CAPITAL GROUP DOM DEVELOPMENT S.A.

LONG-FORM AUDITORS' REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010

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 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 2010, the Company's issued share capital amounted to 24 560 thousand zlotys. Equity of the Group as at that date amounted to 773 380 thousand zlotys.

(in 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:

	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%
Total	24 560 222	24 560 222	1,00	100%

There were no changes in the ownership structure of the holding company during the reporting period as well as during the period from the balance sheet date to the date of the opinion.

There were no movements in the share capital of the holding company in the reporting period.

As at 8 March 2011, 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 Company's Management Board composition 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 2010, 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 grudnia 2010
Dom Development Grunty Sp. z o.o.	Purchase accounting	Not applicable	Not applicable	31 grudnia 2010

(in thousand zlotys)

As at 31 December 2010 Dom Development S.A. Capital Group consisted of following jointly controlled entity:

Entity name	Consolidation method	Type of opinion	Name of authorised entity that audited financial statements	Balance sheet date
Fort Mokotów Sp. z o.o.	Proportionate consolidation	Not applicable	Not applicable	31 grudnia 2010

As at 31 December 2010 shares in the following associates (direct and indirect) were recognised in the Group's consolidated financial statements using the equity method:

Name and registered office	Type of activity
Towarzystwo Ubezpieczeń Wzajemnych Bezpieczny Dom w likwidacji	Insurance activity

There were no significant changes to the list of consolidated companies when compared to the prior year.

3. Consolidated Financial Statements

3.1 Auditors' opinion and audit of consolidated 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 Supervisory the Board on 31 March 2010 to audit the Group's financial statements.

Ernst & Young Audit sp. z o.o. and the key certified auditor in charge of the audit 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).

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

Our responsibility was to express an opinion on the consolidated financial statements based on our audit. The auditing procedures applied to the consolidated financial statements were designed to enable us to express an opinion on the consolidated financial statements taken as a whole. Our procedures did not extend to supplementary information that does not have an impact on the consolidated financial statements taken as a whole.

Based on our audit, we issued an auditors' opinion dated 8 March 2011, 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 2010 containing consolidated balance sheet as at 31 December 2010, consolidated income statement, consolidated statement of comprehensive income, statement of changes in consolidated equity, consolidated cash flow statement for the period from 1 January 2010 to 31 December 2010 and the summary of significant accounting policies and other explanatory notes and explanation to the 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 2010 to 31 December 2010, as well as its financial position as at 31 December 2010;
   - 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.

5. We have read the 'Directors' Report for the period from 1 January 2010 to 31 December 2010 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)."

We conducted the audit of the consolidated financial statements during the period from 24 May 2010 to 8 March 2011. We were present at the Company's head office from 24 to 28 May 2010, from 2 to 19 August 2010, from 22 November 2010 to 3 December 2010 and from 7 to 23 February 2011.

3.2 Representations provided and data availability

The Management Board of the holding company confirmed its responsibility for the fair presentation 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 8 March 2011, 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 2009 were audited by Marcin Jagodziński, key certified auditor no. 90042, acting on behalf of BDO Sp. z o.o. located in Warsaw at Postępu 12. The key certified auditor issued an unqualified opinion on the consolidated financial statements for the year ended 31 December 2009. The consolidated financial statements for the year ended 31 December 2009 were approved by the General Shareholders' Meeting on 20 May 2010.

(in thousand zlotys)

The consolidated financial statements of the Group for the financial year ended 31 December 2009, together with the auditors' opinion, a copy of the resolution approving the consolidated financial statements and the Directors' Report, were filed on 27 May 2010 with the National Court Register.

The consolidated balance sheet as at 31 December 2009, the consolidated profit and loss account, the statement of changes in consolidated equity and the consolidated cash flow statement the year ended 31 December 2009, together with the auditors' opinion and a copy of the resolution approving the financial statements were published in Monitor Polski B No. 1283 on 2 August 2010.

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 2008 – 2010. The ratios were calculated on the basis of financial information included in the financial statements for years ended 31 December 2009 and 31 December 20010.

The ratios 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 consolidated financial statements for the year ended 31 December 2010, that were audited by us.

The ratios for the year ended 31 December 2008 were calculated on the basis of financial information included in the approved consolidated financial statements for the year ended 31 December 2009, that were audited by another auditor.

	2010	**2009**	**2008**
Total assets	1 623 749	1 578 299	1 764 592
Shareholders' equity	773 380	748 664	683 288
Net profit/ loss	40 480	80 206	224 269
Return on assets (%)	2,5%	5,1%	12,7%
$\frac{\text{Net profit x 100}}{\text{Total assets}}$			
Return on equity (%)	5,4%	11,7%	44,6%
$\frac{\text{Net profit x 100}}{\text{Shareholders' equity at the beginning of the period}}$			

(in thousand zlotys)

	2010	2009	2008
Profit margin (%)	7,9%	11,4%	25,4%
Net profit x 100 / Sales of finished goods, goods for resale and raw materials			
Liquidity I	3,6	3,8	2,8
Current assets / Short-term creditors			
Liquidity III	1,0	0,6	0,4
Cash and cash equivalents / Short-term creditors			
Debtors days	28 days	13 days	16 days
Trade debtors x 365 / Sales of finished goods, goods for resale and raw materials			
Creditors days	91 days	290 days	105 days
Trade creditors x 365 / Costs of finished goods, goods for resale and raw materials sold			
Inventory days	1 063 days	912 days	1 050 days
Inventory x 365 / Costs of finished goods, goods for resale and raw materials sold			
Stability of financing (%)	72,3%	73,7%	65,0%
(Equity + long-term provisions and liabilities) x 100 / Total liabilities, provisions and equity			
Debt ratio (%)	52,4%	52,6%	61,3%
(Total liabilities and provisions) x 100 / Total assets			

(in thousand zlotys)

	2010	2009	2008
Rate of inflation:			
Yearly average	2,6%	3,5%	4,2%
December to December	3,1%	3,5%	3,3%

4.2 Comments

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

- return on assets ratio reached 2,5% in the year 2010 and was lower than the one in the year 2009 and 2008 when it reached 5,1% and 12,7% respectively.

- return on equity ratio reached 5,4% in the year 2010 and was lower than the one in the year 2009 and the year 2008 when it reached 11,7% and 44,6% respectively;

- profit margin ratio in the current year amounted to 7,9 %, for comparison profit margin for the year 2009 amounted to 11,4% and for the year 2008 to 25,4%;

- liquidity ratio I in the year 2010 leveled at 3,6 while in the year 2009 and in the year 2008 the ratio leveled at 3,8 and 2,8 respectively;

- liquidity ratio III attained 1,0 as at 31 December 2010 and was higher than in previous accounting periods when it amounted to 0,6 as at 31 December 2009 and to 0,4 as at 31 December 2008;

- debtors days ratio reached 28 days in the year 2010 while in the year 2009 and in the year 2008 it reached 13 days and 16 days respectively;

- creditors days ratio lowered in the year 2010 in relation to 2009 and reached 91 days, while in the year 2009 creditors days ratio amounted to 290 days, in the year 2008 the ratio amounted to 105 days;

-inventory days ratio for the year 2010 leveled at 1 063 days and was higher than in the year 2009 when it reached 912 days and higher than in the year 2008 when it reached 1 050 days;

- stability of financing ratio amounted to 72,3% as at 31 December 2010 and slightly differ from the ratio in the previous year when it amounted to 73,7%;

- debt ratio decreased in comparison with the previous years and reached 52,4% as at 31 December 2010, the ratio attained 52,6% as at 31 December 2009 and 61,3% as at 31 December 2008.

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 2010 as a result of an intended or compulsory withdrawal from or a substantial limitation in its current operations.

In Note 3 of the additional notes and explanations to the audited consolidated financial statements for the year ended 31 December 2010, 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 2010 and that there are no circumstances that would indicate a threat to its continued activity. According to the Articles of Association of Fort Mokotów sp. z o.o. its business activity is limited in time, to the date when Marina Mokotów investment is finished, however in the opinion of the Management Board of the holding company, Fort Mokotów sp. z o.o. will continue as a going concern in the period not shorter than 12 months subsequent to 31 December 2010.

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 3 of the additional notes and explanations to the Group's consolidated financial statements for the year ended 31 December 2010.

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 2010.

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 101 thousand zlotys as at 31 December 2010. It was correctly calculated and is consistent with the consolidation documentation.

Information on shareholders' funds has been presented in note 15 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 2010 and include the financial data for the period from 1 January 2010 to 31 December 2010.

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 2010.

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 2010 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 2010 to 31 December 2010 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).

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.

Ernst & Young Audit sp. z o.o.

Warsaw, 8 March 2011