

## **CAPITAL GROUP**

**Dom Development S.A.  
Pl. Pilsudskiego 3  
00-078 Warsaw**

**Auditor's Opinion and Report  
on the Consolidated Financial Statements  
prepared in accordance with IFRS  
for the period between 1 January and 31 December 2007**

This document is a translation.  
The Polish original should be referred to in matters of interpretation.

## **Auditor's Opinion**

### **for the Shareholders and the Supervisory Board of Dom Development S.A.**

We have audited the enclosed consolidated financial statements of Dom Development S.A. Capital Group prepared in accordance with International Financial Reporting Standards (IFRS), in which the holding company is Dom Development S.A. with its registered office at pl. Piłsudskiego 3 in Warsaw, consisting of:

- introduction to the consolidated financial statements;
- consolidated balance sheet prepared as at 31 December 2007, showing total assets and liabilities of PLN **1,252,066,673.73**;
- consolidated the profit and loss account for the period from 1 January 2007 until 31 December 2007, showing a net profit of PLN **200,643,942.27**;
- statement of changes in the consolidated shareholders' equity, showing the increase of shareholders' equity by PLN **204,256,012.01**;
- consolidated cash flow statement for the period from 1 January 2007 to 31 December 2007, showing a net cash increase by PLN **47,953,659.37**;
- notes to the financial statements.

The Management Board of the holding company is responsible for preparing these consolidated financial statements.

Our responsibility was to audit the consolidated financial statements and to express the opinion on the reliability, regularity and clarity of these consolidated financial statements.

We conducted our audit in accordance with:

- 1) International Auditing Standards
- 2) professional auditing standards issued by the Polish Chamber of Certified Auditors.

We planned and conducted the audit of the consolidated financial statements in such a manner as to achieve a reasonable assurance, allowing us to express the opinion on the financial statements.

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

The basis for preparing the consolidated financial statements in accordance with International Financial Reporting Standards for the period 1 January 2007 – 31 December 2007 were standalone financial statements of the companies constituting Dom Development S.A. Capital Group, prepared in accordance with Polish Accounting Act and the financial statement of the holding company Dom Development S.A. prepared in accordance with International Financial Reporting Standards. The standalone financial statements of the subsidiaries for 2007 prepared in accordance with the Accounting Act do not show significant differences in

comparison with the standalone financial statements which would have been prepared in accordance with International Financial Reporting Standards. For purposes of the consolidated financial statements for 2007, the standalone financial statements of Fort Mokotów Sp. z o.o., a co-subsiary, prepared in accordance with the Accounting Act, have been transformed in accordance with International Financial Reporting Standards to comply with the accounting principles used by the holding company.

We believe that the audit provided a reasonable basis for our opinion.

In our opinion, the audited consolidated financial statements consisting of financial data and explanations:

- give a true and fair view of the Dom Development S.A. Capital Group financial position as at 31.12.2007, as well as its financial result for the period from 1.01.2007 to 31.12.2007,
- have been prepared correctly in all material respects, i.e. in accordance with the holding company's accounting policies arising out of International Financial Reporting Standards and International Accounting Standards, as well as the related interpretations announced by the European Commission in the form of implementing regulations, and in issues not regulated by these Standards – in accordance with the Accounting Act and the related regulatory provisions issued on the basis of this Act, as well as on the basis of properly maintained books of account,
- are consistent with the laws and regulations binding The Capital Group influencing the contents of the consolidated financial statements.

Without qualifying our opinion we draw attention to the issue of revenue recognition and the fact that the International Financial Reporting Interpretations Committee continues to work on D-21 IFRIC interpretation Real Estate Sales. These issues were described in point 4 of the introduction to the consolidated financial statements "Significant Accounting Policies".

The Directors Report on the Group's activities includes all information required by article 49 point 2 of the Accounting Act, is consistent with the provisions of the Minister's of Finance Decree of 19 October 2005 on the current and periodic information submitted by the issuers of securities, and the financial data contained therein is consistent with the consolidated financial statements.

Warsaw, 10 March 2008

**BDO Numerica S.A.**  
**ul. Postępu 12**  
**02-676 Warsaw**  
**Registration no. 523**

**Auditor in charge:**

**Marcin Jagodziński**  
Polish Certified Auditor  
Reg. No. 90042/7384

**On behalf of BDO Numerica S.A.:**

**Dr André Helin**  
Polish Certified Auditor  
Reg. No. 90004/502  
Senior Partner BDO Numerica S.A.

## **CAPITAL GROUP**

**Dom Development S.A.  
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## **I. GENERAL INFORMATION**

### **1. Information on the holding company**

#### **1.1 Name and legal status**

Dom Development S.A.

#### **1.2 Registered office**

Pl. Piłsudskiego 3, 00-078 Warsaw

#### **1.3 Areas of activity**

In accordance with the register, the holding Company's activities consist of:

- construction and property-related investment,
- construction of residential areas and their sale to private and corporate owners,
- purchase, sale and production of resources, ready products and semi-finished industrial goods, in particular those related to building and construction,
- exports and imports of any products, goods and technologies, in particular those related to building and construction,
- provision of services in the field of advertising and consulting,
- other operation and services required for or related to the above-mentioned activities.

In the audited reporting period, the Company's main subject of operation was construction and property-related investment as well as construction of residential areas and their sale to private and corporate owners.

#### **1.4 Legal basis for the Company's operations**

Dom Development S.A operates on the basis of:

- The Company's Articles of Incorporation compiled in the form of a notary act dated 25 February 1999 (Rep. A Nr 2534/99) with subsequent amendments.
- Code of Commercial Partnerships and Companies.

#### **1.5 Registration at the Business Court**

On 8 August 2001 the Company was entered in the National Court Register at the Regional Court in Warsaw – XIX Business Division Registration Section, in number KRS 0000031483. Previously the Company had been registered in the Commercial Register in number RHB – 57462.

## **1.6 Registration at the tax office and voivodship statistical office**

NIP                525-14-92-233  
REGON           012212483

## **1.7 Equity – value and changes in the audited period**

In the year 2007 the share capital of Dom Development S.A. increased from 24.050.372 zł to 24.560.222, i.e. by 509.850 zł further to the registration on 14 February 2007 at the Regional Court for the capital city of Warsaw of 172.200 ordinary bearer's H-series shares, 92.700 ordinary bearer's I-series, 96.750 ordinary bearer's J-series shares and 148.200 ordinary bearer's L-series shares issued based on a resolution passed by the Extraordinary Shareholders Meeting on 29 December 2006.

Share premium capital increased in the year 2007 by 1.163.943,94 zł and as at 31 December 2007 amounted to 231.534.663.23 zł.

The Company's reserve capital grew in the year 2007 following the distribution of profit for the previous year by 112.254.923,36 zł and as at 31 December 2007 amounted to 191.556.295,54 zł.

The Company's share capital reduction reserve did not change and amounted to 509.850 zł.

The Company's reserve from the valuation of share options increased in the year 2007 by 5.622.309,10 and as at 31 December 2007 amounted to 7.128.099,74 zł.

The Company's net profit for the year 2007 amounts to 230.384.092,90 zł.

The Company's equity has increased from 451.677.060,77 zł as at 1 January 2007 to 685.673.223,41 zł as at 31 December 2007, i.e. by 233.996.162,64 zł.

## **1.8 The Company's Management**

The Company's Management Board was changed in the year 2007.

Effective 3 October 2007 Mr. Leszek Piotr Nałęcz replaced Mr. Janusz Zalewski as Vice-President of the Management Board.

On 14 November 2007 Mr. Jerzy Ślusarski was appointed as a Member of the Company's Management Board.

As at 31 December 2007 Company's Management Board comprised:

- Jarosław Szanajca – President of the Management Board
- Grzegorz Kielpisz – Vice-President of the Management Board
- Leszek Piotr Nałęcz – Vice-President of the Management Board
- Terry Roydon – Member of the Management Board
- Janusz Stolarczyk – Member of the Management Board
- Jerzy Robert Ślusarski – Member of the Management Board

## **1.9 The Supervisory Board**

As at 31.12.2007 the holding Company's Supervisory Board comprised:

- Zygmunt Kostkiewicz – Chairman of the Supervisory Board
- Richard Lewis – Vice-Chairman of the Supervisory Board
- Stanisław Plakwicz – Member of the Supervisory Board
- Michael Cronk – Member of the Supervisory Board
- Markham Dumas – Member of the Supervisory Board
- Włodzimierz Bogucki – Member of the Supervisory Board

No changes were made in the Company's Supervisory Board in the audited period.

## **1.10 Employment**

In the period from 1 January 2007 to 31 December 2007 the holding Company employed an average of 169 people.

## **2. Information about the related companies**

As at 31 December 2007 Dom Development S.A. Capital Group consisted of the following entities:

The holding company:

- Dom Development S.A.

Subsidiaries:

- Dom Development Morskie Oko Sp. z o.o.
- Dom Development Na Dolnej Sp. z o.o.
- Dom Development Zarządzanie Nieruchomościami Sp. z o.o.
- Przedsiębiorstwo Techniczno-Inwestycyjne Sp. z o. o.

Jointly-controlled entities:

- Fort Mokotów Sp. z o.o.

Associated entities:

- Dom Development Grunty Sp. z o.o.-
- Towarzystwo Ubezpieczeń Wzajemnych „Bezpieczny Dom”

Dom Development SA exercises control over Dom Development Grunty Sp. z o.o. and Dom Land Sp. z o.o., as control is defined in IAS.

The fact that the two entities have not been consolidated is explained in Note 36 to the consolidated financial statements of the Dom Development SA Group.

## **2.1 Holding company**



## Dom Development S.A.

Registered office	- Pl. Piłsudskiego 3 00-078 Warsaw
Areas of activity	<ul style="list-style-type: none"><li>• construction and investments related to real estate,</li><li>• construction of residential premises and the sale of such premises to natural and legal persons,</li><li>• purchase, sale and manufacturing of raw materials, finished goods and industrial semi-products, in particular those connected with the construction industry,</li><li>• export and import of all products, articles and technologies, in particular those connected with the construction industry,</li><li>• providing advertising and consulting services,</li><li>• conducting other activity and providing other services designated for the above-mentioned activities or related to them.</li></ul>
Nature of capital link	- Holding company
Date of the financial statements	- 31.12.2007
Period of the financial statements	- 1.01.2007 – 31.12.2007
Balance sheet total (PLN)	- 1,236,421,098.73
Financial result (PLN)	- 230,384,092.90
Change in cash (PLN)	- 85,130,254.01
Entity authorized to audit the financial statements	- BDO Numerica S.A.
Opinion from the audit	- Opinion with explanatory paragraph

*Without qualifying our opinion on the audited financial statements we draw your attention to the matter of the moment of revenue recognition, as well as the fact the International Financial Reporting Interpretation Committee continues to work on interpretation D-21 (sale of real estate). The said matters are described in more detail in point 4 of the introduction to the financial statements "Significant accounting methods".*

## 2.2 Subsidiaries

### **Dom Development Morskie Oko Sp. z o.o.**

Registered offices	- Pl. Piłsudskiego 3, 00-078 Warsaw
Areas of activity	<ul style="list-style-type: none"> <li>• design as regards urban planning, architecture, and technology, as well as supervising design and contractor work,</li> <li>• executing general construction, construction and assembly work related to erecting buildings,</li> <li>• dismantling and demolition of civil engineering structures; earth work,</li> <li>• carrying out tests, expert opinions, opinions and technical analyses as regards construction industry,</li> <li>• fulfilling the function of the general contractor and investor of general construction work as regards engineering structures,</li> <li>• geodetic and cartographic activity related to the executed investment projects, together with post-execution measurements.</li> </ul>
Nature of capital link	- Subsidiary
Consolidation method	- Full
Shares ownership structure	- 100% of shares is held by Dom Development S.A.
Date of the financial statements	- 31.12.2007
Period of the financial statements	- 1.01.2007 – 31.12.2007
Balance sheet total (PLN)	- 1,417,090.07
Financial result (PLN)	- -537,272.23
Change in cash (PLN)	- -298,185.75
Entity authorized to conduct the audit	- The entity is not subject to the obligation of the audit
Opinion from the audit	- The entity is not subject to the obligation of the audit

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**Dom Development Na Dolnej Sp. z o.o.**

Registered offices	- Pl. Piłsudskiego 3, 00-078 Warsaw
Areas of activity	<ul style="list-style-type: none"> <li>• design as regards urban planning, architecture, and technology, as well as supervising design and contractor work,</li> <li>• executing general construction, construction and assembly work related to erecting buildings,</li> <li>• dismantling and demolition of civil structures; earth work,</li> <li>• carrying out tests, expert opinions, opinions and technical analyses as regards construction industry,</li> <li>• fulfilling the function of the general contractor and investor of general construction work,</li> <li>• geodetic and cartographic activity related to executed investment projects, together with post-execution measurements.</li> <li>• real estate management</li> </ul>
Nature of capital link	- Subsidiary
Consolidation method	- Full
Shares ownership structure	- 100% of shares is held by Dom Development S.A.
Date of the financial statements	- 31.12.2007
Period of the financial statements	- 1.01.2007 – 31.12.2007
Balance sheet total (PLN)	- 47,853.57
Financial result (PLN)	- -6,670.36
Change in cash (PLN)	- -2,641.24
Entity authorized to conduct the audit	- The entity is not subject to the obligation of the audit

**Dom Development Zarządzanie Nieruchomościami Sp. z o.o.**

Registered offices	- Pl. Piłsudskiego 3, 00-078 Warsaw
Areas of activity	- Managing real estate on commission
Nature of capital link	- Subsidiary
Consolidation method	- Full
Shares ownership structure	- 100% of shares is held by Dom Development S.A.
Date of the financial statements	- 31.12.2007
Balance sheet total (PLN)	- 93,900.51
Financial result (PLN)	- -9,366.15
Change in cash (PLN)	- -116,506.53
Entity authorized to conduct the audit	- The entity is not subject to the obligation of the audit

### **Przedsiębiorstwo Techniczno-Inwestycyjne Sp. z o.o.**

Registered offices	- ul. Żurawia nr 32/34, 00-515 Warsaw
Areas of activity	In 2007 the Company did not start the activity described in the National Court Register (KRS)
Nature of capital link	- Associated entity
Consolidation method	- Full
Shares ownership structure	- 48% of shares is held by Dom Development S.A. and 52% of shares is held by Dom Development Grunty Sp.
Date of the financial statements	- 31 December 2007
Balance sheet total (PLN)	- 30,730.36
Financial result (PLN)	- -27,708.30
Change in cash (PLN)	- -8,726.12
Entity authorized to conduct the audit	- The entity is not subject to the obligation of the audit

### **2.3 Jointly-controlled entities**

#### **Fort Mokotów Sp. z o.o.**

Registered offices	- ul. Puławska 15, 02-515 Warsaw
Areas of activity	<ul style="list-style-type: none"> <li>• design as regards urban planning, architecture, and technology, as well as supervising design and contractor work,</li> <li>• executing general construction, construction and assembly work related to erecting buildings,</li> <li>• dismantling and demolition of civil structures; earth work,</li> <li>• carrying out tests, expert opinions, opinions and technical analyses as regards construction industry,</li> <li>• fulfilling the function of the general contractor and investor of general construction work,</li> <li>• geodetic and cartographic activity related to executed investment projects, together with post-execution measurements.</li> <li>• sale of houses and residential premises</li> <li>• advisory services as regards conducting business activity and management</li> <li>• activity related to organizing fairs and exhibitions</li> </ul>
Nature of capital link	- Jointly-controlled entity
Consolidation method	- Proportional method
Shares ownership structure	- 49% of shares is held by Dom Development S.A.
Date of the financial statements	- 31 December 2007
Balance sheet total (PLN) *	- 43,212,751.16
Financial result (PLN) *	- 1,001,870.02

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Change in cash (PLN) \* - -72,224,105.09

Entity authorized to conduct the  
audit

- Ernst & Young Audit Sp. z o. o.

Opinion from the audit

Opinion with explanatory paragraph

*\* As per the separate financial statements audited by Ernst & Young Audit Sp. z o. o., which were subsequently restated for the purpose of consolidation.*

The audit opinion on the financial statements of Fort Mokotów Sp. z o. o. for the period from 1 January 2007 to 31 December 2007, contained the following emphasis of matter:

*a) further to the Company's realization of the Marina Mokotów project, administrative court proceedings are under against the Company, which are described in more detail in Note 41 to the financial statements for the year ended 31 December 2007. The Company has assessed the risk arising out of these matters as insignificant and has formed no relevant provisions in its financial statements for the year ended 31 December 2007. However, if the above matters are resolved against the Company, they could lead to negative financial effects, the value of which cannot be reliably estimated as at the date of this opinion;*

*b) as described in Note 21 to the financial statements for the year ended 31 December 2007, the Company shows capitalized costs of another phase of the „Marina Mokotów 2” investment project in the amount of 9.014.224,42 zł. Considering the fact that the Company does not own the land on which the „Marina Mokotów 2” is to be located, the realization of this asset depends on the effectiveness of the activities undertaken by the Company's Management with regard to obtaining the land from its current owner (Powszechna Kasa Oszczędności Bank Polski S.A.), as well as the realization of the intended project with a positive result.*

## 2.4 Associated entities

### **Dom Development Grunty Sp. z o.o.**

Registered offices

- Plac Piłsudskiego 3, 00-078 Warsaw

Areas of activity

- Construction
- Development and sale of own real estate
- Buying and selling of own real estate
- Real estate activities on a contract basis

Nature of capital link

- Associated entity

Consolidation method

- Equity method

Shares ownership structure

- 46% of shares is held by Dom Development S.A.

Date of the financial statements

- 31 December 2006

Balance sheet total (PLN)

- 86,271,308.43

Financial result (PLN)

- -161,260.30

Change in cash (PLN)

- -831,682.62

Entity authorized to conduct the  
audit

- BDO Numerica S.A.

Opinion from the audit

- Opinion with explanatory paragraph

*Without qualifying our opinion on the audited financial statements we draw your attention to the fact that because the Company's equity is negative, in accordance with the provisions of article 233 of the Code of Commercial Partnerships and Companies, the Company's Management is required to immediately call a shareholders meeting in order to pass a resolution on the Company's further existence. Owing to the nature of its operations, the Company's continuation of operations is dependent primarily on decisions to finance its operations made by the holding company Dom Development S.A. Information about the assumption of going concern is presented in point 4 of the introduction to the consolidated financial statements.*

**Towarzystwo Ubezpieczeń Wzajemnych „Bezpieczny Dom”**

Registered offices	- Ul. Żurawia nr 32/34, 00-515 Warsaw
Areas of activity	Insurance activity, as specified in group 16 division 2
Nature of capital link	- Associated entity
Consolidation method	- Equity method
Shares ownership structure	- 40,32% of shares is held by Dom Development S.A. 4.03% of shares is held by Fort Mokotów Sp. z o. o.
Balance sheet total (PLN)	- 5,333,160.43
Financial result (PLN)	- 511,550.42
Change in cash (PLN)	- 420.38
Date of the financial statements	- 31 December 2007
Entity authorized to conduct the audit	- Agencja Konsultingu i Auditingu Gospodarczego „Accord’ab” Sp. z o. o.
Opinion from the audit	- Opinion with explanatory paragraph

*Giving an unqualified opinion about correctness and reliability of the audited financial statements, we would like to draw the reader's attention to the fact that Towarzystwo offers only one unreinsured product and portfolio of correlated risks with specific features.*

## **2.5 Entities excluded from consolidation**

The following subsidiaries were included by acquisition accounting in the consolidated financial statements of the Dom Development S.A. Group:

- Dom Development na Dolnej Sp. zo.o.
- Dom Development Morskie Oko Sp. z o.o.
- Dom Development Zarządzanie Nieruchomościami Sp. z o.o.

The following were included by equity accounting in the consolidated financial statements of the Dom Development S.A. Group:

- Towarzystwo Ubezpieczeń Wzajemnych „Bezpieczny Dom”
- Przedsiębiorstwo Techniczno-Inwestycyjne Sp. z o. o.
- Dom Development Grunty Sp. z o.o.

Dom Development S.A. exercises control over Dom Development Grunty Sp. z o.o. and Dom Land Sp. z o.o., as control is defined in IAS. The latter entity has not been listed as part of the Group, as it is related to the holding company by links other than capital.

The fact that the two entities are excluded from consolidation is explained in Note 36 to the Group's consolidated financial statements.

### **3. Information on the audited consolidated financial statements**

We have audited the consolidated financial statements of the Dom Development S.A. Capital Group prepared in accordance with IFRS for the period from 1 January 2007 to 31 December 2007, consisting of:

- introduction to the consolidated financial statements;
- consolidated balance sheet prepared as at 31 December 2007, showing total assets and liabilities of PLN **1,252,066,673.79**;
- consolidated profit and loss account for the period from 1 January 2007 until 31 December 2007, showing a net profit of PLN **200,643,942.27**;
- statement of changes in the consolidated shareholders' equity, showing the increase of shareholders' equity by PLN **204,256,012.01**;
- consolidated cash flow statement for the period from 1 January 2007 to 31 December 2007, showing a net cash increase by PLN **47,953,659.37**;
- notes to the financial statements;

### **4. Information on the entity authorized to conduct audits and the certified auditor performing the audit**

BDO Numerica S.A. with its registered office in Warsaw, ul. Postępu 12, is an entity authorized to audit financial statements, registered in number 523.

The audit was conducted on the basis of an agreement dated 2 July 2007, in the Company's registered office between 2 February and 27 February 2008 by BDO Numerica S.A. represented by the Certified Auditor - Marcin Jagodziński, registration number 90042/7384.

The certified auditor was selected by Supervisory Board of Dom Development S.A. in its resolution.

We hereby declare that BDO Numerica S.A. and the certified auditor performing the audit meet the conditions required to issue an objective and independent opinion on the audited financial statements, as provided for in Art. 66 par. 1 and 2 of the Accounting Act.

The Company provided the auditor with access to all of the requested data and provided all the information and explanations necessary to perform the audit, as well as informed of all significant post-balance sheet events. The auditor was not limited in selecting the appropriate audit methods.

### **5. Information on the consolidated financial statements for the previous year**

The consolidated financial statements prepared in accordance with IFRS for the period 1 January 2006 – 31 December 2006 were audited by BDO Numerica Sp. z o.o. (currently BDO Numerica S.A.) and were given an unqualified opinion.

The consolidated financial statements of Dom Development S.A for the period 1 January 2006 – 31 December 2006 were approved by Resolution of the Shareholders' Meeting.

The consolidated financial statements for 2006 were submitted to the Registration Court and published in Monitor Polski B nr 1274 dated on 27 July 2007.



## II. FINANCIAL ANALYSIS

Below are presented selected consolidated profit and loss account and consolidated balance sheet items as well as key financial ratios.

1. Consolidated balance sheet						(PLN)
	31.12.2007	% of balance sheet total	31.12.2006	% of balance sheet total	31.12.2005	% of balance sheet total
<b>ASSETS</b>						
<b>Fixed assets</b>	<b>21 880 590,92</b>	<b>1,7%</b>	<b>17 045 696,62</b>	<b>1,8%</b>	<b>20 154 161,23</b>	<b>3,4%</b>
Intangible fixed assets	707 451,46	0,1%	730 169,87	0,1%	394 040,02	0,1%
Tangible fixed assets	6 547 462,68	0,5%	5 534 553,46	0,6%	7 265 349,21	1,2%
Investments in associated entities	1 024 404,10	0,1%	841 053,08	0,1%	559 044,00	0,1%
Deferred income tax assets	10 577 972,83	0,8%	7 517 265,14	0,8%	9 872 247,93	1,7%
Long-term receivables	1 552 195,11	0,1%	1 517 905,36	0,2%	927 730,36	0,2%
Long-term deferred costs	1 471 104,74	0,1%	904 749,71	0,1%	1 135 749,71	0,2%
<b>Current assets</b>	<b>1 230 186 082,87</b>	<b>98,3%</b>	<b>906 877 447,20</b>	<b>98,2%</b>	<b>566 232 332,26</b>	<b>96,6%</b>
Inventory	862 357 926,62	68,9%	594 864 513,45	64,4%	396 650 227,86	67,6%
Trade and other receivables	65 914 745,14	5,3%	60 807 971,57	6,6%	43 422 831,66	7,4%
Other current assets	26 424 785,21	2,1%	23 669 995,65	2,6%	52 321 962,76	8,9%
Cash and cash equivalents	275 488 625,90	22,0%	227 534 966,53	24,6%	73 837 309,98	12,6%
<b>TOTAL ASSETS</b>	<b>1 252 066 673,79</b>	<b>100,0%</b>	<b>923 923 143,82</b>	<b>100,0%</b>	<b>586 386 493,49</b>	<b>100,0%</b>
<b>EQUITY AND LIABILITIES</b>						
<b>Shareholders' equity</b>	<b>696 137 954,29</b>	<b>55,6%</b>	<b>491 881 942,28</b>	<b>53,2%</b>	<b>133 410 712,71</b>	<b>22,8%</b>
Share capital	24 560 222,00	2,0%	24 050 372,00	2,6%	21 854 340,00	3,7%
Share premium less treasury shares	231 534 663,27	18,5%	230 370 719,33	24,9%	10 819 818,87	1,8%
Reserve capital from valuation of share options	7 128 099,74	0,6%	1 505 790,64	0,2%	0,00	-
Other capital (supplementary capital)	191 556 295,54	15,3%	79 301 372,18	8,6%	53 403 253,44	9,1%
Reserve capital from reducing the share capital	509 850,00	-	509 850,00	0,1%	0,00	-
Accumulated, unappropriated profit	240 848 823,74	19,2%	156 143 838,13	16,9%	47 333 300,40	8,1%
<b>Long-term liabilities</b>	<b>330 419 195,66</b>	<b>26,4%</b>	<b>154 814 177,94</b>	<b>16,8%</b>	<b>166 877 570,15</b>	<b>28,5%</b>
Long-term loans and borrowings	41 779 280,00	3,3%	22 200 000,00	2,4%	78 332 948,91	13,4%
Deferred tax liability	87 875 959,63	7,0%	52 004 236,25	5,6%	34 977 411,19	6,0%
Bonds	200 000 000,00	16,0%	80 000 000,00	8,7%	50 000 000,00	8,5%
Other	763 956,03	0,1%	609 941,69	0,1%	3 567 210,05	0,6%
<b>Short-term liabilities</b>	<b>225 509 523,84</b>	<b>18,0%</b>	<b>277 227 023,60</b>	<b>30,0%</b>	<b>286 098 210,63</b>	<b>48,8%</b>
Trade payables and other liabilities	120 994 739,18	9,7%	143 801 348,56	15,6%	134 885 296,23	23,0%
Short-term loans and borrowings	37 005 453,52	3,0%	98 915 383,99	10,7%	107 035 211,89	18,3%
Short-term tax liabilities	6 088 202,00	0,5%	638 501,42	0,1%	1 884 426,38	0,3%
Short-term provisions	12 444 329,80	1,0%	3 663 773,99	0,4%	4 377 880,98	0,7%
Accrued liabilities and deferred income	48 976 799,34	3,9%	30 208 015,64	3,3%	37 915 395,15	6,5%
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>1 252 066 673,79</b>	<b>100,0%</b>	<b>923 923 143,82</b>	<b>100,0%</b>	<b>586 386 493,49</b>	<b>100,0%</b>

## 2. Consolidated Profit & Loss statement

	Year ending 31.12.07	Change %	Year ending 31.12.06	Change %	Year ending 31.12.05	Change %
Sales revenues	878 752 763,28	20,4%	729 816 267,55	35,9%	537 165 772,66	44,7%
Cost of sales	545 666 184,29	9,8%	496 870 869,09	21,9%	407 673 964,64	37,9%
<b>Gross profit on sales</b>	<b>333 086 578,99</b>	43,0%	<b>232 945 398,46</b>	79,9%	<b>129 491 808,02</b>	66,8%
Selling costs	22 367 727,18	3,2%	21 669 004,60	0,5%	21 570 600,20	25,6%
General administrative expenses	57 698 858,82	39,7%	41 291 638,68	29,4%	31 904 331,11	7,2%
Other operating income	4 072 558,17	-28,9%	5 730 671,97	51,6%	3 780 142,99	-19,6%
Other operating expenses	16 133 533,57	50,0%	10 757 377,76	29,8%	8 289 384,52	43,0%
<b>Operating profit</b>	<b>240 959 017,59</b>	46,1%	<b>164 958 049,39</b>	130,7%	<b>71 507 635,18</b>	202,4%
Financial income	11 634 280,54	62,7%	7 152 224,62	88,2%	3 801 320,14	10,0%
Financial costs	2 230 663,00	-48,6%	4 337 407,39	-59,3%	10 646 880,22	-25,1%
<b>Profit before tax</b>	<b>250 362 635,13</b>	49,2%	<b>167 772 866,62</b>	159,5%	<b>64 662 075,10</b>	401,9%
Income tax expense	49 718 692,86	52,6%	32 574 210,15	160,3%	12 511 959,45	439,1%
<b>Profit after tax</b>	<b>200 643 942,27</b>	48,4%	<b>135 198 656,47</b>	159,2%	<b>52 150 115,65</b>	393,7%

### **3. Key financial ratios**

	<b><u>01.01.07 - 31.12.07</u></b>	<b><u>01.01.06 - 31.12.06</u></b>	<b><u>01.01.05 - 31.12.05</u></b>
<b>Return on assets</b>			
$\frac{\text{net financial result}}{\text{total assets}}$	16,0%	14,6%	8,9%
<b>Return on equity</b>			
$\frac{\text{net financial result}}{\text{equity}}$	34,6%	27,5%	39,1%
<b>Net sales profitability</b>			
$\frac{\text{net financial result}}{\text{revenues from sales}}$	22,8%	18,5%	9,7%
<b>Current ratio</b>			
$\frac{\text{total current assets}}{\text{short-term liabilities}}$	5,5	3,3	2,0
<b>Quick ratio</b>			
$\frac{\text{total current assets} - \text{inventories}}{\text{short-term liabilities}}$	1,6	1,1	0,6
<b>Receivables days</b>			
$\frac{\text{average net trade receivables*}) \times 360}{\text{days}} \frac{\text{revenues from sales}}$	26	26	72
<b>Payables days</b>			
$\frac{\text{average trade liabilities*}) \times 360 \text{ days}}{\text{operating expenses}}$	76	90	83
<b>Inventory days</b>			
$\frac{\text{average inventories*}) \times 360 \text{ days}}{\text{costs of sales}}$	481	359	287
<b>Book value per one share</b>			
$\frac{\text{shareholders' equity}}{\text{number of shares}}$	28,3	20,5	6,1
<b>Net financial result per one share</b>			
$\frac{\text{financial result for the last 12 months}}{\text{number of shares}}$	8,2	5,6	2,4

#### **4. Interpretation of ratios and general financial position**

When analyzing the items presented in the consolidated balance sheets for the last two financial years we observed that only slight changes occurred in structure between fixed and current assets. As at 31 December 2007, current assets amounted to 98,3% of the Group's balance sheet total, compared to 98,2% as at 31 December 2006. During that period the balance sheet total grew by 35,5%.

The Group's current assets have increased by 4,5 percentage points of the balance sheet total at the expense of a drop in cash and receivables.

As at 31 December 2007, equity constituted 55,6% (53,2% in 2006) of total liabilities and equity. The increase in equity in the year 2007 was caused primarily by the generated net profit, as well as the rise in reserve capital resulting from the distribution of profit for the previous year.

In addition, changes were recorded in the structure of both short- and long-term liabilities. As at 31 December 2007 the share of long-term liabilities in the consolidated liabilities and equity increased by 9,6 percentage points, whilst the share of short-term liabilities decreased by 12 percentage points. As at 31 December 2007 short-term liabilities amounted to 18% of the Group's liabilities and equity. This was caused primarily by the issue of a new series of 200 million worth of bonds, with a buyout date in 2012.

In the year 2007 the Group realized higher margins on the sale of apartments than in the year 2006 (in 2007 they averaged 38%, whilst in 2006 they averaged 32%).

In 2007 the Group's operating costs increased by 35,9%, whilst the cost of sales grew by 21,9%. As a result of this positive tendency, the Group recorded a nearly double rise in gross sales profit, which grew by almost 100 million zł and exceeded 333 million zł.

The net profit generated by the Group in 2007 was by nearly one-half higher than in 2006, which had a positive effect on all of the profitability ratios for 2007. The return on assets ratio, which describes the Group's ability to use its resources to generate profits, amounted to 16,0% (14,6% in 2006). Similarly, the sales profitability ratio has increased from 18,5% in 2006 to 22,8% in 2007.

The Company is characterized by a high return on equity. The return on equity ratio has grown from 27,5% in 2006 to 34,6% in 2007.

The liquidity ratios have also grown and are still above the recommended norms.

The Group's operating efficiency ratios have changed slightly – the receivable days ratio has not changed, whilst the payable days ratio has decreased. The inventory days ratio grew from 359 days in 2006 to 481 in 2007. This was caused primarily by an increase in the balance of finished products, which according to the information provided by the holding company, is to a large degree justified by the Group's current policies.

The Group's results and general financial position point to no threats to its going concern.

### **III DETAILED INFORMATION**

#### **1. Method used in consolidation of the financial statements**

##### **1.1 Accounting principles (policy)**

The accounting principles used by the Capital Group have been discussed in the Introduction to the Financial Statements.

##### **1.2 Consolidation methods**

The subsidiaries were consolidated based on the full consolidation method, the jointly owned subsidiary based on proportional consolidation method, whereas the associated entities based on the equity method.

According to IAS 31 "Interests in Joint Ventures", point 32 "When recognizing an interest in jointly controlled entity, it is essential that a venturer reflects the substance and economic reality of the arrangement, rather than the joint venture's particular structure or form". On the basis of mentioned regulations the Company considered Fort Mokotów Sp. z o.o. as a joint venture and consolidated it using percentage method.

According to the Company's Deed the shareholders are PKO Inwestycje S.A. and Dom Development S.A.; they shares in stated capital and voting rights are adequately 51% and 49%.

The Management Board of Fort Mokotów Sp. z o.o. consists of 4 persons; the President and one member are recommended by PKO Inwestycje S.A and 2 other members are recommended by Dom Development S.A. The Management Board's resolutions are taken with absolute majority of votes and at least 3 members have to vote positively. In some key cases regarding statutory issues the Management Board's resolutions demands unanimity of all members.

The Supervisory Board composes of 5 person, 3 of the recommends PKO Inwestycje S.A and 2 of them recommends Dom Development S.A.

##### **1.3 The methods used to calculate and write down goodwill on consolidation and negative goodwill on consolidation**

As at 31 December 2007 Dom Development is the sole owner of the companies Dom Development Na Dolnej Sp. z o.o., Dom Development Morskie Oko Sp. z o.o., Dom Development Zarządzanie Nieruchomościami Sp, z o.o. and a co-owner (share of 49%) of Fort Mokotów Sp. z o.o.

Because both subsidiaries and co-dependent entity were recorded in financial assets of Dom Development S.A. at net capital value, there is no goodwill on consolidation in the consolidated financial statements.

#### **1.4 The methods used to consolidate capital and determine minority capital**

The share capital of the Group is the share capital of the holding company.

Only those portions of the corresponding components of the subsidiaries' equities that have been created since the date on which the holding company began to exercise control over the subsidiaries have been included in the equity of the group.

The equity of the group was adjusted by the value of the holding company's share in the financial results of the associated companies included in the consolidated financial statements.

Because the subsidiary companies are fully owned by Dom Development S.A., the consolidated financial statements include no items relating to minority shareholders. Przedsiębiorstwo Techniczno – Inwestycyjne Sp. z o. o. and Towarzystwo Ubezpieczeń Wzajemnych „Bezpieczny Dom” were consolidated according to equity method.

#### **1.5 The methods used to prepare the consolidated financial statements**

The consolidated financial statements for the period from 1 January 2007 to 31 December 2007 have been prepared in accordance with International Financial Reporting Standards.

The consolidated financial statements in accordance with International Financial Reporting Standards have been prepared on the basis of the financial statements of the companies making up the Group prepared in accordance with the Accounting Act and the financial statements of the holding company prepared in accordance with International Financial Reporting Standards and presented as if the Group constituted a single entity.

The holding company and the subsidiary companies were consolidated using full consolidation method. The jointly owned subsidiary was consolidated based on proportional consolidation method and the associated companies have been recorded in the financial statements using equity accounting. Towarzystwo Ubezpieczeń Wzajemnych „Bezpieczny Dom” and Przedsiębiorstwo Techniczno – Inwestycyjne Sp. z o. o. were consolidated with the equity method.

Because the subsidiary companies are fully owned by Dom Development S.A., the consolidated financial statements include no items relating to minority shareholders.

Adjustments were made in the consolidated financial statements with regard to the revenue, costs and settlements relating to transactions carried out between the holding company and the subsidiaries and co-subsidiaries.

The consolidated cash flow statement for the year 2007 contains the cash flow statements of the holding company and the subsidiaries and the co-subsidiary, with appropriate consolidation adjustments relating to mutual transactions.

Explanations and material data contained in the notes to the consolidated financial statement prepared in accordance with IFRS present in a true and fair manner all information material for the evaluation of the profitability and financial position, as well as the financial result of the Capital Group.

The principles and methods used in the valuation of assets and liabilities, and in the determination of the financial result, presented in the notes to the consolidated financial statements, are consistent with the methods adapted by the holding company.

## **1.6 Consolidation Documentation**

The holding company prepared the consolidation documentation including:

- the financial statements of the consolidated entities;
- specification of adjustments and exclusions made during the consolidation;
- calculation of the fair value of the net assets of the subsidiaries.

## **2. Introduction to the Consolidated Financial Statements and Notes to the Financial Statements**

Capital Group Dom Development S.A. prepared additional information consisting of introduction and notes to the consolidated financial statements.

The data contained in the additional information have been presented completely and correctly.

## **3. Specification of Changes in the Consolidated Shareholders' Equity**

The statement of changes in the consolidated shareholders' equity has been prepared correctly and is correctly connected with the consolidated balance sheet and consolidated profit and loss account.

## **4. The Consolidated Cash Flow Statement**

The consolidated cash flow statement has been prepared by:

- adding the corresponding items of the cash flows of the subsidiaries included in the consolidated financial statements,
- making consolidation adjustments consisting of excluding the cash flow between the companies included in the consolidated financial statements.

## **5. Directors' Report on the activities of the Capital Group**

In compliance with the article 49 of Accounting Act, The Code of Commercial Partnerships and regulation of the Minister's of Finance Decree of 19 October 2005 on the current and periodic information submitted by the issuers of securities the management of the holding company prepared the Directors' Report on the activities of the Capital Group.

The information contained in the report on the activities of the Capital Group is compliant with the information contained in the audited consolidated financial statements of the Capital Group for 2007.

## **6. Declaration of the Management of the Holding Company**

The management of the holding company of Dom Development S.A. submitted a written declaration on the complete account of the data in the books of account, all the contingent liabilities and all significant post-balance sheet events.

Warsaw, 10 March 2008

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**Auditor in charge:**

**Marcin Jagodziński**  
Polish Certified Auditor  
Reg. No. 90042/7384

**On behalf of BDO Numerica S.A.:**

**Dr André Helin**  
Polish Certified Auditor  
Reg. No. 90004/502  
Senior Partner BDO Numerica S.A.