

***DOM DEVELOPMENT S.A.***

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

## 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 3.

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 1996.

The Company is the holding company of Dom Development S.A. capital group. The parent company of Dom Development S.A. is Dom Development B.V. 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 8 and Note 39 of the additional notes and explanations ("the additional notes and explanations") to the audited financial statements for year ended December 31, 2010.

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 2010, the Company's issued share capital amounted to 24 560 thousand zlotys. Equity as at that date amounted to 772 847 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 2010 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%
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Total	24 560 222	24 560 222	-	100%
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There were no changes in the ownership structure of the 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 in the reporting period.

As at 8 March 2011, 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).

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 2010.

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 8 March 2011, 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 2010 of Dom Development S.A. (‘the Company’) located in Warsaw at Plac Piłsudskiego 3, containing balance sheet as at 31 December 2010, income statement, statement of comprehensive income, statement of changes in equity, cash flow statement for the period from 1 January 2010 to 31 December 2010 and the additional notes and explanations 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 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 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 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 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 Company's 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.

## **2.2 Representations provided and data availability**

The Management Board confirmed its responsibility for the fair presentation 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 8 March 2011, 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 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 financial statements for the year ended 31 December 2009. The Company's financial statements for the year ended 31 December 2009 were approved by the General Shareholders' Meeting on 20 May 2010, and the shareholders resolved to appropriate the 2009 net profit as follows:

Dividends for the shareholders	19 648 thousand zlotys
Reserve capital	65 582 thousand zlotys
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	85 230 thousand zlotys
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The financial statements for the financial year ended 31 December 2009, 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 27 May 2010 with the National Court Register.

The balance sheet as at 31 December 2009, the profit and loss account, statement of changes in equity and cash flow statement for the year ended 31 December 2009, 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. 1283 on 2 August 2010.

The closing balances as at 31 December 2009 were correctly brought forward in the accounts as the opening balances at 1 January 2010.

### **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 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 2010.

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 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 financial statements for the year ended 31 December 2009, that were audited by another auditor.

	<b>2010</b>	<b>2009</b>	<b>2008</b>
<b>Total assets</b>	1 619 897	1 574 023	1 754 689
<b>Shareholders' equity</b>	772 847	748 922	678 522
<b>Net profit/ loss</b>	39 689	85 230	229 968
<b>Return on assets (%)</b>	2,5%	5,4%	13,1%
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$\frac{\text{Net profit} \times 100}{\text{Total assets}}$			
<b>Return on equity (%)</b>	5,3%	12,6%	46,8%
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$\frac{\text{Net profit} \times 100}{\text{Shareholders' equity at the beginning of the period}}$			

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*Long-form auditors' report*  
*for the year ended 31 December 2010*  
*(in thousand zlotys)*

	2010	2009	2008
<b>Profit margin (%)</b>	7,7%	12,2%	26,0%
$\frac{\text{Net profit} \times 100}{\text{Sales of finished goods, goods for resale and raw materials}}$			
<b>Liquidity I</b>	3,6	3,8	2,8
$\frac{\text{Current assets}}{\text{Short-term creditors}}$			
<b>Liquidity III</b>	1,0	0,6	0,3
$\frac{\text{Cash and cash equivalents}}{\text{Short-term creditors}}$			
<b>Debtors days</b>	38 days	13 days	15 days
$\frac{\text{Trade debtors} \times 365}{\text{Sales of finished goods, goods for resale and raw materials}}$			
<b>Creditors days</b>	109 days	288 days	104 days
$\frac{\text{Trade creditors} \times 365}{\text{Costs of finished goods, goods for resale and raw materials sold}}$			
<b>Inventory days</b>	1063 days	910 days	1042 days
$\frac{\text{Inventory} \times 365}{\text{Costs of finished goods, goods for resale and raw materials sold}}$			
<b>Stability of financing (%)</b>	72,4%	74,0%	65,0%
$\frac{(\text{Equity} + \text{long-term provisions and liabilities}) \times 100}{\text{Total liabilities, provisions and equity}}$			
<b>Debt ratio (%)</b>	52,3%	52,4%	61,3%
$\frac{(\text{Total liabilities and provisions}) \times 100}{\text{Total assets}}$			

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

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

### 3.2 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 in the year 2009 and 2008 when it reached 5,4% and 13,1% respectively.
- return on equity ratio reached 5,3% in the year 2010 and was lower than the one in the year 2009 and in the year 2008 when the return on equity ratio reached 12,6% and 46,8% respectively;
- profit margin ratio in the current year amounted to 7,7 %, for comparison profit margin for the year 2009 amounted to 12,2% and for the year 2008 to 26,0%;
- 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 0,3 as at 31 December 2008;
- debtors days ratio reached 38 days in the year 2010 while in the year 2009 and in the year 2008 it reached 13 days and 15 days respectively;
- creditors days ratio lowered in the year 2010 in relation to 2009 and reached 109 days, while in the year 2009 creditors days ratio amounted to 288 days, and in the year 2008 the ratio amounted to 104 days;
- inventory days ratio for the year 2010 leveled at 1 063 days and was higher than in the year 2009 when it reached 910 days and higher than in the year 2008 when it reached 1 042 days;
- stability of financing ratio amounted to 72,4% as at 31 December 2010 and slightly differ from the ratio for the end of prior year when it amounted to 74,0%;
- debt ratio decreased in comparison with the previous years and reached 52,3% as at 31 December 2010, the ratio attained 52,4% as at 31 December 2009 and 61,3% as at 31 December 2008.

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



In Note 2 of the additional notes and explanations to the audited financial statements for the year ended 31 December 2010, 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 2010 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 5.21 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 2009 Journal of Laws No. 152 item 1223 with subsequent amendments – 'the Accounting Act'), including a chart of accounts.

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 2010.

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 2010.

### **3. Additional Notes and Explanations to the Financial Statements**

The additional notes and explanations to the 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.

### **4. Directors' Report**

We have read the Directors' report on the Company's activities in the period from 1 January 2010 to 31 December 2010 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).

## **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.

Ernst & Young Audit sp. z o.o.

Warsaw, 8 March 2011