management staff and third party advisers.

2.2.2 Perspectives for the development of the Company's and the Group's business activities

Profile of the development policy direction at Dom Development S.A. Capital Group

The year 2017 was another historically good for both, the Group and the entire real estate development sector. According to the Management Board the year 2018 will also see a very strong demand. The threat to the transaction volume in the market could be insufficient supply; already in Q4 2017 the offer of new residential units has decreased. Lower supply and the current level of demand will accelerate price growth as it was the case in foreign markets. If this happens, the Company could only benefit from this situation owing to its broad land bank and very good financial condition.

The Group intends to continue its activities in the current scope. In order to ensure a proper offer structure, the Group will continue to develop its land bank and balance the proportions between land owned on the left and right bank of the Vistula river in Warsaw and continue to search for attractive land in Tricity and Wrocław. In view of the favourable property market conditions the object of the Company's Management Board is to adapt the Company and the Group to a new scale of operations. The major steps undertaken in this respect included:

- ensuring that adequate sources of finance are available to the Group, both for current and future real estate development projects, with due care from the perspective of the Group and its customers,
- co-operation with banks, and strong assistance to customers in obtaining mortgages for purchase of an apartment,
- adjusting the sales offer to the market demand,
- aligning land purchase outlays to Group's existing and future needs,
- optimizing the way and time the current land bank is used,
- increasing the efficiency and scale of sales support activities,
- maintaining and building upon customer confidence in the Dom Development brand,
- restructuring the organization and employment to the anticipated level of operational activities,
- optimising general administrative expenses.

The above-mentioned measures taken by the Management Board will be continued in 2018. In addition to this, in the next twelve months Dom Development S.A. Capital Group will focus, in particular, on the further maximisation of the margin, expecting possible drop in sales volume. This will be possible due to:

- the well-established position in the Warsaw residential property market,
- the high qualifications and potential of the Group's management,
- the worked out know-how in respect of operational execution of development projects,
- many years of experience in selling and financing development projects,
- the land bank (for both, ongoing and future projects).
- very good liquidity of the Group.

In the upcoming twelve-month period it is also planned to:

- further focus on the operating activities in the popular flat segment and maintain activities in the remaining product groups within the offered product range,
- develop operations of the Group outside the Warsaw market through the expansion of operations in Tricity and Wrocław.

3. FINANCIAL SITUATION OF THE CAPITAL GROUP, FINANCE MANAGEMENT

3.1. Basic economic and financial figures disclosed in the annual consolidated financial statements of the Group for 2017

3.1.1 Selected data from the balance sheet

Assets

Structure of the Group's assets as at 31 December 2017, and changes as compared to the figures as at the end of 2016.

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

Equity and liabilities

Structure of the Group's shareholders' equity and liabilities as at 31 December 2017, and changes as compared to the figures as at the end of 2016:

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

3.1.2 Selected data from the consolidated income statement

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

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

3.1.3 Selected information from the consolidated cash flow statement

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

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

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

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

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

3.2. Forecasts

Both, Dom Development S.A. Capital Group and the parent company did not publish financial forecasts for 2017.

3.3. Finance management in the Group

In 2017, the finance management of Dom Development S.A. Capital Group in respect of construction of residential buildings was focused on seeking and structuring sources of external financing for the projects under construction and on maintaining a safe level of liquidity. The Management Board analyses the current and plans the future optimum financing structure on a regular basis in order to achieve planned ratios and financial results, and at the same time, to ensure liquidity and the comprehensive financial security of the Group. In 2017, the activities of the Group generated a positive result at each level of the income statement, thus reinforcing financial condition of the Group.

The Management Board is of the opinion that the net assets and financial results of the Dom Development S.A. Capital Group at the end of 2017 demonstrate the strong and stable financial position of the Group. This results from the well-established position of the Group in the housing market, appropriate operational experience and potential in place, both in terms of execution of residential development projects, and the sale and financing of these projects. The net assets and financial standing of the Group has been demonstrated by liquidity and debt ratios presented further in this report.

Having considered the situation in the Polish real estate market in recent years, the financial results achieved by the Group in 2017 can be considered very good. In 2017, the Group delivered 2 929 units (including apartments and retail units) to its customers as compared to 2 482 units in 2016. The financial result for 2017 is significantly higher (by 52%) than the result recorded in 2016. At the same time, in 2017 the Company had record net sales of 3 975 units which is 45% more than in 2016, and this may be considered as being a very strong result.

3.3.1 Profitability ratios

The ratios showing profitability of the business activity pursued by the Group in 2017 have improved as compared to the previous year. It predominantly results from the fact that the average margin generated on apartments delivered in 2017 was higher than on apartments delivered in 2016. The return on assets and equity has also improved, this is a result of a net profit growth of 52% with a much lower growth in assets and equity (up by 21% and 8% respectively).

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

3.3.2 Liquidity ratios

Having considered the specifics of the real estate development industry with its long production cycle and tighter funding requirements for the companies operating in this sector, the Group has been in a comfortable financial position.

This is 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 Management Board considers the Group's liquidity to be very good. The current ratio was almost identical to the year before, with the value considered to be very safe. The quick ratio decreased from 1.20 at the end of 2016 to 0.91 as at 31 December 2017. This ratio should be analysed when taking into account the specifics of real estate development activities. In 2017, the Company's inventory increased by more than 30%. The share of inventory in the current assets, with a relatively stable revalue, increased from 76% at the end of 2016 to 83% at the end of 2017. The

scale of this change resulted from the increase in the scale of operations and the recognition of apartments and retail units for which sale agreements have been signed as inventory until the date of handover of a unit to the buyers. The increase in the value of inventory is therefore a natural consequence of considerable increase in the scale of the Group's operations and does not constitute a threat to its liquidity.

Also the cash ratio decreased significantly in 2017 as compared to the situation at the end of 2016, while still remaining at a very high level. The main reason for the decrease of this ratio from 1.11 to 0.68 is drop in cash and cash equivalents by 33%, resulting primarily from the acquisition of Euro Styl S.A. Capital Group by the Company for PLN 260 million out of its own funds, the considerable expenditures on land and PLN 126 million appropriated for a dividend. This was also the result of the policy implemented by the Company's Management Board, namely a deliberate reduction of cash reserves while maintaining the availability of overdraft; as at 31 December 2017, the undrawn and available lines of credit was PLN 150 million.

The Management Board is of the opinion that the credibility of the Group in the financial market is high which is reflected by relatively low cost of finance and diversified financing structure and by good relationships with banks and other financial institutions in the form of them providing the Company with loans and other forms of long-term finance (bonds).

LIQUIDITY RATIOS	2017	2016
Current ratio <i>current assets / short-term liabilities less deferred income</i>	5.77	5.24
Quick ratio <i>current assets less inventory / short-term liabilities less deferred income</i>	0.91	1.20
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	1.11

3.3.3 Leverage ratios

Appropriate operating policy (i.e. proper commencement and pace of projects as well as controlled purchases of land) and conservative financing policy (the financing structure) maintained leverage ratios at adequate levels to support the business activity and maintain the Group's creditworthiness. The debt ratios with values similar at the end of 2017 than those at the end of 2016 reflect the conservative approach of the Group's governing bodies to the sources of finance for operations. The Company observed the largest difference in net interest bearing debt as compared to 2016, which increased from a negative value to a still very safe level of 6.5% as a result of the increase in the escrow accounts balance classified as short-term financial assets.

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

3.4. Information on loans, bonds, borrowings, sureties and guarantees

3.4.1 Borrowings contracted or terminated

On 18 May 2017, Euro Styl S.A. granted to its subsidiary, namely Euro Styl Construction Sp. z o.o., a loan in the amount of PLN 500 thousand at a fixed rate of 6 % per annum with maturity date on 18 May 2019.

3.4.2 Loans contracted or terminated

On 31 March 2017, an agreement for a revolving loan of up to PLN 85 million in the credit facility account was entered into with mBank S.A. 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. This interest rate for this loan is set at WIBOR 6M plus margin, and the repayment date is on 1 March 2021.

Details of the loans contracted by the Group have been presented in note 7.20 to the consolidated financial statements of the Group for 2017.

Loan agreements terminated in 2017

The Group did not terminate any loan facility agreement in 2017.

3.4.3 Bonds

On 2 February 2017, the Company redeemed matured 12 000 unsecured bonds with the nominal value of PLN 10 000 each and the aggregate nominal value of PLN 120 000 thousand, that were issued on 2 February 2012.

On 17 November 2017, an agreement was signed 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 a Bond Issue Programme to be operated at Dom Development S.A. Under this Programme Dom Development S.A. may issue, over the period of 10 years various, series of bonds with an aggregate value of no more than PLN 400 000 thousand understood as the nominal value of all bonds issued and outstanding at any time during the term the Programme.

On 15 December 2017, 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 15 December 2022. 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.

Details of the obligations issued, redeemed and bought out by the Group have been presented in note 7.21 to the consolidated financial statements of the Group for 2017.

3.4.4 Borrowings provided

On 18 May 2017, Euro Styl S.A. granted to its subsidiary, namely Euro Styl Construction Sp. z o.o., a loan in the amount of PLN 500 thousand at a fixed rate of 6 % per annum with maturity date on 18 May 2019.

On 22 December 2017, a loan dated 30 June 2010 granted by the Company to its subsidiary Dom Development Grunty Sp. z o.o. was fully repaid. This loan was fully repaid by way of payment of the balance in the amount of PLN 200 thousand.

3.4.5 Sureties provided and received

In the year 2017, the Company granted a surety in the amount of PLN 365 thousand for PPU PALISANDER Sp. z o.o. for the performance of contractual obligations by NAILSEA Sp. z o.o.

The Group did not receive any sureties in 2017.

3.4.6 Guarantees provided and received

The Group did not provide any guarantees in 2017.

The performance guarantees and retention bonds for defects and faults received in 2017 are presented in the table below:

Company	Guarantee type	Guarantee amount in thousand PLN
UNIBEP S.A.*	Bank guarantee	14 586
FUNDAMENTAL GROUP S.A.	Bank guarantee	12 183
KALTER SP. Z O.O.	Bank guarantee	3 585
ERBUD S.A.	Bank guarantee	3 206
WARBUD S.A.**	Bank guarantee	2 167
F.B.I. TASBUD S.A.	Bank guarantee	1 970
REMBUD SP. Z O.O.	Bank guarantee	933
TOTALBUD SP. Z O.O.	Bank guarantee	825
MROZEK SP. Z O.O.	Insurance guarantee	11

* The guarantee in the amount of PLN 2 986 thousand had been issued on 14.02.2017 and expired on 16.04.2017.

** The guarantee in the amount of 2 167 thousand PLN had been issued on 04.07.2017 and expired on 29.08.2017.

3.5. Use of proceeds from the issue of securities

The Company issued new bonds to the amount of PLN 50 000 thousand on 15 November 2017. Information concerning the issue is presented in note 3.4.3 of this report. The proceeds from the issue of bonds will be used for financing operations of the Company.

3.6. Assessment of the possibility to implement investment projects

Assessment of the possibility to implement investment projects, including capital investment versus the resources held, with consideration of possible changes in the financing structure of investment activity

The Dom Development S.A. Capital Group is fully capable of financing the currently executed investment projects. The Group intends to finance the execution of real estate development projects from the shareholders' equity, issue of commercial papers and bank loans. The Management Board attempts to adapt the maturity structure of the commercial papers issued and bank loans mainly to the duration of individual development projects, with particular consideration given to gradual replenishment of the land bank for future development projects.

The Group's capacity to implement investment projects was confirmed in 2017. The Company's Management Board was able to simultaneously proceed with the acquisition of PLN 260 million worth Euro Styl S.A. Capital Group, significant land purchases, including PLN 185 million worth of plots in the Żoliborz district in Warsaw, and the distribution of dividends of PLN 126 million among shareholders while maintaining a high level of cash and low ratio of interest bearing debt to shareholders' equity. Dom Development S.A. Capital Group has significant financial resources and has a very good opinion at banks and bondholders, which results in high availability of external funding.

Currently, almost all activities of the Dom Development S.A. Capital Group are conducted directly in Dom Development S.A. The Group's development projects planned for the upcoming year mostly focus on maintaining the Company's scale of operations in Warsaw while developing the subsidiaries operating in the Tricity and Wrocław.



An important step towards diversification of the Group's operations was the acquisition of Euro Styl S.A. Capital Group, and in turn Dom Development S.A. Capital Group being ranked third in respect of sales in the Tricity market. The Company's Management Board expects that the experience of Euro Styl S.A. management in conjunction with the resources of Dom Development S.A. Capital Group will ensure a stable leading position in the Tricity housing market.

The Management Board of the Company also expects an increase in the scale of operations of Dom Development Wrocław Sp. z o.o., through which the Group operates in the Wrocław market. The year 2017 was a period of intensive growth of the potential of the Wrocław-based subsidiary in respect of land purchases and team reinforcement. In 2018, an increased scale of operations should be expected as a result of the launch of construction projects and by offering new projects, and consequently growth in sales and strength of the Group in the Wrocław market.

An increased contribution of Euro Styl S.A. and Dom Development Wrocław Sp. z o.o. to the results of the Group should be expected in the upcoming years. The Management Board of the Company does not exclude the possibility of executing the projects through subsidiaries or jointly-controlled entities with the financing (special-purpose loans) for these projects being provided directly by those companies or through Dom Development S.A.

The continuation of the existing dividend policy, as a part of which the Company distributed 100% of the consolidated net profit of the Group for the years 2012 - 2016 serves as proof of the strength of the balance sheet of the Group and of the existing resources and sources of funding, which are sufficient to cover the investment plans of the Management Board.

3.7. Evaluation of factors and non-typical events affecting the consolidated result for the financial year

Evaluation of factors and non-typical events affecting the result for the financial year, including the extent to which these factors or non-typical events affected the generated result

On 8 June 2017, the Company acquired 100% of the shares in Euro Styl S.A. with its registered office in Gdańsk and 100% of the shares in the share capital of Euro Styl Development sp. z o.o. with its registered office in Gdańsk for the aggregate price of PLN 260 million. As a result of the said transaction, Dom Development S.A. controls the Euro Styl S.A. Capital Group that is a residential developer in the market of Tricity and its vicinity.

The Company's Management Board expects that the acquisition of Euro Styl S.A. Capital Group will ensure a significant, approximately fifteen per cent increase in the consolidated revenue and profit of the Dom Development S.A. Capital Group.

3.8. Material off-balance sheet items

In addition to Management Option Programme IV described in note 7.44 *Incentive Plan – Management Option Programmes* to the Group's consolidated financial statements for the year ended 31 December 2017 and the note payable to PKO BP S.A. of PLN 100 000 thousand as described in note 7.46 *Contingent liabilities* to the Group's consolidated financial statements for the year ended 31 December 2017, the Group had no material off-balance sheet items.

4. STATEMENT ON THE APPLICATION OF CORPORATE GOVERNANCE

Company's corporate governance rules and the location, where the text of corporate governance rules is publicly available

In 2017, Dom Development S.A. followed the corporate governance rules described in the Code of Best Practice for WSE Listed Companies 2016, adopted by the Supervisory Board of the Warsaw Stock Exchange on 13 October 2015 pursuant to Resolution No. 26/1413/2015.

In 2017, the recommendation described in Chapter IVR.2 in items 12) and 3) of the Good Practices for Listed Companies did not apply to the Company. The above mentioned recommendation stipulates that in cases justified by the shareholding structure or by the expectations of the shareholders communicated to the company, provided that the

company is able to provide the technical infrastructure necessary for the proper conduct of the general meeting with the use of electronic means of communication, the company should allow the shareholders to participate in the general meeting with the use of such means, in particular by: 2) two-way communication in real time thus allowing the shareholders to speak during the proceedings of the general shareholders meeting while being away from the place of the meeting, 3) exercise the voting rights at the general shareholders meeting in person or by proxy. The Management Board of the Company decided that the possibility of holding a general meeting with the use of electronic means of communications is not justified on account of the shareholding structure of the Company and the lack of such communicated expectations of the shareholders of the Company. Moreover, the Company did not enable participation in the general shareholders meeting in line with the above described procedure due to the higher risk of irregularities in the general shareholders meeting proceedings. The Company's Management Board decided that the above mentioned recommendation would not be complied with due to the potential issues related to, inter alia, identification of Shareholders, the choice of the best media of the remote two-way communication, and the Company's inability to guarantee compliance with the hardware requirements on the part of a Shareholder.

The Company's Management Board believes that issues of legal, logistical and technical nature which are related with providing the option of real-time two-way communication where the shareholders may take the floor and exercise voting rights during a general meeting from a location other than the general meeting are greater than the potential benefits for the Shareholders. In the opinion of the Company's Management Board the existing rules of participating in the general meeting assure correct exercise of the rights related to the holding of the Company's shares by all the Shareholders, while a possible interruption of the general meeting in consequence of disruption of the remote bilateral communication would create material inconvenience of for the Shareholders or their attorneys present at the meeting.

The Company's Management Board does not rule out the possibility of complying with the above recommendation in the future, and the Management Board's decision to implement it depends on the development of proper standards of its application in practice."

In 20017, the Company did not apply principle VI.Z.2 of the BPWSE (Best Practice for WSE Listed Companies) prescribing that "to tie in the remuneration of members of the management board and key managers to the company's long-term business and financial goals, the period between the allocation of options or other instruments linked to the company's shares under the incentive scheme and their exercisability should be no less than two years."

On 1 December 2017, the Supervisory Board of the Company acting pursuant to the authorisation granted in resolution no. 21 dated 25 May 2017 by the Ordinary General Shareholders Meeting of the Company, adopted the Provisions of Senior Management Option Programme IV for Małgorzata Kolarska, the Vice President of the Management Board and the CEO, concerning 500 000 shares in Dom Development S.A. In accordance with the provisions of Program IV, if Mrs Małgorzata Kolarska agrees to participate in Programme IV, she would only once receive 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.

The Management Board of the Company represents the view that the allocated options being split into five tranches with exercisability at 12-month intervals is an alternative corresponding to the manner of tying remuneration of a member of the management board to the Company's long-term business and financial goals as defined in detailed principle VI.Z.2. of the BPWSE.

Program IV is designed in a way so as to tie the remuneration of Mrs Małgorzata Kolarska, who holds the function of Vice President of the Management Board and the CEO, to the increase in the value of the Company for the Shareholders for a period of at least 5 years. Taking into account the distribution of option exercisability under individual tranches in time, the derogation from principle VI.Z.2 of the BPWSE only the first two tranches, however it should be noted that all tranches are to be exercised at periods later than these specified in principle VI.Z.2 of the BPWSE. Consequently, the adopted solution is the incentive program for a period longer than two years which results from principle VI.Z.2 of the BPWSE.

Moreover, the Management Board is of the opinion that the consent of the General Shareholders' Meeting of the Company and the Supervisory Board of the Company confirm that the rules of Program IV adequately protect the interests of the Shareholders of the Company by tying benefits of the exercise of options under Program IV with the long-term development and growth in the value of the Company.



The Code of Best Practice for Warsaw Stock Exchange Listed Companies is publicly available on: https://www.gpw.pl/pub/GPW/files/PDF/GPW_1015_17_DOBRE_PRAKTYKI_v2.pdf. The statement on the status of application of the recommendations and rules of Good Practice for WSE Listed Companies 2016 was posted by the Company on: <http://inwestor.domdevelopment.com.pl/pl/lad-korporacyjny>

Company's corporate governance rules adopted voluntarily and the location, where the text of such corporate governance rules is publicly available

In 2017, Dom Development S.A. followed the corporate governance rules published in the Code of Best Practice for Customer-Developer Relations drafted by Polski Związek Firm Deweloperskich (the Polish Union of Developers).

The Code of Best Practice for Customer-Developer Relations is publicly available on: <http://www.warszawa.pzfd.pl/strefa-klienta/kodeks-dobrych-praktyk>

Dom Development S.A. has adhered to all of the rules described in the Code of Best Practice for Customer-Developer Relations.

4.1. Share capital, shareholders

4.1.1 Shareholders

As at 31 December 2017 the parent company of the Dom Development S.A. Capital Group was controlled by Dom Development B.V. which held 57.34% of the Company's shares.

The table below shows the list of shareholders who have, directly or indirectly through subsidiaries significant shareholdings as at 31 December 2017.

	Status as at the date of of preparation of the financial statements				Change in the period from publication of the financial statements for the year ended 31.12.2016
	Shares	% of capital	Number of votes at the GSM	% of votes at the GSM	Shares
Dom Development B.V.	14 259 879	57.34	14 259 879	57.34	(466 293)
Jarosław Szanajca	1 454 050	5.85	1 454 050	5.85	-
Aviva Powszechnie Towarzystwo Emerytalne Aviva BZ WBK SA *)	1 313 383	5.28	1 313 383	5.28	no data
Grzegorz Kiełpsz	1 280 750	5.15	1 280 750	5.15	-

*) Shareholding of Aviva Powszechnie Towarzystwo Emerytalne (General Pension Society) Aviva BZ WBK S.A. 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

4.1.2 Special control rights

Persons holding any securities with special control rights, and description of these rights

Pursuant to paragraph 6.2.2 of the Articles of Association of Dom Development S.A., a shareholder holding at least 50.1% of shares in the Company is personally vested with the right to appoint and dismiss half of the members of the Management Board, including the President of the Management Board and the Vice President of the Management Board who is responsible, pursuant to the Management Board bylaws, for the Company's finances. For an odd number of Management Board members, a shareholder who holds at least 50.1% of the shares in the Company is authorised to appoint, accordingly: three (for a 5-person Management Board) and four (for a seven-person Management Board) Management Board members. The above right is exercised by way of serving written statement to the Company on

appointment or dismissal of a given Management Board member. The remaining members of the Management Board shall be appointed and dismissed by the Supervisory Board.

Pursuant to paragraph 7.4 of the Articles of Association of Dom Development S.A. a shareholder holding at least 50.1% of shares in the Company is vested with the personal right to appoint and dismiss half of the members of the Supervisory Board, including 1 Vice Chairman thereof. For an odd number of Supervisory Board members, a shareholder holding at least 50.1% shares in the Company is authorised to appoint, accordingly: three (for a 5-person Supervisory Board), four (for a seven-person Supervisory Board) and five (for a nine-person Supervisory Board) Supervisory Board members. The above right is exercised by way of serving written statement to the Company on the appointment or dismissal of a given Supervisory Board member.

On 31 December 2017, Dom Development B.V. with registered office in Rotterdam, the Netherlands was the shareholder who held at least 50.1% of shares in the Company.

4.1.3 Limitation of right in shares

Indication of restrictions on voting rights, such as restricted voting rights by persons holding a specific portion or number of votes, and temporary restrictions on voting rights or provisions, according to which, in cooperation with the Company, capital rights attached to securities are separated from possession of securities

Pledges and beneficial owners of shares of Dom Development S.A. are not entitled to exercise voting rights attached to shares.

Indication of any restrictions on the transfer of ownership title to the issuer's securities

No other restrictions have been in place in Dom Development S.A. regarding the transfer of ownership title to shares in Dom Development S.A.

4.2. The General Shareholders' Meeting

The procedure for and major rights of a General Shareholders' Meeting, and description of the rights of shareholders and manner for these rights being exercised, in particular the rules resulting from General Shareholders' Meeting bylaws, if such bylaws were adopted and if the rules in this respect do not directly result from legal regulations

The General Shareholders' Meeting holds its sessions as Ordinary or Extraordinary General Shareholders' Meetings, and as a governing body of the Company it acts pursuant to the provisions of the Code of Commercial Companies Act dated 15 September 2000 (consolidated text of Journal of Laws No. 94 item 1030, as amended), the Articles of Association of the Company and provisions of unclassified and publicly available General Shareholders' Meeting Bylaws dated 5 September 2006 as amended by resolution No. 27 by the Extraordinary General Shareholders' Meeting of Dom Development S.A. dated 15 May 2008 and resolution No. 31 by the Extraordinary General Shareholders' Meeting of Dom Development S.A. dated 21 May 2009.

An Ordinary General Shareholders' Meeting is convened by the Management Board. It takes place in Warsaw within 6 months following the end of each financial year. Shareholders are entitled to participate in the General Shareholders Meeting provided that they were shareholders of the Company 16 days before the date of the General Shareholders Meeting (registration date for participation in a general shareholders' meeting). No invitations are required for members of the Company's Management Board and the Supervisory Board to participate in a General Shareholders' Meeting. Other persons, in particular statutory auditors and experts, as invited by the Management Board, may participate in a session or an appropriate part thereof, should their participation be justified by the need to have their opinions on the discussed matters presented to the participants in the General Shareholders' Meeting. A statutory auditor should be present at a session of the General Shareholders' Meeting where Company's financial matters are addressed.

The General Shareholders' Meeting is valid and may adopt resolutions only if shareholders holding at least 50.1% of all votes are represented at the Meeting. Resolutions are adopted by an absolute majority of validly cast votes, unless the Code of Commercial Companies or the Articles of Association of the Company provide otherwise. An electronic system for casting and calculating votes may be used for voting. Pledges and beneficial owners of shares are not entitled to exercise voting rights attached to shares.

A resolution on the removal of certain matters from the agenda of the General Shareholders' Meeting or the abandonment of certain matters included in the agenda or placed on the agenda by a motion of shareholders requires a majority of three-fourths of the votes cast and the express prior consent of all present shareholders who have filed such motion, for it to be valid.

The Chairman puts the agenda to vote, having the attendance list signed and checked. The General Shareholders' Meeting may adopt the suggested agenda without changes, change the order of debate or remove certain matters from the agenda, subject to the provisions of the Articles of Association of the Company. The General Shareholders' Meeting may also put new matters on the agenda and discuss them, however without adopting any resolutions on such matters. The Chairman of the Meeting has no right to remove matters from the agenda or alter the same without the consent of the General Shareholders' Meeting.

Each participant in the General Shareholders' Meeting may speak on matters included in the adopted agenda which are currently brought up for discussion. Each participant of the General Shareholders' Meeting may submit a formal motion. The Chairman gives the floor to a participant willing to lodge a formal motion out of turn. Formal motions are the motions concerning debate and voting procedure.

The General Shareholders' Meeting adopts resolutions on matters included in the agenda by voting. Voting is open and is subject to relevant provisions of the Articles of Association of the Company and the Code of Commercial Companies.

In 2017, the Ordinary General Shareholders' Meeting of Dom Development S.A. was held on 25 May 2017 in Warsaw in the registered office of the Company. The General Shareholders' Meeting had been convened upon a motion of the Management Board of the Company, and shareholders of the Company did not file their motions for the General Shareholders' Meeting to be convened.

The course of the General Shareholders' Meeting was in line with the provisions of the Code of Commercial Companies, the Company's Articles of Association, unclassified and publicly available General Shareholders' Meeting Bylaws of Dom Development S.A. and the Code of Best Practice for WSE Listed Companies. The shareholders had the possibility to review the content of draft resolutions included in the agenda, in each case not later than 26 days prior to the planned date of the General Shareholders' Meeting. The Company did not question the correctness of documents submitted by shareholders and their attorneys in support of their right to represent a shareholder when verifying shareholders' IDs being the proof of their entitlement to participate in the General Shareholders' Meeting.

The Chairman of the General Shareholders' Meeting ensured that the session proceeded in an orderly and efficient manner. Sessions of a General Shareholders' Meeting have never been cancelled or discontinued. Members of the Management Board and the Supervisory Board present at the General Shareholders' Meeting readily explained all matters within their competences and as required by the law.

The circumstances for adopting resolutions of the General Shareholders' Meeting enabled for the protection of the rights of minority shareholders, including for voicing reservations and objections against the resolutions. None of the resolutions adopted was appealed against in court.

The Ordinary General Shareholders' Meeting of Dom Development S.A. was held within the time limit set forth in article 395 of the Code of Commercial Companies and Partnerships, and the documentation concerning the financial statements for the financial year 2016 was published on the website of the Company more than 2 months before the date of the Ordinary General Shareholders' Meeting.

All resolutions adopted by the General Shareholders' Meeting in 2017 were passed in the best interest of the Company and took into account the rights of other stakeholders. Resolutions adopted by the General Shareholders' Meetings are posted on: <https://inwestor.domd.pl/pl/wza>

4.3. Principles for the amendment of the articles of association

Pursuant to article 430 § 1 and art. 415 § 1 of the Code of Commercial Companies and Partnerships, an amendment to the Articles of Association of Dom Development S.A. requires a resolution by the General Shareholders' Meeting adopted by the three-fourths majority of votes and court registration. For a resolution that is to amend the Articles of Association as to benefits of the shareholders or limit the rights granted personally to individual shareholders under art. 354 of the Code of Commercial Companies and Partnerships, the consent of all the shareholders affected by the resolution is required. An amendment to the Articles of Association is to be filed with the court of registration by the Management Board of Dom Development S.A. The General Shareholders' Meeting of Dom Development S.A. may authorize the Supervisory Board to determine a revised and reinstated text for the amended Articles of Association or to make such other editorial changes as defined in the resolution by the General Shareholders' Meeting.

4.4. The Management Board

4.4.1 Principles for the appointment or dismissal of the Management Board

Description of the principles for the appointment or dismissal of managing persons and their rights, in particular the right to decide on the issue or repurchase of shares

In accordance with the Company's Articles of Association, the Management Board of Dom Development S.A. shall comprise of 4 to 8 members, including the President, with a three-year term of office. The Supervisory Board shall determine the number of members of the Management Board. A shareholder who holds at least 50.1% of the shares in the Company is personally vested with the right to appoint and dismiss half of the members of the Management Board, including the President of the Management Board and the Vice President of the Management Board who is responsible, pursuant to the Management Board bylaws for the Company's finances. For an odd number of Management Board members, a shareholder who holds at least 50.1% of the shares in the Company is authorised to appoint, accordingly: three (for a 5-person Management Board) and four (for a seven-person Management Board) Management Board members. The above right is exercised by way of serving written statement to the Company on appointment or dismissal of a given Management Board member. The remaining members of the Management Board shall be appointed and dismissed by the Supervisory Board.

The Management Board represents the Company in and out of court. For statements to be validly made and signed on behalf of the Company, two members of the Management Board are required to act jointly or one member of the Management Board is required to act jointly with a commercial proxy.

Pursuant to paragraph 3.2.8 of the Company's Articles of Association, the Management Board is authorised to increase the Company's share capital by the issue of new shares with an aggregate nominal value of no more than PLN 1 500 000 (in words: one million five hundred thousand) by way of one or several share capital increases within the limits specified above (authorised capital). The Management Board's right to increase share capital and issue new shares within the limits of the authorised capital up to PLN 1 500 000 shall expire 3 years from the date of the amendment to the Articles of Association made by resolution No. 22 dated 25 May 2017 by the General Shareholders' Meeting being entered in the register of entrepreneurs.

The right to increase the share capital referred to in the foregoing sentence, includes the issue of subscription warrants with subscription rights that expire after the above mentioned period.

Upon the consent of the Supervisory Board, the Management Board may deprive a shareholder of all or a part of its pre-emptive rights in relation to shares issued within the limits of the authorised capital.

A share capital increase by the Management Board within the limits of the authorised capital is conditional upon obtaining a positive opinion in this respect from the Supervisory Board. In other cases, unless otherwise provided by the Code of Commercial Companies, the Management Board may decide on any and all matters related to share capital increases within the limits of the authorised capital.

Pursuant to paragraph 3.2.6. of the Articles of Association of the Company, a purchase of treasury shares by the Company for redemption does not require the consent of the General Shareholders' Meeting (subject to art. 393 item 6 of the Code of Commercial Companies and Partnerships) and only requires the consent of the Supervisory Board.

4.4.2 Composition of the Management Board

In the period from 1 January until 31 December 2017 the Management Board of the Company was composed of the following five members:

- Jarosław Szanajca, President of the Management Board
- Janusz Zalewski, Vice President of the Management Board
- Małgorzata Kolarska, Vice President of the Management Board
- Janusz Stolarczyk, Member of the Management Board
- Terry Roydon, Member of the Management Board

On 4 December 2017, Mr Janusz Stolarczyk, Member of the Management Board resigned from his office, with effect as of 31 December 2017.

4.4.3 Principles governing the functioning of the Management Board

The Company's Management Board acts pursuant to the provisions of the Code of Commercial Companies, the Articles of Association and unclassified and publicly available Management Board Bylaws approved by the Supervisory Board's resolution, and in accordance with the Code of Best Practice for WSE Listed Companies.

The Management Board is an executive body of the Company. It manages the current operations of the Company and represents the same towards third parties. The Management Board decides in all matters concerning the Company not reserved for the General Shareholders' Meeting and/or the Supervisory Board under legal regulations, the Articles of Association of the Company or a resolution of the General Shareholders' Meeting.

For statements to be validly made and signed on behalf of the Company, two members of the Management Board are required to act jointly or one member of the Management Board is required to act jointly with a commercial proxy. Resolutions of the Management Board are adopted by an absolute majority of votes. In case of a voting deadlock, the President of the Management Board has the casting vote.

When defining strategic and current objectives for the Company, the Management Board always acted in the underlying interest of the Company and in line with the legal regulations, and taking into account the interests of the shareholders, employees and creditors of the Company.

In order to ensure transparency and efficiency of the management system, the Management Board followed the principles of professional conduct within the limits of reasonable economic risk, and took into consideration a wide range of available information, analyses and opinions.

The amount, form and structure of remuneration for the Members of the Management Board have been determined by the Supervisory Board in line with the applicable remuneration policy and on the basis of clear-cut procedures, and have corresponded to the scope of their responsibilities and competences and have taken into account the economic performance of the Company. This remuneration has also corresponded to remuneration of Management Boards in comparable companies in the real estate development market.

4.5. The Supervisory Board

4.5.1 Principles for the appointment or dismissal of the Supervisory Board

The Supervisory Board shall comprise of 5 to 9 members appointed for a three-year term of office.

The General Shareholders' Meeting shall determine the number of members of the Supervisory Board. In addition to this, the General Shareholders' Meeting shall appoint and dismiss Members of the Supervisory Board, subject to the personal right of a Shareholder holding at least 50.1% of shares to appoint and dismiss half of the Members of the Supervisory Board, including 1 Vice Chairman thereof. For an odd number of Supervisory Board members, a shareholder holding at least 50.1% shares in the Company is authorised to appoint, accordingly: three (for a 5-person Supervisory Board), four (for a seven-person Supervisory Board) and five (for a nine-person Supervisory Board) Supervisory Board members. The above right is exercised by way of serving written statement to the Company on the appointment or dismissal of a given Supervisory Board member.

At least two Members (and their relatives, in particular spouses, descendants or ascendants) of the Supervisory Board appointed by the General Shareholders' Meeting should meet the criteria of the so-called Independent Members, defined in paragraph 7.7 of the Articles of Association of the Company.

4.5.2 Composition of the Supervisory Board

In the period from 1 January 2017 until 31 December 2017 the Supervisory Board was composed of the following members:

- Grzegorz Kiełpsz, Chairman of the Supervisory Board
- Markham Dumas, Vice Chairman of the Supervisory Board
- Marek Moczulski, Vice Chairman of the Supervisory Board (Independent Member)
- Mark Spiteri, Member of the Supervisory Board
- Michael Cronk, Member of the Supervisory Board
- Włodzimierz Bogucki, Member of the Supervisory Board (Independent Member)
- Krzysztof Grzyliński, Member of the Supervisory Board (Independent Member)

4.5.3 Principles governing the functioning of the Supervisory Board

The Supervisory Board acts pursuant to the provisions of the Code of Commercial Companies, the Articles of Association and unclassified and publicly available Supervisory Board Bylaws, approved by the Supervisory Board's resolution, that set forth its organisation and manner of operation, and in accordance with the Code of Best Practice for WSE Listed Companies.

The Supervisory Board is a permanent supervisory body of the Company for all areas of its operation.

The Supervisory Board adopts resolutions or issues opinions in the matters reserved for the Supervisory Board under the Company's Articles of Association and in the manner as provided for in the Articles of Association or relevant legal regulations.

The Supervisory Board held its meetings regularly. The meetings were attended by the Members of the Management Board. In 2017 the Supervisory Board held 9 sessions including 5 teleconferences. The Management Board provided the Supervisory Board with exhaustive information on all important matters concerning the operations of the Company.

The Supervisory Board complied with the requirement of having among its members at least two independent members in line with the criteria of independence set forth in the Company's Articles of Association.

Resolutions of the Supervisory Board concerning: (i) the consent for the Company or a related entity of the Company to make any considerations on any account whatsoever for the benefit of the Members of the Management Board, (ii) the consent for the Company or a related entity of the Company to conclude a material agreement with a related entity of the Company, a Member of the Supervisory Board or the Management Board, or entities related to such members, (iii) the choice of a statutory auditor for the audit of the Company's financial statements, were all adopted upon the consent of the majority of the independent Members of the Supervisory Board.

The remuneration of the Members of the Supervisory Board was determined in a transparent manner and did not constitute a considerable share in the Company's costs affecting its financial result. The amount of the remuneration was approved by a resolution of the General Shareholders' Meeting and was disclosed in the annual report.

The Supervisory Board presented to the Ordinary General Shareholders' Meeting of the Company which was held on 25 May 2017 the following documents prepared in line with the Code of Best Practice for WSE Listed Companies:

- assessment of the situation of the Company in 2016, including the system of internal control, risk management, compliance and internal audit,
- report of activities of the Supervisory Board in 2016,
- assessment of the company's compliance with the duty of disclosure in respect of applying the principles of corporate governance as specified in the Stock Exchange Rules, and the regulations concerning current and periodic submissions by security issuers,
- assessment of the soundness of the sponsorship, charity and other similar policies in place at the Company.

4.5.4 The Supervisory Board Committees

Two committees, the Audit Committee and the Remuneration Committee, were established within the structure of the Supervisory Board.

Audit Committee

In the period from 1 January 2017 until 31 December 2017 the Audit Committee was composed of the following members:

- Włodzimierz Bogucki, Chairman of the Audit Committee
- Mark Spiteri, Member of the Audit Committee
- Marek Moczulski, Member of the Audit Committee

The Audit Committee is a permanent committee at the Supervisory Board. The Audit Committee is composed of at least three Members appointed by the Supervisory Board from amongst its Members, with at least two members of the Audit Committee, including the chairperson, also being 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, and at least one of whom should have expertise and qualifications in accountancy or financial audit. At least one Member of the Audit Committee must have expertise and qualifications in the segment where the Company operates.

The duties and competences of the Audit Committee have been set forth in unclassified and publicly available Audit Committee Bylaws approved by the Supervisory Board.

The duties of the Audit Committee include, in particular (i) supervision of the Company's Management Board as regards the Management Board's compliance to relevant laws and other regulations, in particular the Accounting Act dated 29 September 1994, supervision of the preparation of financial information by the Company, in particular in respect of the choice of the accounting policy adopted by the Company, supervision of the application and assessment of the consequences of new legal regulations, supervision of the information on the manner in which estimated items, forecasts etc., are presented in annual reports and supervision of the compliance to recommendations and findings of a statutory auditor appointed by the Supervisory Board, (ii) issuing recommendations to the Company's Supervisory Board concerning the appointment and dismissal of the statutory auditor, (iii) control of independence and objectivity of the statutory auditor, in particular in respect of a possible replacement of the statutory auditor, and their remuneration, (iv) verification of the statutory auditor's work.

In executing its duties, the Audit Committee works with the Supervisory Board, the Management Board, middle management and the external and internal audit unit.

The Vice President of the Management Board responsible for finance, Deputy Financial Director, Financial Controller and representatives of the external and internal audit teams may attend the Audit Committee meetings, if invited. In 2017, the Audit Committee held 9 meetings, including 5 teleconferences.

Remuneration Committee

In the period from 1 January 2017 until 31 December 2017 the Remuneration Committee was composed of the following members:

- Marek Moczulski, Chairman of the Remuneration Committee
- Mark Spiteri, Member of the Remuneration Committee
- Krzysztof Grzyliński, Member of the Remuneration Committee.

The Remuneration Committee is a permanent committee at the Supervisory Board. It is composed of at least three members appointed by the Supervisory Board from amongst its members, with at least two members of the Remuneration Committee being Independent Members of the Supervisory Board within the meaning of paragraph 7.7 of the Articles of Association. The Supervisory Board appoints one member of the Remuneration Committee to the position of the Chairman of the Remuneration Committee. This member serves concurrently as an Independent Member of the Supervisory Board within the meaning of paragraph 7.7 of the Articles of Association. The Supervisory Board may dismiss any Member of the Remuneration Committee at any time.

The duties and competences of the Remuneration Committee have been set forth in unclassified and publicly available Remuneration Committee Bylaws approved by the Supervisory Board

The duties of the Remuneration Committee include, in particular (i) a periodic assessment of the remuneration principles for the members of the Management Board and providing the Supervisory Board with relevant recommendations in this respect, (ii) preparation of suggestions as regards remuneration and additional benefits for individual members of the Management Board, including in particular benefits under a management share option programme (options convertible into shares in the Company's share capital) to be reviewed by the Supervisory Board, (iii) submission of projects concerning the Company's remuneration policy.

The President of the Management Board and the Vice President of the Management Board for finance may attend the Remuneration Committee meetings, if invited. In 2017, the Remuneration Committee held 5 meetings, including 1 teleconference.

4.6. Remuneration policy report

4.6.1 Remuneration system at the Company

The purpose of the remuneration policy for members of the management and supervisory bodies, and for key managers at Dom Development S.A. (hereinafter referred to as: the Remuneration Policy) is to support the Company's strategy and its short and long term objectives.

Coherent and organised principles have been created to allow the Company to operate against the Remuneration Policy in place at the Company in such a way so that the remunerations are based on the realities in the market and the financial condition of the Company. The remuneration policy implemented at the Company allows us to stimulate business development and attract, motivate and retain top-class specialists in their respective areas of expertise.

The Remuneration Policy for the members of the Management Board of the Company and key managers at Dom Development S.A. is linked to the long-term interests and economic results of the Company through a system of long-term incentives.

The Remuneration Policy for the members of the corporate bodies of the Company and key managers at Dom Development S.A. is determined in accordance with generally applicable laws and internal regulations in force in the Company, including, but not limited to, the Code of Commercial Companies, the Articles of Association, the Supervisory Board By-laws, the Management Board By-laws and the Remuneration Committee Rules and Regulations.

In the financial year 2017 there were no significant changes in the Remuneration Policy of the Company.

4.6.2 Non-financial components of remuneration for the Members of the Management Board and key managers

The remuneration of the Members of the Management Board, the Members of the Supervisory Board and key managers also consists of fringe benefits such as private health care or a company car that can also be used for private purposes.

4.6.3 Assessment of the Remuneration Policy operation

The Company is of the opinion that the Remuneration Policy in place that is linked with economic performance, while meeting business objectives, is the strong foundation for maintaining the viability of the company and the long-term increase in value for shareholders.

4.6.4 Terms and amounts of remuneration, bonuses and benefits received by individual members of the Management Board

In accordance with the Articles of Association of the Company, the terms of contracts and the remuneration for the President of the Management Board and the other members of the Management Board is the responsibility of the Supervisory Board, upon the recommendation of the Remuneration Committee in this regard.

The Remuneration Committee reviews the remuneration principles for the members of the Management Board periodically and provides the Supervisory Board with relevant recommendations in this respect, suggests amounts of remuneration and additional benefits for individual members of the Management Board, in particular benefits under a management share option programme (options convertible into shares in the Company's share capital) for individual members of the Management Board, to be reviewed by the Supervisory Board.

The remuneration for the Members of the Management Board of the Company and key managers stems from the Remuneration Policy adopted and consists of a fixed part (base salary), a variable part (incentive system known as an annual discretionary bonus) and fringe benefits. In 2017, the principles of the remuneration system were similar to these applied in previous years, i.e. the remunerations were based on the incentive system linked with financial performance, business and financial objectives of the Company. The granting of the annual discretionary bonus was contingent on the degree of implementation of individual annual targets associated with the business objectives of the Company.

In 2017, the amount of remuneration (including bonuses) paid, accrued or potentially accrued to individual members of the management bodies was as follows:

Remuneration and bonuses (in thousand PLN)	In the Company			In other companies operating within the Group in thousand PLN
	Fixed remuneration items	Variable remuneration items	Non-pay benefits	
The Management Board				
Jarosław Szanajca	1 399	802	29	-
Małgorzata Kolarska	1 200	1 066	28	-
Janusz Zalewski	1 080	697	14	-
Janusz Stolarczyk	711	409	34	-
Terry Roydon	72	341	-	-

In 2017, there was no distributions from profit to members of the management bodies of the Company, except for the dividend.

4.6.5 The amount of remuneration, bonuses and benefits received by individual members of the Supervisory Board

In 2017, the amount of remuneration paid, accrued or potentially accrued to individual members of the supervisory bodies was as follows:

Remuneration and bonuses	In the Company	In other companies operating within the Group
	in thousand PLN	in thousand PLN
The Supervisory Board		
Grzegorz Kielpsz	624	-
Mark Spiteri	110	-
Markham Dumas	110	-
Michael Cronk	110	-
Włodzimierz Bogucki	110	-
Marek Moczulski	110	-
Krzysztof Grzyliński	121	-

In 2017, there was no distributions from profit to members of the supervisory bodies of the Company, except for the dividend.

4.6.6 Agreements with the members of the Management Board in the event of their resignation or dismissal

The agreements concluded between the Company and the members of the management which provide for the compensation in the event of their resignation or dismissal from office

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

Pursuant to the provisions of these employment contracts, an individual Member of the Management Board is entitled to receive remuneration throughout the notice period in the case that their employment is terminated. This has been described in note 7.45 in the Group's consolidated financial statements for 2017.

4.7. Application of the Diversity Policy in relation to the Management Board and the Supervisory Board

In the opinion of the Management Board of the Company, the composition of the Management Board and the Supervisory Board of Dom Development S.A provided the diversity of age, education and professional experience necessary to achieve a multidimensional perspective supporting the activities of and supervision over the Company.

In 2017, the Company's Management Board was composed of 5 members: 4 men and 1 woman. All members of the Management Board have been with the Company for many years, and their appointment was determined by their expertise and qualifications. The Management Board of Dom Development S.A. includes people who have degrees in law, economics and property management. All members of the Company's Management Board have many years of experience in the real estate development industry, both in the Polish and foreign markets. Their track record and broad perspective allow the Management Board to make strategic decisions effectively.

In order to safeguard the development of the Company and of the Group, the Management Board has emphasised the development of key managers and its diversity. The directors and vice-directors of the individual divisions and departments include women and men of different educational backgrounds, professional experience and age.



The Supervisory Board of the Company includes persons with experience in various industries, also in the property development sector. The Members of the Supervisory Board include persons that have been with Dom Development S.A. for many years, namely Mr Grzegorz Kielpsz, the Chairman of the Supervisory Board and a co-founder of the Company as well as the representatives of Dom Development B.V. as the majority shareholder. There are also three independent members on the Supervisory Board who warrant the highest standard of supervision over the Company. Such diversification provides a wide perspective on the operation of the Management Board of the Company and the undertaken development paths. In 2017, the Supervisory Board was composed of 7 men, however the authorities of the Company, as far as it is possible, attempt to include a woman in this body if she meets the criteria prescribed by the law and the Company's internal standards.

The relative stability of the composition of the Management Board and the Supervisory Board of Dom Development S.A. results in large part from the stable shareholding structure of the Company and its history - both the Management Board and the Supervisory Board include co-founders of the company and persons representing the dominant shareholder, Dom Development B.V., as members.

4.8. Shares held by the members of the Management Board and the Supervisory Board

Total number and nominal value of all shares in the Company as well as the shares and stocks in the companies operating within the Group held by the members of the management and supervisory bodies of the Company

The ownership structure of shares and share options in the Company held by the Members of the Management Board and the Supervisory Board as at 31 December 2017 was as follows:

	Shares		Share options	Total
	number	nominal value in thousand PLN	number	number of options and shares
The Management Board				
Jarosław Szanajca	1 454 050	1 454	-	1 454 050
Janusz Zalewski	350 000	350	-	350 000
Małgorzata Kolarska	31 500	32	500 000	531 500
Janusz Stolarczyk	122 030	122	-	122 030
Terry Roydon	58 500	59	-	58 500
The Supervisory Board				
Grzegorz Kielpsz	1 280 750	1 281	-	1 280 750
Mark Spiteri	900	1	-	900

The Members of the Management Board and the Supervisory Board of the Company did not hold any shares in other companies operating within the Group.

4.9. Policy for sponsoring, charity and other activities of a similar nature

The Company has been actively engaged in sponsorship, which combines support for cultural, art, sports and education institutions with the promotion of the Dom Development S.A. brand. The partners to be involved with as a sponsor or on a similar basis have been selected with high ethical standards in place and with particular regard for projects having a positive effect in the areas where the property development projects of the Company are located.

In 2017, the Company founded the Dom Development City Art Foundation. The Foundation's mission is to improve the quality of public space by integrating residential architecture with art, and also by actively promoting art as an important factor with a favourable effect on the quality of life of city inhabitants. The objective of the Dom Development City Art Foundation is to stimulate debate concerning the quality of public space. In addition to cooperation with artists and the implementation of selected projects at new Dom Development S.A. residential estates, the Foundation intends to

organise competitions for designers and also to undertake research and educational activities. One of the Foundation's priorities is also to support the events promoting art in city space. For detailed information on the activities of the Dom Development City Art Foundation visit www.fddca.pl.

Dom Development S.A. has been also a major sponsor of the National Theatre in Warsaw, one of the most important theatres in Poland, since 2016. The Company will also continue this cooperation in 2018.

In 2017, the Company supported the Podkarpacka Foundation for the Development of Culture (Podkarpacka Fundacja Rozwoju Kultury) by sponsoring the Charity Concert "Help the Children – Jazz Stars charity for the Paediatric Transplant Centre at the Children's Memorial Health Institute.

By combining local community support with the promotion of culture, in 2017, Dom Development S.A. supported the ENS Foundation for National Culture and Heritage (Fundacja ENS na Rzecz Kultury i Dziedzictwa Narodowego) which organized a reading of fairy tales by Jerzy Ficowski on the of Żoliborz Artystyczny estate. Moreover, the Company was involved in projects for the benefit of the Targówek district inhabitants, where the Company has been running a multi-stage project at the Wilno estate. The Unit for Social Innovation and Research "Stocznia" (Shipyard) (Fundacja Pracownia Badań i Innowacji Społecznych "Stocznia") organised the project of the Participatory tourist trail in Targówek Fabryczny district with the support of Dom Development S.A. The outcome of this project was the completion of a walking path in the Targówek Fabryczny district. The National Ballroom Dance Competition which took place last year in the Targówek district in Warsaw was also supported by Dom Development S.A.

In 2017, the Company further supported the Syrenka (mermaid) Rowing Association Foundation (Fundacja Towarzystwo Wioślarskie Syrenka) that is the organiser of the Vistula River Rowing Cup. In June 2017, the tenth edition of this series took place.

The policy implemented by the Company in 2017 in the scope of sponsorship and charity activities have included the involvement in projects supporting those in need, culture, promoting sport and healthy lifestyle, and the development of local communities, in particular near the residential projects run by the Company.

4.10. Management Option Programmes

4.10.1 Existing employee share schemes

Information on the agreements that are known to the Company and that were concluded in the last financial year which may result in future changes in the proportions of shares held by the current shareholders

On 1 December 2017, the Supervisory Board of the Company adopted resolution no. 01/12/17 concerning the approval of the provisions of the Management Option Programme IV for Małgorzata Kolarska, Vice President of the Management Board – CEO, concerning 500 000 shares in Dom Development S.A. In accordance with the terms of the Programme, Mrs Małgorzata Kolarska received one-off options authorising her to subscribe for 500 000 shares in Dom Development S.A. for the price of PLN 35.00 (thirty five zlotys only) per share. The exercise of these options is 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.

The said Program IV is the only management option programme currently in place at the Company.

Share options granted and exercisable as at respective balance sheet dates, and changes in 2017 and 2016 has been presented in the table below.

SHARE OPTIONS		01.01- 31.12.2017	01.01- 31.12.2016
Unexercised options at the beginning of the period	Number of options	-	150 410
	Total exercise price	-	6 116
Options granted in the period	Number of options	500 000	-
	Total option exercise value	17 500	-
Options expired in the period	Number of options	-	53 260
	Total option exercise value	-	2 164
Options exercised in the period	Number of options	-	97 150
	Total option exercise value	-	3 952
	Weighted average exercise price per share (PLN per share)	-	40.68
Unexercised options at the end of the period	Number of options	500 000	-
	Total exercise price	17 500	-
Exercisable options at the beginning of the period	Number of options	-	150 410
	Total exercise price	-	6 116
Exercisable options at the end of the period	Number of options	-	-
	Total exercise price	-	-

Management Option Programme IV have been described in detail the consolidated financial statements of the Group for 2017 in note 7.44.

4.10.2 Employee share scheme control system

The Management Option Programmes, which were and are in place in the Company, were adopted by the Supervisory Board based on the authorisation contained in a resolution issued by the General Shareholders' Meeting.

On 25 May 2017, the Management Board was authorised by the General Shareholders' Meeting of the Company to increase its share capital within the authorised capital and to issue warrants allowing the participant in Management Option Programme IV for 500,000 shares in Dom Development S.A. Addressed to Małgorzata Kolarska, Vice President of the Management Board and the CEO to subscribe for shares. The Management Board is then entitled to adopt a resolution concerning the increase of the share capital upon the consent of the Supervisory Board.

4.11. Changes in the basic management principles of the Company and its Capital Group

In 2017, there were significant changes in the core management rules at Dom Development S.A. Capital Group resulting from the acquisition of the Euro Styl S.A. Capital Group. As part of the integration of Euro Styl S.A. Capital Group with Dom Development S.A. Capital Group the following actions were taken:

- the Dom Development S.A. standards concerning the evaluation of a development project were implemented;
- the rules for disclosing units for sale and the disclosure of deliveries as of the date that sales revenue is recognised at the Euro Styl S.A. Capital Group were aligned with the Company's policy to date;
- the credit advice for the Group's customers was centralised in Dom Development S.A.;
- the management reporting system compliant with the standards of Dom Development S.A. has been developed;
- the accounting policies and statutory reporting i.e. financial statements have been aligned and coordinated, in accordance with Dom Development S.A. standards;
- the terms of liquidity management for the Group were defined;

- the identification and reporting procedure for confidential information as defined in art. 17 of the Regulation of the European Parliament and of the Council (EU) No. 596/2014 on market abuse and current information, was developed.

In 2017, there were no major changes in the basic principles of management of the Company.

4.12. Internal control and risk management systems

Description of the basic features of the internal control and risk management systems in place in the Group for the preparing of standalone and consolidated financial statements

The Company's Management Board is responsible for the internal control system in the Group and its effectiveness in the preparing of financial statements and periodic reports prepared and published in accordance with the Regulation by the Minister of Finance dated 19 February 2009 on the current and periodic submissions by securities issuers.

The effectiveness of the Group's internal control and risk management systems in financial reporting was ensured through the following means:

- **Structure and scope of financial reporting applied by the Group**

The medium term plan (covering a period of at least 3 years) is updated on a yearly basis in the Group. In addition to this, a detailed operating and financial budget which implements the assumptions of the medium-term plan are prepared every year. The process is managed by the Management Board of the Company and the middle and executive management of the Company is also involved. The budget, which is prepared annually for the following year, is approved by the Company's Management Board.

During any specific year, the Company's Management Board reviews the current financial results versus the adopted budget. The management reporting methodology applied in the Group is used for this purpose. This reporting is based on the accounting policy adopted by the Group (in line with the International Financial Reporting Standards) and takes into account the form and level of detail of financial data presented in the financial statements of the Company and the Group.

Consistent accounting policies are applied by the Group for presenting its financial details in the financial statements, periodic financial reports and management reports.

- **Clear division of duties and competences in the process of preparing financial information**

The financial division headed by the Vice President of the Management Board as the Company's CFO is responsible for the preparing of financial statements, periodic financial reports and current management reports of the Group.

The Group's financial statements are prepared by a team of highly qualified employees from the finance and accounting division, with the assistance of the planning and analysis unit. The entire process is supervised by middle management from the financial division. The financial statements, when ready, are verified by the financial controller (responsible for the accounting department and planning and analysis unit) and then by the Vice President of the Management Board as the Company's CFO, prior to being submitted to the independent statutory auditor.

- **Regular assessment of the Group's operations based on its financial reports**

The figures used in the financial statements and periodic reports and in the monthly management and operating reports come from the Group's financial and accounting system. Detailed financial and operating management reports are prepared, having all predefined book-closing procedures completed at the end of each month. These reports, in addition to historical financial data, are supplemented with quantitative operating data and forecasts by the planning and analyses unit. These reports are scrutinized by middle and executive management of individual organizational units of the Group and by the Management Boards of the companies operating within the Group. As regards closed reporting periods, the Group's financial results are scrutinized versus the budgets and forecasts made in the month preceding the reporting period subject to scrutiny. Taking into consideration the specific nature of the sector, not only individual cost groups are scrutinized but also individual investment projects.

Any identified deviations and errors are clarified and corrected in the Group's books on an ongoing basis, in accordance with the adopted accounting policy.

- **Verification of the Group's financial statements by an independent statutory auditor**

Pursuant to the applicable legal regulations, the Group's financial statements are reviewed or audited, respectively, by an independent statutory auditor. This is always a prime and highly qualified statutory auditor.

A so-called Audit Life Cycle has been developed in the Company. This is a cyclical schedule of communication between the Management Board, the statutory auditor and the Audit Committee of the Supervisory Board. The purpose of this schedule is to ensure appropriate interaction between the Audit Committee and the statutory auditor as well as appropriate presentation of the results of the above mentioned review and audit.

- **Formalised process for significant assessments that considerably affect the Company's financial statements**

The fundamental activity adopted by the Group so as to reduce the exposure to market risks is proper assessment of potential and control of current development projects based on investment models and decision-making procedures developed in the Company. The adherence to such procedures is closely monitored by the Management Board of the Company.

As implied by the accounting policy adopted by the Group in this respect, detailed budgets for individual development projects that are prepared in accordance with the best practice and experience of the Group constitute the grounds for the calculation of revenue from the sale of products and costs of products sold. The budgets for all construction projects are updated at least once every three months, during the execution of the projects. The update is based on the formalised principles in place in the Group and is scrutinized by the Management Board, in particular by the Vice President of the Management Board as the Company's CFO.

- **Risk management process and internal audit**

There has been a formalised risk management procedure in operation within the Company since 2000. Under this procedure the risk is managed through the identification and assessment of the risk areas for all aspects of the activities, in which the Company and the Group are involved, together with defining activities required to reduce or eliminate such risks (including through the procedures and internal audit system) The risk management procedure is subject to periodic revision and is updated by the Management Board jointly with the key management staff and third party advisers.

The internal audit unit that is in place in the Company also participates in the process of risk identification and assessment of the control measures. The schedule of internal audits is created based on the risk assessment made in cooperation with the Management Board under the supervision of the Audit Committee. In addition to scheduled audits, there are verification audits to check implementation of recommendations formulated in the previous audits and non-scheduled audits. The findings of internal audits are reported to the Audit Committee and to experts appointed by this Committee.

4.13. Auditor

Information on the agreement for the audit and review of the financial statements and the consolidated financial statements concluded with the authorized auditor

On 20 September 2017, Dom Development S.A. entered into an agreement for an audit of the financial statements and consolidated financial statements for the year ended 31 December 2017, and a review of the condensed financial statements and condensed consolidated financial statements for the six-month period ended 30 June 2017, with the authorized auditor Ernst & Young Audyt Polska spółka z ograniczoną odpowiedzialnością sp. K. with its registered office in Warsaw.

The total remuneration for the audit of the above-mentioned financial statements for 2017 is PLN 270 thousand. The total remuneration for the review of the condensed financial statements is PLN 70 thousand.

Moreover, companies operating within the Ernst & Young network provided additional services to the Company in 2017:

- training for the total amount of PLN 1 thousand,
- other services for the total amount of PLN 425 thousand.



The financial statements of the Company and the Group for the first half of the year 2016 and for the entire year 2016 were, respectively, reviewed and audited also by Ernst & Young Audyt Polska Spółka z ograniczoną odpowiedzialnością sp.k. and the total remuneration for the audit of the annual financial statements was PLN 184 thousand and the total remuneration for the review of the interim financial statements was PLN 60 thousand.

Moreover, Ernst & Young Audyt Polska Spółka z ograniczoną odpowiedzialnością sp.k. provided additional services to the Company for a total amount of PLN 79 thousand, in 2016.