

***CAPITAL GROUP DOM DEVELOPMENT S.A.***

**LONG-FORM AUDITORS' REPORT  
ON THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2011**

## **I. GENERAL NOTES**

### **1. Background**

The holding company of the Dom Development S.A. Group (hereinafter 'the Group' or 'the Capital Group') is Dom Development S.A. ('the holding company', 'the Company').

The holding company was incorporated on the basis of a Notarial Deed dated 25 February 1999, as a result of transformation of Dom Development Sp. z o.o., which has been incorporated on 2 November 1995. The Company's registered office is located in Warsaw, at Plac Piłsudskiego 3.

The holding company is an issuer of securities as referred to in art. 4 of the Regulation (EC) No 1606/2002 of the European Parliament and of the Council of the European Union of 19 July 2002 on the application of international accounting standards (EC Official Journal L243 dated 11 September 2002, page 1, polish special edition chapter 13, title 29 page 609) and, based on the article 55.5 of the Accounting Act dated 29 September 1994 (2009 Journal of Laws No. 152 item 1223 with subsequent amendments – 'the Accounting Act'), prepares consolidated financial statements of the Group in accordance with International Financial Reporting Standards as adopted by the EU.

The holding company was entered in the Register of Entrepreneurs of the National Court Register under no. KRS 0000031483 on 8 August 2001.

The Company was issued with tax identification number (NIP) 5251492233 on 15 November 1996 and statistical number (REGON) 012212483 on 8 November 1996.

The parent company of Dom Development S.A. is Dom Development B.V.

The principal activities of the holding company are as follows:

- Construction of private accommodation, investments and sale of said accommodation to physical and legal persons,
- Property management,
- Bookkeeping and accounting services,
- Advisory and broking services in relation to mortgages.

The scope of activities of the Group's subsidiaries, jointly controlled entities and associates are similar to this of the holding company.

As at 31 December 2011, the Company's issued share capital amounted to 24 560 thousand zlotys. Equity as at that date amounted to 835 706 thousand zlotys.

Based on the information included in Director's Report as well as current reports published by holding company, as at 31 December 2010, the ownership structure of the holding company's issued share capital was as follows:

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	Number of shares	Number of votes	Par value of 1 share	% of issued share capital
Dom Development B.V.	15 496 386	15 496 386	1,00	63,10%
Jarosław Szanajca	1 534 050	1 534 050	1,00	6,25%
Grzegorz Kiełpsz	1 280 750	1 280 750	1,00	5,21%
Other shareholders	6 249 036	6 249 036	1,00	25,44%
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Total	24 560 222	24 560 222	1,00	100%
	=====	=====	=====	=====

According on the information included in Director's Report as well as current reports published by holding company as at 29 February 2012 the following changes took place in the ownership structure of the Company's issued share capital during the financial year and between the balance sheet date and the date of the opinion relating to the shareholders who have directly or indirectly through subsidiaries at least 5% of the overall number of votes at the General Shareholders' Meeting:

According to the Current Report 24/2011 dated 12 July 2011 as a result of purchase of shares on 1 July 2011 Aviva Otwarty Fundusz Emerytalny Aviva BZ WBK increased the share in the overall number of votes at the General Shareholders' Meeting over 5% i.e. to 5,35%.

There were no movements in the share capital in the reporting period.

As at 29 February 2012, the holding company's Management Board was composed of:

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

There were no changes in the holding company's Management Board during the reporting period as well as from the balance sheet date to the date of the opinion

## 2. Group Structure

As at 31 December 2011, the Dom Development S.A Group consisted of the following subsidiaries (direct or indirect):

Entity name	Consolidati on method	Type of opinion	Name of authorised entity that audited financial statements	Balance sheet date
Dom Development Morskie Oko Sp. z o.o.	Purchase accounting	Not applicable	Not applicable	31 December 2011
Dom Development Grunty	Purchase	Not applicable	Not applicable	31 December



Based on our audit, we issued an auditors' opinion dated 29 February 2012, stating the following:

**“To the General Shareholders’ Meeting of Dom Development S.A.**

1. We have audited the attached consolidated financial statements of Dom Development S.A. Group (‘the Group’), for which the holding company is Dom Development S.A. (‘the Company’) located in Warsaw at Plac Piłsudskiego 3, for the year ended 31 December 2011 containing the consolidated balance sheet as at 31 December 2011, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity, the consolidated cash flow statement for the period from 1 January 2011 to 31 December 2011 and the summary of significant accounting policies and additional notes to the consolidated financial statements (‘the attached consolidated financial statements’).
2. The truth and fairness of the attached consolidated financial statements, the preparation of the attached consolidated financial statements in accordance with the required applicable accounting policies and the proper maintenance of the consolidation documentation are the responsibility of the Company’s Management Board. In addition, the Company’s Management Board and Members of the Supervisory Board are required to ensure that the attached consolidated financial statements and the Directors’ Report meet the requirements of the Accounting Act dated 29 September 1994 (2009 Journal of Laws No. 152 item 1223 with subsequent amendments – ‘the Accounting Act’). Our responsibility was to audit the attached consolidated financial statements and to express an opinion on whether, based on our audit, these financial statements comply, in all material respects, with the required applicable accounting policies and whether they truly and fairly reflect, in all material respects, the financial position and results of the operations of the Group.
3. We conducted our audit of the attached consolidated financial statements in accordance with:
  - chapter 7 of the Accounting Act,
  - national auditing standards issued by the National Council of Statutory Auditors,in order to obtain reasonable assurance whether these financial statements are free of material misstatement. In particular, the audit included examining, to a large extent on a test basis, documentation supporting the amounts and disclosures in the attached consolidated financial statements. The audit also included assessing the accounting principles adopted and used and significant estimates made by the Management Board, as well as evaluating the overall presentation of the attached consolidated financial statements. We believe our audit has provided a reasonable basis to express our opinion on the attached consolidated financial statements treated as a whole.
4. In our opinion, the attached consolidated financial statements, in all material respects:
  - present truly and fairly all information material for the assessment of the results of the Group’s operations for the period from 1 January 2011 to 31 December 2011, as well as its financial position as at 31 December 2011;
  - have been prepared in accordance with International Financial Reporting Standards as adopted by the EU;

- are in respect of the form and content, in accordance with the legal regulations governing the preparation of financial statements.

We have read the 'Directors' Report for the period from 1 January 2011 to 31 December 2011 and the rules of preparation of annual statements' ('the Directors' Report') and concluded that the information derived from the attached consolidated financial statements reconciles with these financial statements. The information included in the Directors' Report corresponds with the relevant regulations of the Decree of the Minister of Finance dated 19 February 2009 on current and periodic information published by issuers of securities and conditions for recognition as equivalent the information required by laws of non-EU member states (Journal of Laws No. 33, item 259 with subsequent amendments)."

We conducted the audit of the consolidated financial statements during the period from 8 August 2011 to 29 February. We were present at the Company's head office from 8 August 2011 to 19 August 2011, from 21 November 2011 to 2 December 2011 and from 6 February 2012 to 27 February 2012.

### **3.2 Representations provided and data availability**

The Management Board of the holding company confirmed its responsibility for the truth and fairness of the consolidated financial statements and the preparation of the financial statements in accordance with the required applicable accounting policies, and the correctness of consolidation documentation. The Board stated that it provided us with all financial statements of the Group companies included in the consolidated financial statements, consolidation documentation and other required documents as well as all necessary explanations. We also obtained a written representation dated 29 February 2012, from the Management Board of the holding company confirming that:

- the information included in the consolidation documentation was complete,
- all contingent liabilities had been disclosed in the consolidated financial statements, and
- all material events from the balance sheet date to the date of the representation letter had been disclosed in the consolidated financial statements,

and confirmed that the information provided to us was true and fair to the best of the holding company Management Board's knowledge and belief, and included all events that could have had an effect on the consolidated financial statements.

### **3.3 Consolidated financial statements for prior financial year**

The consolidated financial statements of the Group for the year ended 31 December 2010 were audited by Jarosław Dac, key certified auditor no. 10138, acting on behalf of Ernst & Young Audit sp. z o.o. with its registered office in Warsaw, at Rondo ONZ 1. The key certified auditor issued an unqualified opinion on the consolidated financial statements for the year ended 31 December 2010. The consolidated financial statements for the year ended 31 December 2010 were approved by the General Shareholders' Meeting on 19 May 2011.

The consolidated financial statements of the Group for the financial year ended 31 December 2010, together with the auditors' opinion, a copy of the resolution approving the consolidated financial statements and the Directors' Report, were filed on 1 June 2011 with the National Court Register.

The consolidated balance sheet as at 31 December 2010, the consolidated profit and loss account, the statement of changes in consolidated equity and the consolidated cash flow statement for the year ended 31 December 2010, together with the auditors' opinion and a copy of the resolution approving the financial statements were published in Monitor Polski B No. 1725 on 27 September 2011.

#### 4. Analytical Review

##### 4.1 Basic data and financial ratios

Presented below are selected financial ratios indicating the economic or financial performance of the Company for the years 2009 – 2011. The ratios were calculated on the basis of financial information included in the financial statements for the years ended 31 December 2010 and 31 December 2011.

The ratios for the year ended 31 December 2011, for the year ended 31 December 2010 and for the year ended 31 December 2009 were calculated on the basis of financial information included in the approved consolidated financial statements for the year ended 31 December 2010 and in the approved consolidated financial statements for the year ended 31 December 2011, that were audited by us

	2011	2010	2009
<b>Total assets</b>	1 916 100	1 623 749	1 578 299
<b>Shareholders' equity</b>	835 069	773 380	748 664
<b>Net profit/ loss</b>	82 123	40 480	80 206
<b>Return on assets (%)</b>	4,3%	2,5%	5,1%
$\frac{\text{Net profit} \times 100}{\text{Total assets}}$			
<b>Return on equity (%)</b>	10,6%	5,4%	11,7%
$\frac{\text{Net profit} \times 100}{\text{Shareholders' equity at the beginning of the period}}$			
<b>Profit margin (%)</b>	14,1%	7,9%	11,4%
$\frac{\text{Net profit} \times 100}{\text{Net profit}}$			

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	2011	2010	2009
Sales of finished goods, goods for resale and raw materials			
<b>Liquidity I</b>	2,5	3,7	3,8
Current assets			
Short-term creditors			
<b>Liquidity III</b>	0,5	1,0	0,6
Cash and cash equivalents			
Short-term creditors			
<b>Debtors days</b>	27 days	28 days	13 days
Trade debtors x 365			
Sales of finished goods, goods for resale and raw materials			
<b>Creditors days</b>	159 days	91 days	290 days
Trade creditors x 365			
Costs of finished goods, goods for resale and raw materials sold			
<b>Inventory days</b>	1 359 days	1 063 days	912 days
Inventory x 365			
Costs of finished goods, goods for resale and raw materials sold			
<b>Stability of financing (%)</b>	60,3%	73,2%	73,7%
(Equity + long-term provisions and liabilities) x 100			
Total liabilities, provisions and equity			
<b>Debt ratio (%)</b>	56,4%	52,4%	52,6%
(Total liabilities and provisions) x 100			
Total assets			
<b>Rate of inflation:</b>			
Yearly average	4,3%	2,6%	3,5%
December to December	4,6%	3,1%	3,%%

This is a translation of a document originally issued in the Polish language.

## **4.2 Comments**

The following trends may be observed based on the above financial ratios:

-return on asset ratio reached 4,3% in the year 2011 and was higher than in the year 2010 when it reached 2,5% while it was lower than the return on asset ratio in 2009 when it reached 5,1%,

-return on equity ratio reached 10,6% in the year 2011 and was higher than in the year 2010 when it reached 5,4% while it was lower than the return on equity in the year 2009 when it reached 11,7%,

-profit margin ratio amounted to 14,1% in the year 2011 and was higher than in 2010 and in 2009 when it amounted to 7,9% and 11,4% respectively,

-liquidity ratio I leveled at 2,5 in the year 2011, for comparison in the year 2010 and 2009 it leveled at 3,7 and 3,8 respectively

- liquidity ratio III attained 0,5 in the year 2011 and was lower than in the year 2010 and 2009 when it attained 1,0 and 0,6 respectively,

- debtors days ratio reached 27 days in the year 2011, for comparison in the year 2010 and 2009 it reached 28 days and 13 days respectively,

- creditors days ratio increased in the year 2011 in relation to the year 2010 and amounted to 159 days, for comparison in the year 2010 it amounted to 91 days and in the year 2009 it amounted to 290 days,

- inventory days ratio for the year 2011 leveled at 1 359 days and was higher than in the year 2010 when it reached 1 063 days and higher than in the year 2009 when it reached 912 days,

- stability of financing ratio amounted to 60,3% as at 31 December 2011 and was lower than in the year 2010 and 2009 when it amounted to 73,2% and 73,7% respectively,

- debt ratio increased in comparison to the year 2010 and 2009 and as at 31 December 2011 it amounted to 56,4%, for comparison debt ratio amounted to 52,3% as at 31 December 2010 and to 52,6% at 31 December 2009.

#### **4.3 Going concern**

Nothing came to our attention during the audit that caused us to believe that the holding company is unable to continue as a going concern for at least twelve months subsequent to 31 December 2011 as a result of an intended or compulsory withdrawal from or a substantial limitation in its current operations.

In Note 7.3 of the additional notes and explanations to the audited consolidated financial statements for the year ended 31 December 2011, the Management Board of the holding company has stated that the financial statements of the Group entities included in the consolidated financial statements were prepared on the assumption that these entities will continue as a going concern for a period of at least twelve months subsequent to 31 December 2011 and that there are no circumstances that would indicate a threat to its continued activity, except for Fort Mokotów Sp. z o.o. w likwidacji whose business activity, according to its Articles of Association, is limited in time, to the date when Marina Mokotów investment is finished.

## **II. DETAILED REPORT**

### **1. Completeness and accuracy of consolidation documentation**

During the audit no material irregularities were noted in the consolidation documentation which could have a material effect on the audited consolidated financial statements, and which were not subsequently adjusted. These would include matters related to the requirements applicable to the consolidation documentation (and in particular eliminations relating to consolidation adjustments).

### **2. Accounting policies for the valuation of assets and liabilities**

The Group's accounting policies and rules for the presentation of data are detailed in note 7.3 and note 7.5 of the additional notes and explanations to the Group's consolidated financial statements for the year ended 31 December 2011.

### **3. Structure of assets, liabilities and equity**

The structure of the Group's assets and equity and liabilities is presented in the audited consolidated financial statements for the year ended 31 December 2011.

The data disclosed in the consolidated financial statements reconcile with the consolidation documentation.

#### **3.1 Shareholders' funds including non-controlling interest**

The amount of shareholders' funds is consistent with the amount stated in the consolidation documentation and appropriate legal documentation. Non-controlling interest amounted to minus 637 thousand zlotys as at 31 December 2011. It was correctly calculated and is consistent with the consolidation documentation.

Information on shareholders' funds has been presented in note 7.16 and note 7.44 of the additional notes and explanations to the consolidated financial statements.

#### **3.2 Financial year**

The financial statements of all Group companies forming the basis for the preparation of the consolidated financial statements were prepared as at 31 December 2011 and include the financial data for the period from 1 January 2011 to 31 December 2011.

### **4. Consolidation adjustments**

#### **4.1 Elimination of inter-company balances (receivables and liabilities) and inter-company transactions (revenues and expenses) of consolidated entities.**

All eliminations of inter-company balances (receivables and liabilities) and inter-company transactions (revenues and expenses) of the consolidated companies reconcile with the consolidation documentation.

#### **4.2 Elimination of unrealised gains/losses of the consolidated companies, included in the value of assets, as well as relating to dividends**

All eliminations of unrealised gains/losses of the consolidated companies, included in the value of assets, as well as relating to dividends reconcile with the consolidation documentation.

**5. Disposal of all or part of shares in a subordinated entity**

During the financial year the Group did not sell any shares in subordinated entities.

**6. Items which have an impact on the group's result for the year**

Details of the items which have an impact on the Group's result for the year have been included in the audited consolidated financial statements for the year ended 31 December 2011.

**7. The appropriateness of the departures from the consolidation methods and application of the equity accounting as defined in International Financial Reporting Standards as adopted by the EU**

During the process of preparation of the consolidated financial statements there were no departures from the consolidation methods or application of the equity accounting that would have resulted in the modifications in the auditors' opinion.

**8. Additional Notes and Explanations to the Consolidated Financial Statements**

The additional notes and explanations to the consolidated financial statements for the year ended 31 December 2011 were prepared, in all material respects, in accordance with International Financial Reporting Standards as adopted by the EU.

**9. Directors' Report**

We have read the 'Directors' Report for the period from 1 January 2011 to 31 December 2011 and the rules of preparation of annual statements' ('the Directors' Report') and concluded that the information derived from the attached consolidated financial statements reconciles with these financial statements. The information included in the Directors' Report corresponds with the relevant regulations of the Decree of the Minister of Finance dated 19 February 2009 on current and periodic information published by issuers of securities and conditions for recognition as equivalent the information required by laws of non-EU member states (Journal of Laws No. 33, item 259 with subsequent amendments).

## **10. Conformity with Law and Regulations**

We have obtained a letter of representations from the Management Board of the holding company confirming that no laws, regulations or provisions of the Group entities' Articles of Association were breached during the financial year.

on behalf of  
Ernst & Young Audit sp. z o.o.  
Rondo ONZ 1, 00-124 Warsaw  
Reg. No 130

Key Certified Auditor

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Jarosław Dac  
certified auditor  
no. 10138

Warsaw, 29 February 2012