

DOM DEVELOPMENT S.A.

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

I. GENERAL NOTES

1. Background

Dom Development S.A. (hereinafter 'the 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.

The 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.

The Company is the holding company of the Dom Development S.A. capital group. Details of transactions with affiliated entities and the list of companies in which the Company holds at least 20% of shares in the share capital or in the total number of votes in the company's governing body are included in Note 7.9 and Note 7.41 of the summary of significant accounting policies and other explanatory notes ("the additional notes and explanations") to the audited financial statements for the year ended 31 December 2011.

The principal activities of the 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.

As at 31 December 2011, the Company's issued share capital amounted to 24 560 thousand zlotys. Equity as at that date amounted to 835 252 thousand zlotys.

Based on the information included in Director's Report as well as current reports published by Company, the ownership structure of the Company's issued share capital as at 31 December 2011 was as follows:

	Number of shares	Number of votes	Par value of 1 share	% of issued share capital
Dom Development B.V.	15 206 172	15 206 172	1,00	61,91%
Jarosław Szanajca	1 534 050	1 534 050	1,00	6,25%
Grzegorz Kiełpsz	1 280 750	1 280 750	1,00	5,21%
Aviva Otwarty Fundusz Emerytalny Aviva BZ WBK	1 313 383	1 313 383	1,00	5,35%
Other shareholders	5 225 867	5 225 867	1,00	21,28%
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Total	24 560 222	24 560 222	-	100%
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According on the information included in Director's Report as well as current reports published by 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 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 Company's Management Board composition during the reporting period as well as from the balance sheet date to the date of the opinion.

2. Financial Statements

On 2 August 2006 the General Shareholders' Meeting decided on preparation of the financial statements in accordance with International Financial Reporting Standards as adopted by the EU.

2.1 Auditors' opinion and audit of financial statements

Ernst & Young Audit sp. z o.o. with its registered office in Warsaw, at Rondo ONZ 1, is registered on the list of entities authorised to audit financial statements under no. 130.

Ernst & Young Audit sp. z o.o. was appointed by the Supervisory Board on 31 March 2010 to audit the Company's financial statements.

Ernst & Young Audit sp. z o.o. and the key certified auditor meet the conditions required to express an impartial and independent opinion on the financial statements, as defined in Art. 56.3 and 56.4 of the Act on statutory auditors and their self-governance, audit firms authorized to audit financial statements and public oversight, dated 7 May 2009 (Journal of Laws 2009, No. 77, item 649 with subsequent amendments).

Under the contract executed on 31 March 2010 with the Company's Management Board, we have audited the financial statements for the year ended 31 December 2011.

Our responsibility was to express an opinion on the financial statements based on our audit. The auditing procedures applied to the financial statements were designed to enable us to express an opinion on the financial statements taken as a whole. Our procedures did not

extend to supplementary information that does not have an impact on the financial statements taken as a whole.

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 financial statements for the year ended 31 December 2011 of Dom Development S.A. (‘the Company’) located in Warsaw at Plac Piłsudskiego 3, containing balance sheet as at 31 December 2011, the income statement, the statement of comprehensive income, the statement of changes in equity, 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 financial statements (‘the attached financial statements’).
2. The truth and fairness of the attached financial statements, the preparation of the attached financial statements in accordance with the required applicable accounting policies and the proper maintenance of the accounting records 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 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 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, whether they truly and fairly reflect, in all material respects, the financial position and results of the operations of the Company and whether the accounting records that form the basis for their preparation are, in all material respects, properly maintained.
3. We conducted our audit of the attached 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 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 financial statements. We believe our audit has provided a reasonable basis to express our opinion on the attached financial statements treated as a whole.
4. In our opinion, the attached financial statements, in all material respects:
 - present truly and fairly all information material for the assessment of the results of the Company’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 and based on properly maintained accounting records;
 - are in respect of the form and content, in accordance with legal regulations governing the preparation of financial statements and the Company's Articles of Association.
5. 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 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 Company's 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.

2.2 Representations provided and data availability

The Management Board confirmed its responsibility for the truth and fairness of the financial statements and the preparation of the financial statements in accordance with the required applicable accounting policies, and stated that it had provided us with all financial information, accounting records and other required documents as well as all necessary explanations. The Management Board also provided a letter of representations dated 29 February 2012, confirming that:

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

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

2.3 Financial statements for prior financial year

The Company's financial statements 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 financial statements for the year ended 31 December 2010. The Company's financial statements for the year ended 31 December 2010 were approved by the General Shareholders' Meeting on 19 May 2011, and the shareholders resolved to appropriate the 2010 net profit as follows:

DOM DEVELOPMENT S.A.
Long-form auditors' report
for the year ended 31 December 2011
(in thousand zlotys)

Dividends for the shareholders	22 104 thousand zloty
Reserve capital	17 585 thousand zloty

	39 689 thousand zloty
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The financial statements for the financial year ended 31 December 2010, together with the auditors' opinion, a copy of the resolution approving the financial statements, a copy of the resolution on the appropriation of profit and the Directors' Report, were filed on 1 June 2011 with the National Court Register.

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

The closing balances as at 31 December 2010 were correctly brought forward in the accounts as the opening balances at 1 January 2011.

3. Analytical Review

3.1 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 2011 and 31 December 2010.

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 financial statements for the year ended 31 December 2010 and in the approved financial statements for the year ended 31 December 2011, that were audited by us

	2011	2010	2009
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Total assets	1 913 616	1 619 897	1 574 023
Shareholders' equity	835 252	772 847	748 922
Net profit/ loss	82 839	39 689	85 230

DOM DEVELOPMENT S.A.
Long-form auditors' report
for the year ended 31 December 2011
(in thousand zlotys)

	2011	2010	2009
Return on assets (%)	4,3%	2,5%	5,4%
$\frac{\text{Net profit} \times 100}{\text{Total assets}}$			
Return on equity (%)	10,7%	5,3%	12,6%
$\frac{\text{Net profit} \times 100}{\text{Shareholders' equity at the beginning of the period}}$			
Profit margin (%)	14,2%	7,7%	12,2%
$\frac{\text{Net profit} \times 100}{\text{Sales of finished goods, goods for resale and raw materials}}$			
Liquidity I	2,5	3,7	3,8
$\frac{\text{Current assets}}{\text{Short-term creditors}}$			
Liquidity III	0,5	1,0	0,6
$\frac{\text{Cash and cash equivalents}}{\text{Short-term creditors}}$			
Debtors days	27 days	38 days	13 days
$\frac{\text{Trade debtors} \times 365}{\text{Sales of finished goods, goods for resale and raw materials}}$			
Creditors days	159 days	109 days	288 days
$\frac{\text{Trade creditors} \times 365}{\text{Costs of finished goods, goods for resale and raw materials sold}}$			
Inventory days	1 358 day	1 063 days	910 day
$\frac{\text{Inventory} \times 365}{\text{Costs of finished goods, goods for resale and raw materials sold}}$			

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

Stability of financing (%)	60,3%	73,2%	74%
$\frac{(\text{Equity} + \text{long-term provisions and liabilities}) \times 100}{\text{Total liabilities, provisions and equity}}$			
Debt ratio (%)	56,4%	52,3%	52,4%
$\frac{(\text{Total liabilities and provisions}) \times 100}{\text{Total assets}}$			
Rate of inflation:			
Yearly average	4,3%	2,6%	3,5%
December to December	4,6%	3,1%	3,5%

3.2 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 5,4%,

-return on equity ratio reached 10,7% in the year 2011 and was higher than in the year 2010 when it reached 5,3% while it was lower than the return on equity in the year 2009 when it reached 12,6%,

-profit margin ratio amounted to 14,2% in the year 2011 and was higher than in 2010 and in 2009 when it amounted to 7,7% and 12,2% 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 38 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 109 days and in the year 2009 it amounted to 288 days,

- inventory days ratio for the year 2011 leveled at 1 358 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 910 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 74% 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 52,4% at 31 December 2009.

3.3 Going concern

Nothing came to our attention during the audit that caused us to believe that the 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 7.2 of the additional notes and explanations to the audited financial statements for the year ended 31 December 2011, the Management Board has stated that the financial statements were prepared on the assumption that the Company 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.

II. DETAILED REPORT

1. Accounting System

The Company's accounts are kept using the SunSystems 5.2.1 SP1 computer system at the Company's head office. The Company has up-to-date documentation, as required under Article 10 of the Accounting Act dated 29 September 1994 (2009 Journal of Laws No. 152 item 1223 with subsequent amendments – 'the Accounting Act'), including a chart of accounts approved by the Company's Management Board.

During our audit no material irregularities were noted in the books of account which could have a material effect on the audited financial statements and which were not subsequently adjusted. These would include matters related to:

- the reasonableness and consistency of the applied accounting policies;
- the reliability of the accounting records, the absence of errors in the accounting records and the trail of entries in the accounting records;
- whether business transactions are supported by documents;
- the correctness of opening balances based on approved prior year figures;
- consistency between the accounting entries, the underlying documentation and the financial statements;
- fulfilment of the requirements for safeguarding accounting documents and storing accounting records and financial statements.

2. Assets, Liabilities and Equity, Profit and Loss Account

Details of the Company's assets, liabilities and equity and profit and loss account are presented in the audited financial statements for the year ended 31 December 2011.

Verification of assets, liabilities and equity was performed in accordance with the Accounting Act. Any differences were adjusted in the books of account for the year 2011

3. Additional Notes and Explanations to the Financial Statements

The additional notes and explanations to the 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.

4. Directors' Report

We have read the Directors' report on the Company's activities in the period from 1 January 2011 to 31 December 2011 and the basis for preparation of annual financial statements ('Directors' Report') and concluded that the information derived from the attached financial statements reconciles with the financial statements. The information included in the Directors' Report corresponds with the relevant provisions 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).

5. Conformity with Law and Regulations

We have obtained a letter of representations from the Management Board confirming that no laws, regulations or provisions of the Company's 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

Jarosław Dac
certified auditor
no. 10138

Warsaw, 29 February 2012