Dom Development S.A.
Pl. Piłsudskiego 3
00-078 Warszawa

Audit Opinion and Report on the financial statements for the period from 1 January to 31 December 2009

AUDIT OPINION
for the Shareholders and Supervisory Board of
Dom Development S.A.

We have audited the financial statements of Dom Development S.A. with its registered office at Pl. Piłsudskiego 3, 00-078 Warszawa, consisting of:

– the balance sheet prepared as at 31 December 2009, showing total assets and liabilities of **1 583 377** thousand zł;

– the profit and loss account for the period from 1 January to 31 December 2009, showing a net profit of **85 230** thousand zł;

– the statement of comprehensive income for the period from 1 January to 31 December 2009, showing a comprehensive income of **85 230** thousand zł;

– the statement of changes in shareholders' equity for the period from 1 January to 31 December 2009, showing an increase in shareholders' equity of **70 400** thousand zł;

– the cash flow statement for the period from 1 January to 31 December 2009, showing a net cash increase of **12 660** thousand zł;

– notes to the financial statements.

The Company's Management Board is responsible for the preparation in accordance with binding regulations of the financial statements and the Directors' Report on the Company's activities.

Our responsibility was to audit the financial statements and to express an opinion on the truth and fairness of the financial statements and on the accuracy of the books of account constituting the basis for their preparation.

We performed the audit in accordance with:

1) Chapter 7 of the Accounting Act dated 29 September 1994 (2009 Journal of Laws No. 152, item 1223 with subsequent amendments);

2) the knowledge and experience arising out of the professional auditing standards issued by the Polish National Chamber of Certified Auditors in the period of their effectiveness.

We planned and performed the audit to obtain reasonable assurance that the financial statements are free of material misstatements.

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the 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 financial statements.

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

The presented financial statements are standalone financial statements and cannot constitute the only basis for assessing the financial position of the Company, which is the holding company in the **Dom Development** Capital Group. In addition to the standalone financial statements the Company prepares consolidated financial statements of the group in which it is the holding company.

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

- give a true and fair view of the financial position of **Dom Development S.A** as at 31 December 2009, as well as of its financial result for the period from 1 January to 31 December 2009;
- have been prepared correctly in all material respects, i.e. in accordance with the Company's accounting policies arising out of the European Union approved International Financial Reporting 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 implementing provisions issued on the basis of this Act if such provisions apply to the audited entity, as well as on the basis of properly kept books of account;
- are consistent with the applicable laws and regulations, and with the Company’s Statute.

The Directors Report on the Company’s activities includes all information required by article 49 of the Accounting Act and of the Minister's of Finance Decree of 19 February 2009 on the current and periodic information submitted by the issuers of securities and the conditions for recognizing as equally valid the information required by the regulations of a state that is not a member state (2009 Journal of Laws No. 33, item 259), and the information contained therein is consistent with the information presented in the audited financial statements.

Warsaw, 10 March 2010

BDO Sp. z o.o.
ul. Postępu 12
02-676 Warszawa
Registration No. 3355

Auditor in charge:

Marcin Jagodziński
Polish Certified Auditor Reg. No. 90042

On behalf of BDO Sp. z o.o.:

Dr. André Helin
Senior Partner
Polish Certified Auditor Reg. No. 90004

Dom Development S.A.
Pl. Piłsudskiego 3
00-078 Warszawa

Audit Report
on the financial statements
for the period from 1 January to 31 December 2009

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I. GENERAL INFORMATION

1. Information about the Company

1.1. Name and legal status

The Company does business as Dom Development S.A. [joint-stock company].

1.2. Registered office

00-078 Warszawa, Pl. Piłsudskiego 3

1.3. Areas of activity

In accordance with the National Court Register and the company's Statute, the Company's activities consist of:

- construction and real property related investment projects,
- construction of residential premises and sale of such premises to legal entities and individuals,
- buying, selling and production of raw materials, finished products and semi-finished industrial products, in particular relating to construction,
- export and import of all types of products, articles and technologies, in particular relating to construction,
- provision of advertising and consulting services,
- other activities and provision of other services in connection with or relating to the activities listed above.

In the audited period the Company's activities consisted primarily of construction and real property related projects, construction of residential premises and sale of such premises to legal entities and individuals.

1.4. Legal basis for the Company's operations

Dom Development S.A. operates on the basis of:

- the Statute prepared in the form of a notarial deed on 25 February 1999 (Rep. A No. 2534/99) with subsequent amendments,
- the Code of Commercial Partnerships and Companies.

1.5. Registration at Business Court

On 8 August 2001 the Company was entered in the National Court Register at the Regional Court for the capital city of Warsaw – XII 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 Tax Office and Voivodship Statistical Office

NIP	525-14-92-233
NIP EU	PL 525-14-92-233
REGON	012212483

1.7. Share capital and equity

As at 31 December 2009 the Company's share capital amounted to 24 560 thousand zł and consisted of 24 560 222 shares with a nominal value of 1.00 zł per share.

No changes were made in the share capital in the year 2009 and before the end of the audit.

The Company's shareholders who held more than 5% of shares as at 31 December 2009:

shareholder	number of shares	% of votes at General Meeting
Dom Development B.V.	15 509 386	63.15%
Jarosław Szanajca	1 644 050	6.69%
Grzegorz Kiełpsz	1 390 750	5.66%

In addition, as at 31 December 2009 the Company's equity consisted of:

- reserve capital 388 361 thousand zł
- share premium 231 535 thousand zł
- reserve from the valuation of share options 18 726 thousand zł
- share capital reduction reserve 510 thousand zł
- net profit for the year 85 230 thousand zł

As at 31 December 2009 the Company's equity totaled 748 922 thousand zł.

1.8. The Company's Management

As at 31 December 2009 the Company's Management Board comprised:

- Jarosław Szanajca - President of the Management Board
- Janusz Zalewski - Vice-President of the Management Board
- Jerzy Ślusarski - Vice-President of the Management Board
- Janusz Stolarczyk - Member of the Management Board
- Terry Roydon - Member of the Management Board

No changes were made in the composition of the Company's Management Board in the audited period and before the end of the audit.

1.9. Supervisory Board

As at 31 December 2009 the Company's Supervisory Board comprised:

- Grzegorz Kiełpsz - Chairman of the Supervisory Board
- Zygmunt Kostkiewicz - Vice-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 composition of the Supervisory Board in the audited period.

1.10. Information about related parties

The Company is a holding company and prepares consolidated financial statements.

The following are the Company's subsidiary companies:
- Dom Development Morskie Oko Sp. z o.o.
- Dom Development na Dolnej Sp. z o.o. – in liquidation
- Dom Development Zarządzanie Nieruchomościami Sp. z o.o. – as at 31 December 2009 liquidated
- Przedsiębiorstwo Techniczno-Inwestycyjne Sp. z o. o. – not consolidated
- Dom Development Grunty Sp. z o.o.

Co-subsidiaries:
- Fort Mokotów Sp. z o.o.

Associated companies:
- Towarzystwo Ubezpieczeń Wzajemnych "Bezpieczny Dom"

In accordance with the definition of control specified in IAS 24, Dom Development S.A. exercises control over Dom Land Sp. z o.o. The fact that Dom Land Sp. z o.o. is not included in the consolidation is explained in Note 3 to the consolidated financial statements of the Dom Development Capital Group.

2. Information about the audited financial statements

We have audited the financial statements of Dom Development S.A. prepared for the period from 1 January to 31 December 2009, consisting of:

- the balance sheet prepared as at 31 December 2009, showing total assets and liabilities of **1 583 377** thousand zł;
- the profit and loss account for the period from 1 January to 31 December 2009, showing a net profit of **85 230** thousand zł;
- the statement of comprehensive income for the period from 1 January to 31 December 2009, showing a comprehensive income of **85 230** thousand zł;
- the statement of changes in shareholders' equity for the period from 1 January to 31 December 2009, showing an increase in shareholders' equity of **70 400** thousand zł;
- the cash flow statement for the period from 1 January to 31 December 2009, showing a net cash increase of **12 660** thousand zł;
- notes to the financial statements;

as well as the Directors' Report on the Company's activities in the year 2009.

3. Information about the entity authorized to conduct audits and the certified auditor performing the audit

The financial statements of Dom Development S.A. for the year 2009 have been audited by BDO Sp. z o.o. with its registered office in Warsaw, ul. Postępu 12, an entity authorized to audit financial statements, registered with the National Chamber of Certified Auditors in number 3355.

The auditor was selected in Resolution No. 05/05/09 passed by the Company's Supervisory Board on 21 May 2009.

The audit was conducted based on an audit agreement concluded on 3 July 2009 and performed in the period from 8 February 2010 to the issue of the audit opinion by Marcin Jagodziński, Polish Certified Auditor No. 90042. It was preceded with a review of the financial statements for the 1st half of 2009 and with an interim audit.

We hereby declare that BDO Sp. z o.o. and the certified auditor performing the audit of the above-described financial statements meet the conditions required to issue an objective and independent opinion on the audited financial statements – as provided for in articles 56, 57 and 60 of the Act of 7 May 2009 on certified auditors and their self-government, entities authorized to audit financial statements and on public supervision (2009 Journal of Laws No. 77, item 649).

The audit was performed on a going concern basis – on the assumption that the Company would continue its operations unchanged in the foreseeable future. No events or circumstances were uncovered in the course of the audit indicating a breach of this assumption.

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 the absence of any significant post-balance sheet events.

The auditor was not limited in selecting the appropriate auditing methods.

4. Information about the financial statements for the previous financial year

The books of account were opened based on the financial statements prepared for the period from 1 January to 31 December 2008, which had been audited by BDO Numerica International Auditors & Consultants Sp. z o.o. (currently BDO Sp. z o.o.) and given an unqualified opinion.

The Company's financial statements for the period from 1 January to 31 December 2008 were approved in Resolution No. 4 of the Ordinary General Shareholders Meeting of 2009.

In its Resolution No. 8 the Ordinary General Shareholders Meeting designated 19 648 thousand zł of the Company's net profit for the period from 1 January to 31 December 2008 for the payment of a shareholder dividend, and the remainder of 122 514 thousand zł to increase the reserve capital. We draw your attention to the fact that for comparative purposes the financial result for the year 2008 was restated in the financial statements as at 31 December 2009 in accordance with the new "revenue recognition on completion" method, and therefore has increased compared to the previously used revenue recognition method by 87 806 thousand zł. More information on this matter is presented in point 2 "Information about selected significant balance sheet and profit and loss account items" on page 12 of this report.

The financial statements for the year 2008 were filed with the National Court Register on 4 June 2009, and have been published in Polish Monitor B No. 31483 dated 14 August 2009.

II. FINANCIAL ANALYSIS

Presented below are selected balance sheet and profit and loss account items, as well as key financial ratios, compared to analogical amounts for the year 2008. The data for the year 2008 have been restated in accordance with the new “revenue recognition on completion" method. More information on this matter is presented in point 2 “Information about selected significant balance sheet and profit and loss account items” on page 12 of this report

1. Main balance sheet items

(in ‘000 zł)

ASSETS	31.12.2009	% of balance sheet total	31.12.2008	% of balance sheet total
Fixed assets	**19 657**	**1.2%**	**22 824**	**1.3%**
Intangible fixed assets	717	-	1 359	0.1%
Tangible fixed assets	5 432	0.3%	6 732	0.4%
Investments in associated entities	1 642	0.1%	3 081	0.2%
Deferred income tax assets	9 354	0.6%	8 381	0.4%
Long-term receivables	2 438	0.2%	2 910	0.2%
Long-term prepayments	74	-	361	-
Current assets	**1 563 720**	**98.8%**	**1 731 865**	**98.7%**
Inventory	1 295 762	81.8%	1 446 616	82.4%
Short-term receivables	36 098	2.3%	65 756	3.7%
Short-term prepayments	6 032	0.4%	6 325	0.5%
Short-term investments	225 828	14.3%	213 168	12.1%
TOTAL ASSETS	**1 583 377**	**100.0%**	**1 754 689**	**100.0%**
LIABILITIES AND EQUITY				
Equity	**748 922**	**47.3%**	**678 522**	**38.7%**
Liabilities and cost provisions	**834 455**	**52.7%**	**1 076 167**	**61.3%**
Long-term liabilities	384 945	24.3%	433 283	24.6%
Deferred income tax liabilities	21 022	1.3%	29 393	1.7%
Short-term liabilities	246 764	15.6%	215 267	12.3%
Short-term cost provisions	13 018	0.8%	10 621	0.6%
Accruals	168 706	10.7%	387 603	22.1%
TOTAL LIABILITIES AND EQUITY	**1 583 377**	**100.0%**	**1 754 689**	**100.0%**

2. Main profit and loss account items

(in '000 zł)

	2009	% of sales revenue	2008	% of sales revenue
Sales revenue	701 129	100.0%	884 356	100.0%
Operating costs	(505 840)	-72.1%	(506 691)	-57.3%
Sales profit/loss	**195 289**	**27.9%**	**377 665**	**42.7%**
Sales costs	(22 266)	-3.2%	(30 000)	-3.4%
General administrative costs	(41 923)	-6.0%	(59 482)	-6.7%
Other operating revenue and costs	(19 815)	-2.8%	(8 853)	-1.0%
Operating profit/loss	**111 285**	**15.9%**	**279 330**	**31.6%**
Profit/loss on financial activities	(5 558)	-0.8%	6 678	0.8%
Gross profit/loss	**105 727**	**15.1%**	**286 008**	**32.3%**
Income tax	(20 497)	-2.9%	(56 040)	-6.3%
Net profit/loss	**85 230**	**12.2%**	**229 968**	**26.0%**

3. Key financial ratios

Liquidity ratios	**2009**	**2008**
Current ratio		
total current assets / short-term liabilities	6.3	8.0
Quick ratio		
total current assets – inventory / short-term liabilities	1.1	1.3
Operating ratios		
Receivable days		
average gross trade receivables *) x 365 / revenue from the sale of finished products	17	14
Inventory days		
average inventory *) x 365 days / cost of finished products sold	989	969
Profitability ratios		
Gross sales profitability		
profit/loss on the sale of finished products, services and goods for resale / revenue from the sale of finished products, services and goods for resale	27.9%	42.7%
Net sales profitability		
net profit/loss / revenue from the sale of finished products, services and goods for resale	12.2%	26.0%
Return on assets		
net profit/loss / total assets	5.4%	13.1%
Debt ratios		
Payable days		
average trade payables*) x 365 days / cost of finished products sold	90	96
Share related		
Book value per share (in zł)		
equity / number of shares	30.49	27.63
Profit per share		
net profit / number of shares	3.47	9.36

**) Average trade receivables, inventory and trade payables are calculated as the mathematical averages of their opening and closing balances.*

4. Remarks

The Company's total assets and liabilities have decreased by approximately 10% from the previous year. The main reason for this change was a drop in inventory.

The structure of the Company's assets has remained practically unchanged compared to last year, with current assets being the greatest item (98.8%). Just like in the previous year, inventory is the largest component of current assets. The percentage share of inventory in the balance sheet total did not change significantly following a decrease in the balance sheet total. Whereas the absolute value of inventory is down by 10% from last year. This drop was caused by the fact that the Company handed over more apartments to its clients than it had incurred in the costs of building new estates. The greatest change in the Company's assets is a drop in the percentage share of short-term receivables from 3.7% of total assets as at 31 December 2008 to 2.3% of total assets as at 31 December 2009, and a rise in the percentage share of cash funds from 12.1% of total assets as at 31 December 2008 to 14.3% of total assets as at 31 December 2009.

In the audited period the Company's equity increased from 38.7% of total liabilities and equity as at 31 December 2008 to 47.3% as at 31 December 2009. This rise occurred primarily at the expense of a drop in accruals from 22.1% of total liabilities and equity as at 31 December 2008 to 10.7% as at 31 December 2009. In addition, short-term liabilities have increased from 12.3% of total liabilities and equity as at 31 December 2008 to 15.6% as at 31 December 2009. This increase was caused by a rise in short-term liabilities relating to bank credits. From the structure of the Company's liabilities and equity it is apparent that the limiting of the Company's financing by client payments resulted in an increase in the financing of the Company's operations, mainly with equity and to a lesser extent with short-term bank credits.

The profit and loss account shows a clear drop in sales revenue (by approx. 21%), accompanied by a practically unchanged cost of goods sold. This change was caused primarily by the fact that 2009 saw a greater share of low-margin apartments located on the outskirts of Warsaw in the value of the apartments given over for use than in 2008, as well as partially by a general drop in the price of apartments. In 2009 the Company reduced its sales and general administrative costs, primarily by restructuring employment. Other operating costs increased mainly through a rise in provisions for work in progress. Financial revenue decreased mainly because the Company reduced the financial costs capitalized in work in progress by revenue from interest on deposits which are used to finance investment projects. Financial costs went up because a smaller portion of the financial costs was capitalized in work in progress compared to the previous year. An unfavorable disproportion in the growth of costs and revenues brought the net financial result down by 63% compared to last year.

Although the liquidity ratios have fallen, they are still above the recommended norms. The receivable days ratio amounts to 17 days, because the Company's primary revenue is realized after the clients make their payments. The inventory days ratio shows the average length of time it takes to realize an investment project form the purchase of land to the handing over of the apartment to the buyer; this period of time increased in the year 2009 compared to the previous year. The profitability ratios have declined following a drop in net profit. The payable days ratio is down from 96 to 90 days primarily due to a decrease in trade payables. As the number of shares did not change in 2009, the changes in the ratios relating to shares reflect a change in the Company's equity and net profit.
In the course of the audit we found no indications of threats to the Company's going concern in at least the next reporting period.

Note

The data for the year 2008 have been restated in accordance with the "recognition on completion" method and differ significantly from the data presented in the standalone financial statements for the year 2008. More information on this matter in point 2 "Information about selected significant balance sheet and profit and loss account items" on page 12 of this report.

III. DETAILED INFORMATION

1. Assessment of the Company’s accounting and internal control systems

The Company has current documentation describing its accounting methods (policies); they are consistent with binding regulations.

The Company’s books of account are computerized using the Sun System 5.0 software. The Company has full documentation of the software containing a description of the system along with a description of the procedures and functions as well as user instructions.

Since 2005 the Company has been using the "Papirus" system used to evidence revenue and costs associated with the management of housing estates.

Changes were made in the audited period in the methods used by the Company to value assets and liabilities and revenue and costs. They are described in detail in Note 4 to the financial statements. In accordance with the continuity principle, the balances of assets and liabilities listed in the books of account as at 31 December 2008 were entered at the same amounts in the books of account opened for the current financial year.

The Company’s accounting records are based on source documents and are current and chronological.

The books of account are true and are kept to ensure the consistency of the entries in the finance and accounting system with the corresponding source documents and financial statements.

The electronic data processing system is technically correct and linked with the chart of accounts, ensuring verifiability of the books of account.

The Company meets the requirement of the Accounting Act with regard to protecting access to its data and data processing system, and archiving documentation and computer data.

The Company’s inventory count of its assets and liabilities, conducted in accordance with the scope, due date and frequency requirements of the Accounting Act, was performed correctly, and the resulting differences have been settled in the books of account of the audited period.

The Company’s internal control system was audited to an extent, to which it relates to the financial statements, and not to obtain assurance on the accuracy of the Company's internal control system.

2. Information about selected significant balance sheet and profit and loss account items

Revenue – change in accounting policy

Due to the need to comply, effective 1 January 2009, with the requirements of IFRIC-15 *Agreements for the Construction of Real Estate*, the Company changed its accounting methods effective 1 January 2009. Primarily the change consists of recognizing revenue from the sale of apartments at another moment. Until the end of the year 2008 the Company recognized revenue in proportion to the number of apartments covered with preliminary agreements signed with customers. Starting 1 January 2009 the Company has been recognizing its revenue from the sale of apartments it has given over to the clients after the housing estate has been given over for use. This change in the recognition of revenue made it necessary to restate the opening balance, the closing balance and the results for the year 2008 presented in the standalone financial statements for the year 2009 as comparatives. Therefore the financial data for the year 2008 presented as comparatives in the standalone financial statements for the year 2009 differ significantly from the data presented in the standalone financial statements for the year ended 31 December 2008. The change in accounting policy is not related to the profitability of projects, which has not changed as a result. The need to restate data is the result of a difference in the presentation of that data, resulting from another, later moment of revenue recognition. The Company describes this matter in Note 4 to the financial statements.

3. Additional information

Additional information on the Company's accounting policies and other information have been prepared completely and correctly, in accordance with the requirements arising out of IFRS, and in matters not regulated by those standards – in accordance with the requirements of the Accounting Act and the related implementing provisions.

4. Statement of changes in shareholders equity

The data shown in the statement of changes in shareholders' equity are consistent with the balance sheet and the books of account, and show truly and fairly the changes made in the Company's equity.

5. Cash flow statement

The cash flow statement has been prepared in accordance with the provisions of IAS 7, using the indirect method, and is consistent with the balance sheet, the profit and loss account and the books of account.

6. Directors Report

In accordance with the requirements of article 49 of the Accounting Act and of the Minister's of Finance Decree of 19 February 2009 on the current and periodic information submitted by the issuers of securities and the conditions for recognizing as equally valid the information required by the regulations of a state that is not a member state (Journal of Laws No. 33, item 259), the Company's Management Board prepared a Directors' Report on the Company's activities.

The information presented in the Directors Report is consistent with the information presented in the audited financial statements.

7. Managements Declaration

The Company's Management submitted a written declaration about the completeness of the books of account, disclosure of all contingent liabilities and absence of any significant post-balance sheet events.

Warsaw, 10 March 2010

BDO Sp. z o.o.
ul. Postępu 12
02-676 Warszawa
Registration No. 3355

Auditor in charge:

Marcin Jagodziński
Polish Certified Auditor Reg. No. 90042

On behalf of BDO Sp. z o.o.:

Dr. André Helin
Senior Partner
Polish Certified Auditor Reg. No. 90004