

**The Dom Development S.A. Group
Pl. Pilsudskiego 3
00-078 Warszawa**

**Audit Report
on the consolidated financial statements
prepared in accordance with IFRS
for the period from 1 January to 31 December 2008**

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

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I. GENERAL INFORMATION

1. Information about the holding company

1.1 Name and legal status

Dom Development S.A. [joint-stock company].

1.2 Registered office

Pl. Piłsudskiego 3, 00-078 Warszawa

1.3 Areas of activity

In accordance with the National Court Register, the holding 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 holding 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 Company's Statute prepared in the form of a notarial deed on 25 February 1999 (Rep. A No. 2534/99) with subsequent amendments, and
- 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
REGON 012212483

1.7 Equity – value and changes in the reporting period

The share capital of Dom Development S.A. did not change in the year 2008 and amounted to 24 560 thousand zł.

The share premium capital did not change in the year 2008 and amounted to 231 535 thousand zł.

The Company's reserve capital grew in the year 2008 by 180 281 thousand zł following the distribution of the profit for the previous year and as at 31 December 2008 amounted to 371 837 thousand zł.

The Company's share capital reduction reserve did not change in the year 2008 and amounted to 510 thousand zł.

The Company's reserve from the valuation of share options increased in the year 2008 by 6 780 thousand zł and as at 31 December 2008 amounted to 13 908 thousand zł.

The Company's net profit for the year 2008 amounted to 142 162 thousand zł.

The Company's equity has gone up from 685 673 thousand zł to 784 512 thousand zł, i.e. by 98 839 thousand zł.

1.8 The holding company's Management

As at 31 December 2008 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
- Terry Roydon – Member of the Management Board
- Janusz Stolarczyk – Member of the Management Board

Changes were made in the composition of the Company's Management Board in 2008.

Effective 31 December 2008 Mr. Janusz Zalewski became a Vice-President following the resignation of Mr. Leszek Piotr Nałęcz from this position.

Effective 17 September 2008 Mr. Jerzy Ślusarski, Member of the Management Board, was appointed a Vice-President following the resignation of Grzegorz Kiełpsz.

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

1.9 Supervisory Board

As at 31 December 2008 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

Changes were made in the composition of the Company's Supervisory Board in 2008. Mr. Grzegorz Kiełpsz became Chairman of the Supervisory Board on 17 September 2008. The previous Chairman, Mr. Zygmunt Kostkiewicz, became a Vice-Chairman of the Supervisory Board.

No changes were made in the composition of the Company's Supervisory Board before the end of the audit.

1.10 Employment

In the year 2008 average monthly employment at the holding company was 188 people.

2. Information about the entities comprising the Group

As at 31 December 2008 the Dom Development S.A. Group comprised the following entities:

Holding company:

- Dom Development S.A.

Subsidiary companies:

- 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.
- Dom Development Grunty Sp. z o.o.

Co-subsidiary companies:

- Fort Mokotów Sp. z o.o.

Associated entities:

- 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 point 3 of the introduction to the consolidated financial statements, as well as in note 36 to the consolidated financial statements of the Dom Development S.A. Group.

2.1 Holding company

Dom Development S.A.

Registered office

Areas of activity

- Pl. Piłsudskiego 3 00-078 Warszawa
 - 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.

Nature of capital link

- holding company

Date of financial statements

- 31 December 2008

Period covered by financial statements

- 1 January 2008 to 31 December 2008

Balance sheet total ('000 zł)

- 1 524 168

Financial result ('000 zł)

- 142 162

Cash increase/decrease ('000 zł)

- -48 998

Auditor

- **BDO Numerica**
International Auditors & Consultants Sp. z o. o.

Audit opinion

- Unqualified

2.2 Subsidiary companies

Dom Development Morskie Oko Sp. z o.o.

Registered office

Areas of activity

- Pl. Piłsudskiego 3, 00-078 Warszawa
 - building, urban, architectural and technological design and supervision
 - general construction and assembly associated with erecting buildings
 - taking down and demolition of buildings; ground work
 - technical studies, survey, opinions and analyses relating to construction
 - general contractor and general construction investor with respect to civil engineering structures
 - land surveying and mapping of investment projects along with subcontractor surveys

Nature of capital link

- subsidiary company

Consolidation method

- acquisition accounting

Shareholding structure

- 100% held by Dom Development S.A.

Date of financial statements

- 31 December 2008

Period covered by financial statements

- 1 January 2008 to 31 December 2008

Balance sheet total ('000 zł)

- 1 067

Financial result ('000 zł)

- 12

Cash increase/decrease ('000 zł)

- -274

Auditor

- not covered by the audit requirement

Dom Development na Dolnej Sp. z o.o.

Registered office	- Pl. Piłsudskiego 3, 00-078 Warszawa
Areas of activity	<ul style="list-style-type: none"> • building, urban, architectural and technological design and supervision • general construction and assembly associated with erecting buildings • taking down and demolition of buildings; ground work • technical studies, survey, opinions and analyses relating to construction • general contractor and general construction investor with respect to civil engineering structures • land surveying and mapping of investment projects along with subcontractor surveys • real estate administration
Nature of capital link	- subsidiary company
Consolidation method	- acquisition accounting
Shareholding structure	- 100% held by Dom Development S.A.
Date of financial statements	- 31 December 2008
Period covered by financial statements	- 1 January 2008 to 31 December 2008
Balance sheet total ('000 zł)	- 56
Financial result ('000 zł)	- -6
Cash increase/decrease ('000 zł)	- 7
Auditor	- not covered by the audit requirement

Dom Development Zarządzanie Nieruchomościami Sp. z o.o.

Registered office	- Pl. Piłsudskiego 3, 00-078 Warszawa
Areas of activity	- management of real estate on a fee or contract basis
Nature of capital link	- subsidiary company
Consolidation method	- acquisition accounting
Shareholding structure	- 100% held by Dom Development S.A.
Date of financial statements	- 31 December 2008
Period covered by financial statements	- 1 January 2008 to 31 December 2008
Balance sheet total ('000 zł)	- 77
Financial result ('000 zł)	- -9
Cash increase/decrease ('000 zł)	- -17
Auditor	- not covered by the audit requirement

Przedsiębiorstwo Techniczno-Inwestycyjne Sp. z o.o.

Registered office	- ul. Żurawia nr 32/34, 00-515 Warszawa
Areas of activity	- in 2007 the company did not commence the operations described in the National Court Register
Nature of capital link	- subsidiary
Consolidation method	- equity accounting
Shareholding structure	- 48% held by Dom Development S.A. and 52% held by Dom Development Grunty Sp. z o. o.
Date of financial statements	- 31 December 2008
Period covered by financial statements	- 1 January 2008 to 31 December 2008
Balance sheet total ('000 zł)	- 26
Financial result ('000 zł)	- -9
Cash increase/decrease ('000 zł)	- -2
Auditor	- not covered by the audit requirement

Dom Development Grunty Sp. z o.o.

Registered office	- Plac Piłsudskiego 3, 00-078 Warszawa
Areas of activity	<ul style="list-style-type: none"> • construction, • development and selling of real estate on own account, • buying and selling of own real estate, • management of real estate on a fee or contract basis
Nature of capital link	- subsidiary company
Consolidation method	- acquisition accounting
Shareholding structure	- 46% held by Dom Development S.A. 54% held by Dom Land Sp. z o.o., which is related to Dom Development S.A. in a manner other than through capital.
Date of financial statements	- 31 December 2008
Period covered by financial statements	- 1 January 2008 to 31 December 2008
Balance sheet total ('000 zł)	- 55 400
Financial result ('000 zł)	- 69
Cash increase/decrease ('000 zł)	- -505
Auditor	- not covered by the audit requirement

2.3 Co-subsidiary companies

Fort Mokotów Sp. z o.o.

Registered office	- ul. Puławska 15, 02-515 Warszawa
Areas of activity	<ul style="list-style-type: none"> • building, urban, architectural and technological design and supervision • general construction and assembly associated with erecting buildings • taking down and demolition of buildings; ground work • technical studies, survey, opinions and analyses relating to construction • general contractor and general construction investor with respect to civil engineering structures • land surveying and mapping of investment projects along with subcontractor surveys • sale of homes and apartments • business and management consulting • organization of trade shows and exhibits
Nature of capital link	- co-subsidiary company
Consolidation method	- proportionate
Shareholding structure	- 49% held by Dom Development S.A.
Date of financial statements	- 31 December 2008
Period covered by financial statements	- 1 January 2008 to 31 December 2008
Balance sheet total ('000 zł)*	- 35 080
Financial result ('000 zł)*	- -3 281
Cash increase/decrease ('000 zł)*	- -5 799
Auditor	- PricewaterhouseCoopers Sp. z o. o.
Audit opinion	unqualified

* Data consistent with the standalone financial statements audited by PricewaterhouseCoopers Sp. z o.o. The financial statements have been restated for the purposes of consolidation.

2.4 Associated entities

Towarzystwo Ubezpieczeń Wzajemnych "Bezpieczny Dom"

Registered office	- ul. Żurawia nr 32/34, 00-515 Warszawa
Areas of activity	- Insurance activities as specified in group 16 chapter II
Nature of capital link	- associated entity
Consolidation method	- equity accounting
Shareholding structure	- 40,32% held by Dom Development S.A. and 4,03% held by Fort Mokotów Sp. z o. o.
Date of financial statements	- 31 December 2008
Period covered by financial statements	- 1 January 2008 to 31 December 2008
Balance sheet total ('000 zł)	- 5 664
Financial result ('000 zł)	- 616
Cash increase/decrease ('000 zł)	- 15
Auditor	- Agencja Konsultingu i Auditingu Gospodarczego Accord'ab Sp. z o. o.
Audit opinion	- Opinion with the following emphasis of matter:

Without qualifying our opinion on the truth and fairness of the audited financial statements we draw your attention to the fact that the Association offers only one un-reinsured product and portfolio of correlated risks with specific characteristics. The residential construction crunch of 2008 significantly limited the Association's operations, which resulted in a 44% decrease in written premiums compared to the previous year. In the introduction to the financial statements the Association's Management assumes a further decrease in written premiums in 2009, which in the Management's opinion should, however, have no effect on the Association's solvency.

2.5 Entities excluded from consolidation

The following subsidiary companies have been included in the Dom Development S.A. Group's consolidated financial statements by acquisition accounting:

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

The subsidiary Fort Mokotów Sp. z o. o. has been included in the Dom Development S.A. Group's consolidated financial statements by proportionate accounting.

The following entities have been included in the Dom Development S.A. Group's consolidated financial statements by equity accounting:

- Towarzystwo Ubezpieczeń Wzajemnych "Bezpieczny Dom"
- Przedsiębiorstwo Techniczno-Inwestycyjne Sp. z o. o.

In accordance with the definition of control specified in IAS 24, Dom Development S.A. exercises control over Dom Development Grunty Sp. z o. o. and Dom Land Sp. z o.o. The latter has not been listed as part of the Group, as it is related to the holding company in a manner other than through capital.

The fact that Dom Land Sp. z o.o. is not included in the consolidation is explained in point 3 of the introduction to the consolidated financial statements, as well as in note 36 to the consolidated financial statements of the Dom Development S.A. Group.

3. Information about the audited financial statements

We have audited the consolidated financial statements of the Dom Development S.A. Group prepared in accordance with IFRS for the period from 1 January 2008 to 31 December 2008, consisting of:

- introduction to the consolidated financial statements;
- the consolidated balance sheet prepared as at 31 December 2008, showing total assets and liabilities of **1 534 068** thousand zł;
- the consolidated profit and loss account for the period from 1 January 2008 to 31 December 2008, showing a net profit of **136 940** thousand zł;
- statement of changes in consolidated shareholders' equity, showing an increase in shareholders' equity of **93 617** thousand zł;
- the consolidated cash flow statement for the period from 1 January 2008 to 31 December 2008, showing a net cash decrease of **51 792** thousand zł;
- notes to the financial statements.

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

BDO Numerica International Auditors & Consultants Sp. z o.o. with its registered office in Warsaw, ul. Postępu 12, is an entity authorized to audit financial statements, registered in number 3355.

The audit was conducted based on an agreement signed on 15 September 2008, and performed at the Company's offices in the period from 9 February 2009 to 6 March 2009 by **BDO Numerica** International Auditors & Consultants Sp. z o.o. under the direction of Marcin Jagodziński – Polish Certified Auditor No. 90042/7384.

BDO Numerica International Auditors & Consultants Sp. z o.o. was selected as the auditor of Dom Development S.A. in a resolution passed by the Supervisory Board on 15 May 2008.

We hereby declare that **BDO Numerica** International Auditors & Consultants Sp. z o.o. 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 of the Accounting Act.

The holding 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 auditing methods.

5. Information about the consolidated financial statements for the previous financial year

The consolidated financial statements prepared in accordance with IFRS for the period from 1 January 2007 to 31 December 2007 had been audited by BDO Numerica S.A. (presently **BDO Numerica** International Auditors & Consultants Sp. z o. o.) and given an unqualified opinion with the following emphasis of matter: "Without qualifying our opinion we draw your attention to the matter of revenue recognition and the fact that the International Financial Reporting Interpretations Committee continues to work on interpretation D-21 (Sale of real estate). These matters were described in point 4 of the introduction to the consolidated financial statements "Significant Accounting Policies".

The Group's consolidated financial statements for the period from 1 January 2007 to 31 December 2007 were approved in Resolution No. 5 passed by the General Shareholders Meeting of 15 May 2008.

The consolidated financial statements for the year 2007 have been filed with the Registration Court and the Tax Office, and published in Polish Monitor B No. 1058 dated 7 August 2008.

II. FINANCIAL ANALYSIS

Presented below are selected consolidated balance sheet and consolidated profit and loss account items, as well as key financial ratios.

1. Balance sheet

(‘000 zł)

	31.12.2008	% of balance sheet total	31.12.2007	% of balance sheet total	31.12.2006	% of balance sheet total
ASSETS						
Fixed assets	20 890	1.4%	21 881	1.7%	17 046	1.8%
Intangible fixed assets	1 360	0.1%	707	0.1%	730	0.1%
Tangible fixed assets	6 781	0.4%	6 547	0.5%	5 535	0.6%
Investments in associated entities	1 050	0.1%	1 024	0.1%	841	0.1%
Deferred income tax assets	8 428	0.5%	10 578	0.8%	7 517	0.8%
Long-term receivables	2 910	0.2%	1 552	0.1%	1 518	0.2%
Long-term prepayments	361	-	1 471	0.1%	905	0.1%
Current assets	1 513 178	98.6%	1 230 186	98.3%	906 877	98.2%
Inventory	1 152 331	75.1%	862 358	68.9%	594 865	64.4%
Trade and other receivables	55 519	3.6%	65 915	5.3%	60 808	6.6%
Other current assets	81 631	5.3%	26 425	2.1%	23 670	2.6%
Cash and cash equivalents	223 697	14.6%	275 489	22.0%	227 535	24.6%
Total assets	1 534 068	100.0%	1 252 067	100.0%	923 923	100.0%
LIABILITIES AND EQUITY						
Equity	789 755	51.5%	696 138	55.6%	491 882	53.2%
Share capital	24 560	1.6%	24 560	2.0%	24 050	2.6%
Share premium less treasury shares	231 535	15.1%	231 535	18.5%	230 371	24.9%
Reserve from the valuation of share options	13 908	0.9%	7 128	0.6%	1 506	0.2%
Other reserves	371 837	24.2%	191 556	15.3%	79 301	8.6%
Share capital reduction reserve	510	-	510	-	510	0.1%
Accumulated profit/loss	147 570	9.6%	240 849	19.2%	156 144	16.9%
Minority shareholders' capital	-165	-	0	-	0	-
Long-term liabilities	488 576	31.8%	330 419	26.4%	154 814	16.8%
Long-term credits and loans	233 283	15.2%	41 779	3.3%	22 200	2.4%
Deferred income tax liabilities	55 067	3.6%	87 876	7.0%	52 004	5.6%
Bonds	200 000	13.0%	200 000	16.0%	80 000	8.7%
Other	226	-	764	0.1%	610	0.1%
Short-term liabilities	255 737	16.7%	225 510	18.0%	277 227	30.0%
Trade and other payables	145 452	9.5%	120 995	9.7%	143 801	15.6%
Short-term credits and loans	62 510	4.1%	37 005	3.0%	98 915	10.7%
Short-term tax payables	7 222	0.5%	6 088	0.5%	639	0.1%
Short-term provisions	13 725	0.9%	12 444	1.0%	3 664	0.4%
Accruals	26 828	1.7%	48 977	3.9%	30 208	3.3%
Total liabilities and equity	1 534 068	100.0%	1 252 067	100.0%	923 923	100.0%

2. Profit and loss account

(‘000 zł)

	Year ended 31.12.2008	Growth %	Year ended 31.12.2007	Growth %	Year ended 31.12.2006	Growth %
Sales revenue	698 162	-20.6%	878 753	20.4%	729 816	35.9%
Cost of sales	429 030	-21.4%	545 666	9.8%	496 871	21.9%
Gross sales profit	269 132	-19.2%	333 087	43.0%	232 945	79.9%
Selling costs	30 002	34.1%	22 368	3.2%	21 669	0.5%
General administrative costs	61 914	7.3%	57 699	39.7%	41 292	29.4%
Other operating revenue	6 659	63.5%	4 073	-28.9%	5 731	51.6%
Other operating costs	18 168	12.6%	16 134	50.0%	10 757	29.8%
Operating profit	165 707	-31.2%	240 959	46.1%	164 958	130.7%
Financial revenue	12 103	4.0%	11 634	62.7%	7 152	88.2%
Financial costs	4 859	117.8%	2 231	-48.6%	4 337	-59.3%
Gross profit	172 951	-30.9%	250 363	49.2%	167 773	159.5%
Income tax	36 011	-27.6%	49 719	52.6%	32 574	160.3%
Net profit	136 940	-31.7%	200 644	48.4%	135 199	159.2%
Net profit of:						
Majority shareholders	136 948	-	-	-	-	-
Minority shareholders	-8	-	-	-	-	-

3. Key financial ratios

		01.01.08 - 31.12.08	01.01.07 – 31.12.07	01.01.06 - 31.12.06
Return on assets				
	$\frac{\text{net profit/loss}}{\text{total assets}}$	8.9%	16.0%	14.6%
Return on equity				
	$\frac{\text{net profit/loss}}{\text{equity}}$	17.3%	28.8%	27.5%
Net sales profitability				
	$\frac{\text{net profit/loss}}{\text{sales revenue}}$	19.6%	22.8%	18.5%
Current ratio				
	$\frac{\text{total current assets}}{\text{short-term liabilities}}$	5.9	5.5	3.3
Quick ratio				
	$\frac{\text{current assets} - \text{inventory}}{\text{short-term liabilities}}$	1.4	1.6	1.1
Receivable days				
	$\frac{\text{average net receivables} \times 360 \text{ days}}{\text{sales revenue}}$	31	26	26
Payable days				
	$\frac{\text{average trade payables} \times 360 \text{ days}}{\text{operating costs}}$	92	76	90
Inventory days				
	$\frac{\text{average inventory} \times 360 \text{ days}}{\text{costs of goods sold}}$	845	481	359
Book value per share				
	$\frac{\text{equity}}{\text{number of shares}}$	32.2	28.3	20.5
Net profit/loss per share				
	$\frac{\text{net profit/loss for the last 12 months}}{\text{number of shares}}$	5.6	8.2	5.6

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 have occurred in the structure between fixed and current assets. As at 31 December 2008, current assets amounted to 98.6% of the Group's balance sheet total, compared to 98.3% as at 31 December 2007. During that period the balance sheet total grew by 23%.

The Group's current assets have increased by 6.2 percentage points of the balance sheet total at the expense of a drop in cash and receivables.

As at 31 December 2008, equity constituted 51.5% (55.6% as at 31 December 2007) of total liabilities and equity. In addition, changes were recorded in the structure of both short- and long-term liabilities. As at 31 December 2008 the share of long-term liabilities in the consolidated liabilities and equity increased by 5.4 percentage points, whilst the percentage share of short-term liabilities decreased by 1.3 percentage points. As at 31 December 2007 short-term liabilities amounted to 16.7% of the Group's liabilities and equity. This was caused to a great extent by the acquisition of additional long-term financing in the form of a credit.

In 2008 the Group's operating revenue fell by 20.6%, whereas the costs of sales dropped by 21.4%. As a result, a drop of 19.2% was recorded in gross sales profit.

The net profit generated by the Group in 2008 was by 31.7% lower than in 2007, which had a negative effect on all of the profitability ratios for 2008. The return on assets ratio, which describes the Group's ability to use its resources to generate profits, amounted to 8.9% (compared to 16% in 2007). Similarly, the sales profitability ratio has decreased from 22.8% in 2007 to 19.6% in 2008, whilst the return on equity ratio has gone down from 28.8% in 2007 to 17.3% in 2008.

Although the liquidity ratios have gone down somewhat, they are still above the recommended norms.

The Group's operating efficiency ratios have changed – the receivable days ratio has increased from 26 days in 2007 to 31 days in 2008, whilst the payable days ratio has gone up from 76 days in 2007 to 92 days in 2008.

The inventory days ratio has grown from 481 days in 2007 to 845 days in 2008. This is caused primarily by the deterioration of the residential real estate market.

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

Note

When analyzing the financial data for the year 2008 it is important to remember that in the consolidated financial statements for the year 2009 this data will be restated in accordance with new accounting methods. More on this matter in "Introduction and notes to the financial statements" on page 21 of the present report.

III. DETAILED INFORMATION

1. Methods used to consolidate the financial statements

1.1 Accounting methods (policies)

A description of the accounting methods applied by the Group is presented in the Introduction to the Financial Statements.

1.2 Consolidation methods

The subsidiary companies are included in the consolidated financial statements using acquisition accounting, the co-subsiary using proportionate consolidation, whilst the associated entities are included using the equity method of accounting.

In accordance with IAS 31 "Financial reporting of jointly controlled entities", which in point 32 states that "When recognizing an interest in a 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", Fort Mokotów Sp. z o.o. was recognized by the Company as a co-subsiary and consolidated using proportionate consolidation.

The Articles of Association state that the company's shareholders are PKO Inwestycje S.A. and Dom Development S.A., holding 51% and 49% of its share capital and votes at General Shareholders Meeting, respectively.

The Management Board of Fort Mokotów Sp. z o.o. comprises 4 people, of which the President and one of the Members are recommended by PKO Inwestycje S.A., and the other two Members are recommended by Dom Development S.A. The Board passes decisions by absolute majority, with at least 3 Members voting in favor.

In certain key matters relating to statutory activities, the Board's resolutions must be passed unanimously.

The Supervisory Board comprises 5 members, of which PKO Inwestycje S.A. recommends 3 and Dom Development S.A. recommends 2.

1.3 Methods used to calculate and amortize goodwill on consolidation and negative goodwill on consolidation

As at 31 December 2008 Dom Development S.A. is 100% owner of the companies Dom Development Na Dolnej Sp. z o.o. and Dom Development Morskie Oko Sp. z o.o., Dom Development Zarządzanie Nieruchomościami Sp. z o.o. as well as 49% co-owner of Fort Mokotów Sp. z o.o.

At their formation, the capitals of the subsidiaries and the co-subsiary were recorded in the financial assets of Dom Development S.A. at net values, and therefore there is no goodwill on consolidation in the consolidated financial statements.

1.4 Methods used to consolidate capital and determine minority shareholders capital

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

Included in the Group's equity were only those portions of the matching components of the subsidiary companies' equities, which have been created since the holding company began to exercise control over these entities.

The Group's equity was adjusted by the value of the holding company's shares in the profits of the associated entities included in the consolidated financial statements.

The subsidiaries are fully owned by Dom Development S.A., with the exception of Dom Development Grunty Sp. z o.o., where minority shareholders' items are present in the consolidated financial statements.

Przedsiębiorstwo Techniczno – Inwestycyjne Sp. z o.o. and Towarzystwo Ubezpieczeń Wzajemnych “Bezpieczny Dom” have been consolidated by equity accounting.

Fort Mokotów Sp. z o.o., where the holding company held 49% of the share capital, was consolidated using proportionate consolidation.

1.5 Methods used to prepare the consolidated financial statements

The consolidated financial statements for the period from 1 January 2008 to 31 December 2008 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 comprising the Group prepared in accordance with the Accounting Act and the standalone financial statements of the holding company prepared in accordance with International Financial Reporting Standards, and presented as if the Group constituted a single entity.

Dom Development S.A. as the holding company, and the subsidiary companies: Dom Development Morskie Oko Sp. z o.o., Dom Development na Dolnej Sp. z o.o., Dom Development Zarządzanie Nieruchomościami Sp. z o.o., Dom Development Grunty Sp. z o.o. have been consolidated by acquisition accounting. As a co-subsiary, Fort Mokotów Sp. z o.o. has been consolidated by proportionate consolidation. A subsidiary Przedsiębiorstwo Techniczno-Inwestycyjne Sp. z o.o. and the associated entity – Towarzystwo Ubezpieczeń Wzajemnych “Bezpieczny Dom” have been included in the consolidated financial statements using equity accounting.

The consolidated financial statements have been adjusted by the revenues, costs and settlements arising out of transactions concluded between the holding company and the subsidiary companies.

The consolidated cash flow statement for the year 2008 contains the cash flow statements of the holding company and the subsidiary companies, subject to appropriate consolidation adjustments of mutual transactions.

The notes to the consolidated financial statements prepared in accordance with IFRS contain data and explanations necessary to give a true and fair view of the Group's financial position and financial result.

The methods used to value assets and liabilities and to determine the financial result, presented in the notes to the consolidated financial statements, are consistent with the methods adopted by the holding company.

1.6 Consolidation documentation

The holding company prepared consolidation documentation including:

- the financial statements of the entities included in the consolidation;
- adjustments and exclusions made in the course of the consolidation;
- the calculation of the fair value of the subordinated companies' net assets

2. Introduction and notes to the consolidated financial statements

The Dom Development S.A. Group prepared additional information consisting of introduction and notes to the consolidated financial statements. The data presented therein are complete and correct.

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 Group changed its accounting methods effective 1 January 2009. Primarily the change pertains to recognizing revenue from the sale of apartments at another moment. Until the end of the year 2008 the Group recognized revenue in proportion to the number of apartments covered with preliminary agreements signed with customers. Starting 1 January 2009 the Group 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 makes it necessary to restate the data for the year 2008 presented as comparatives in the interim and year-end consolidated financial statements for the year 2009. Therefore the financial data for the year 2008 presented as comparatives in the consolidated financial statements for the year 2009 will differ significantly from the data presented in the consolidated financial statements for the year ended 31 December 2008. The change in accounting policy is not related to the profitability of projects, which will not change 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 Group describes this matter in point 3 of the introduction and in point 44 of the notes to the consolidated financial statements.

3. Statement of changes in consolidated shareholders equity

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

4. Consolidated cash flow statement

The consolidated cash flow statement has been prepared by:

- adding the corresponding items of the cash flow statements of the entities covered by the consolidated financial statements,
- making consolidation adjustments, consisting of excluding the cash flows between the entities covered by the consolidated financial statements.

5. Directors Report

In accordance with the requirements of article 49 of the Accounting Act, the Code of Commercial Partnerships and Companies and the Minister's of Finance Decree of 19 February 2009 on the current and periodic information submitted by the issuers of securities, the holding company's Management prepared a report on the Group's activities in the year 2008.

The information presented in the Directors' Report on the Group's activities is consistent with the information contained in the Group's audited consolidated financial statements for the year 2008.

6. Managements Declaration

The Management of the holding company Dom Development S.A. submitted a written declaration about the completeness of the books of account and disclosure of all contingent liabilities and significant post-balance sheet events.

Warsaw, 12 March 2009

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