

**Dom Development
Joint-stock Company
Pl. Piłsudskiego 3
00-078 Warszawa**

**Auditor's Opinion and Report
on the separate financial statements
prepared in accordance with IFRS
for the period between 1 January and 31 December 2006**

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

**Auditor's Opinion
for the Shareholders and Supervisory Board of Dom Development S.A.**

We have audited the enclosed financial statements prepared in accordance with International Financial Reporting Standards (IFRS) of Dom Development SA with its registered office in Warsaw at Pl. Piłsudskiego 3, consisting of:

- introduction to the financial statements;
- the balance sheet prepared as at 31 December 2006, showing total assets and liabilities of PLN 856,488,330.50;
- the profit and loss account for the period from 1 January 2006 to 31 December 2006, showing a net profit of PLN 115,938,956.66;
- statement of changes in shareholders' equity, showing an increase in shareholders' equity of PLN 339.701.529,76;
- the cash flow statement for the period from 1 January 2006 to 31 December 2006, showing a net cash increase of PLN 145,543,756.82;
- notes to the financial statements.

The Company's Management Board is responsible for the preparation of the financial statements.

Our responsibility was to audit the financial statements and to issue an opinion about the true and fair character, correctness and clarity of the financial statements.

We conducted our audit in accordance with:

- 1) International Auditing Standards
- 2) professional auditing standards issued by the Polish National Chamber of Certified Auditors.

We planned and conducted the audit of the financial statements in such a manner as to obtain a reasonable assurance allowing us to express the opinion on the financial statements.

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that our audit provided a reasonable basis for our opinion.

In our opinion, the audited financial statements consisting of financial data and explanations:

- give a true and fair view of the Dom Development S.A. financial position as at 31.12.2006, as well as its financial result for the period from 1.01.2006 to 31.12.2006,
- have been prepared correctly in all material respects, i.e. in accordance with the Company's accounting policies arising out of International Financial Reporting Standards, as well as the related interpretations announced by the European Commission in the form of implementing regulations, and in issues not regulated by these Standards – in accordance with the Accounting Act and the related regulatory

provisions issued on the basis of this Act, as well as on the basis of properly maintained books of account,

- are consistent with the laws and regulations and with the Company's Articles of Association .

The Directors Report on the Group's activities includes all information required by article 49 point 2 of the Accounting Act, is consistent with the provisions of the Minister's of Finance Decree of 19 October 2005 on the current and periodic information submitted by the issuers of securities, and the financial data contained therein is consistent with the financial statements.

Warsaw, 8 March 2007

BDO Numerica Sp. z o.o.
ul. Postępu 12
02-676 Warszawa
Nr ewidencyjny 523

The auditor conducting the audit:

Marcin Jagodziński
Polish Certified Auditor
Reg. No. 90042/7384

Acting on behalf of
BDO Numerica Sp z o.o.:

dr André Helin
State Authorized
Public Accountant
Polish Certified Auditor 90004/502
President of BDO Numerica Sp. z o.o.

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**Auditor's Report
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I. GENERAL INFORMATION

1. Information about the Company

1.1 Name and legal status

Dom Development S.A.

1.2 Registered Office

Pl. Piłsudskiego 3, 00-078 Warszawa.

1.3 Areas of activity

In accordance with the register, the Company's activities consist of:

- construction and property-related investment,
- construction of residential areas and their sale to private and corporate owners,
- purchase, sale and production of resources, ready products and semi-finished industrial goods, in particular those related to building and construction,
- exports and imports of any products, goods and technologies, in particular those related to building and construction,
- provision of services in the field of advertising and consulting,
- other operation and services required for or related to the above-mentioned activities.

In the audited reporting period, the Company's main subject of operation was construction and property-related investment as well as construction of residential areas and their sale to private and corporate owners.

1.4 Legal basis for the Company's operations

Dom Development S.A operates on the basis of:

- The Company's Articles of Incorporation compiled in the form of a notary act dated 25 February 1999 (Rep. A Nr 2534/99) with subsequent amendments.
- 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 in Warsaw – XIX 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 Share capital – value and changes in the audited period

As at 31 December 2006 the Company's share capital amounts to PLN 24,050,372.00 and consists of 24,050,372 shares with a nominal value of PLN 1 per share. During the year 2006 417,150 series E shares of nominal value 417,150.00 PLN and 92,700 series G shares of nominal value 92,700.00 PLN were redeemed. 2,705,882 series F shares of nominal value 2,705,882.00 PLN were issued.

During the audited period also 172,200 series H shares of nominal value 172,200.00 zł, 92,700 series I shares of nominal value 92,700.00 zł, 96,750 series J shares of nominal value 96,750.00 zł and 148,200 series L shares of nominal value 148,200 zł were issued but at 31.12.2006 not yet registered at Registry Court.

1.8 The Company's Management

In the audited period the Company's Management Board comprised:

- Jarosław Szanajca- President of the Management Board
- Grzegorz Kiełpsz- Vice-President of the Management Board
- Janusz Zalewski- Vice-President of the Management Board
- Terry Roydon – Management Board Member
- Janusz Stolarczyk- Management Board Member

1.9 The Company's Supervisory Board

As at 31 December 2006 the Company's Supervisory Board comprised:

- Zygmunt Kostkiewicz
- Stanisław Plakwicz
- Michael Cronk
- Markham Dumas
- Włodzimierz Bogucki
- Richard Lewis

1.10 Employment

In the period from 1 January 2006 to 31 December 2006 the Company employed an average of 152 people.

1.11 Information about the related companies

Dom Development S.A. is a Holding Company for: Dom Development Zarządzanie Nieruchomościami Sp. z o.o., Dom Development Morskie Oko Sp. z o.o., Dom Development Na Dolnej Sp. z o.o.

The company exercises joint control over Fort Mokotów Sp. z o.o. and is a significant investor in Dom Development Grunty Sp. z o.o.

Associated entities are: Przedsiębiorstwo Techniczno-Inwestycyjne Sp. z o.o. and Towarzystwa Ubezpieczeń Wzajemnych „Bezpieczny Dom”.

Dom Development S.A. prepares consolidated financial statement of The Dom Development S.A. Group.

2. Information about the audited financial statements

We have audited the financial statements of the Dom Development S.A. prepared in accordance with International Financial Reporting Standards (IFRS) for the period from 1 January 2006 to 31 December 2006, consisting of:

- introduction to the financial statements;
- the balance sheet prepared as at 31 December 2006, showing total assets and liabilities of PLN 856,488,330.50;
- the profit and loss account for the period from 1 January 2006 to 31 December 2006, showing a net profit of PLN 115,938,956.66;
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- notes to the financial statements.

and enclosed to the financial statements Management's Report on the Company's activity.

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

BDO Numerica sp. z o.o. with its registered office in Warsaw, ul. Postępu 12, is an entity authorized to audit financial statements, registered in number 523.

The audit was conducted on the basis of an agreement dated 27 October 2006, in the Company's registered office between 5 February and 23 February 2007; by BDO Numerica Sp. z o. o. represented by the Certified Auditor - Marcin Jagodziński, registration number 90042/7384.

The certified auditor was selected by Supervisory Board of Dom Development S.A. in its resolution.

We hereby declare that BDO Numerica 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 par. 1 and 2 of the Accounting Act.

The 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 audit methods.

4. Information about the financial statements for the previous financial year

The financial statements prepared in accordance with IFRS for the period from 1 January 2005 to 31 December 2005 had been audited by BDO Polska Sp. z o.o. (now BDO Numerica Sp. z o. o.) and given an unqualified opinion.

The financial statements for the period 1 January 2005 – 31 December 2005 have been by approved by the General Meeting of the Shareholders on 19 April 2006.

The General Shareholders Meeting decided with the resolution number 5 on 19 April 2006 to assign the net profit for the year 2005 in the amount of 25.898.118,74 zł to increase the Company's reserve capital.

The financial statement for the financial year 2005 has been submitted to the Tax Office, the Registry Court and designated for publication in the Monitor Polski B on 6 September 2006.

II. ANALIZA FINANSOWA SPÓŁKI

Presented below are selected balance sheet and profit and loss account items, as well as key financial ratios for the audited and previous period.

1.1 Balance sheet

	31.12.2006	% of balance sheet total	31.12.2005	% of balance sheet total
ASSETS				
Fixed assets	16,548,997.65	1.9%	18,666,880.67	3.7%
Intangible fixed assets	728,038.79	0.1%	393,405.65	0.1%
Tangible fixed assets	5,388,034.51	0.6%	7,065,250.16	1.4%
Investments in associates	2,908,708.28	0.3%	2,646,843.79	0.5%
Deferred income tax asset	5,101,561.00	0.6%	6,497,901.00	1.3%
Long-term receivables	1,517,905.36	0.2%	927,730.36	0.2%
Other long-term deferred costs	904,749.71	0.1%	1,135,749.71	0.2%
Current assets	839,939,332.85	98.1%	483,122,289.74	96.3%
Inventory	588,586,471.94	68.7%	340,742,881.97	67.9%
Trade and other receivables	60,745,352.45	7.1%	87,073,171.82	17.4%
Other current assets	13,572,188.52	1.6%	23,814,672.83	4.7%
Cash and cash equivalents	177,035,319.94	20.7%	31,491,563.12	6.3%
Total assets	856,488,330.50	100.0%	501,789,170.41	100.0%
EQUITY AND LIABILITIES				
Shareholders' equity	451,677,060.77	52.7%	111,975,531.01	22.3%
Share capital	24,050,372.00	2.8%	21,854,340.00	4.4%
Share premium less treasury shares	230,370,719.29	26.9%	10,819,818.83	2.2%
Reserve capital from valuation of share options	1,505,790.64	0.2%	-	0.0%
Other reserves (supplementary capital)	79,301,372.18	9.3%	53,403,253.44	10.6%
Reserve capital from reducing the share capital	509,850.00	0.1%	-	0.0%
Accumulated, unappropriated profit	115,938,956.66	13.5%	25,898,118.74	5.2%
Long-term liabilities	142,655,193.00	16.7%	153,906,854.91	30.7%
Long-term loans and borrowings	22,200,000.00	2.6%	78,332,948.91	15.6%
Deferred tax liability	40,455,193.00	4.7%	25,573,906.00	5.1%
Bonds	80,000,000.00	9.3%	50,000,000.00	10.0%
Other	-	0.0%	-	0.0%
Short-term liabilities	262,156,076.73	30.6%	235,906,784.49	47.0%
Trade payables and other liabilities	135,035,538.91	15.8%	114,488,811.07	22.8%
Short-term loans and borrowings	98,915,383.99	11.5%	91,309,740.44	18.2%
Short-term tax liabilities	445,393.27	0.1%	1,196,004.02	0.2%
Short-term provisions	3,187,558.89	0.4%	2,314,010.17	0.5%
Accrued liabilities and deferred income	24,572,201.67	2.9%	26,598,218.79	5.3%
Total equity and liabilities	856,488,330.50	100.0%	501,789,170.41	100.0%

1.2 Profit and loss account

	Year ending 31.12.06	Change %	Year ending 31.12.05
Sales revenues	580,442,002.75	69.8%	341,823,016.87
Cost of sales	390,948,453.94	57.4%	248,402,876.36
Gross profit on sales	189,493,548.81	102.8%	93,420,140.51
Selling costs	21,153,798.31	4.2%	20,310,313.10
General administrative expenses	37,486,468.76	43.2%	26,181,278.06
Other operating income	5,434,981.97	59.6%	3,405,174.04
Other operating expenses	10,198,766.19	4.4%	9,766,914.13
Operating profit	126,089,497.52	210.8%	40,566,809.26
Financial income	19,351,214.61	612.5%	2,715,871.62
Financial costs	4,341,016.47	-59.3%	10,667,173.14
Profit before tax	141,099,695.66	332.6%	32,615,507.74
Income tax expense	25,160,739.00	274.6%	6,717,389.00
Profit after tax	115,938,956.66	347.7%	25,898,118.74

1.3. Key financial ratios

	<u>01.01.06 - 31.12.06</u>	<u>01.01.05 - 31.12.05</u>
Return on assets		
<u>net financial result</u> total assets	13.5%	5.2%
Return on equity		
<u>net financial result</u> Equity	25.7%	23.1%
Net sales profitability		
<u>net financial result</u> sales revenues	20.0%	7.6%
Current liquidity ratio		
<u>total of current assets</u> short-term liabilities	3.2	2.0
Quick liquidity ratio		
<u>total of current assets – stock</u> short-term liabilities	1.0	0.6
Receivables days		
<u>average short-term receivables*) x 360 days</u> sales revenue	46	91
Payables days		
<u>average short-term payables*) x 360 days</u> operating cost	100	106
Inventory days		
<u>average stock*) x 360 days</u> cost of sales	428	367
Book value per one share		
<u>equity</u> number of shares	18.8	5.1
Net financial result per one share		
<u>net financial result from the past 12 months</u> number of shares	4.8	1.2

*) the average balance of receivables, liabilities and inventory was calculated as an arithmetic average of the individual items as at the first and last day of the financial year.

1.4 Interpretation of ratios and general financial position

The analysis of the Company's financial position during the last two reporting periods, shows a slight movement between fixed assets and current assets. As at 31 December 2006 current assets amounted to 98.1% of the balance sheet total and as at 31 December 2005 they had amounted to 96.3%. The main reason for the change was an increase of the value of stocks resulting from the business expansion and over five times increase of short term investments caused mainly by the shares issue which occurred in the second half of 2006.

As at 31 December 2006 equity was a prevailing item in liabilities. Due to shares issue and the financial result generated in 2006, equity increased almost four times in comparison to 2005. Short-term and long-term liabilities structure also changed. As at 31 December 2006 the long-term liabilities decreased by about 7%, while the short-term liabilities increased by about 11%.

The Company in 2006 generated higher margins as compared to 2005 (in 2006 average margins amounted to 48% while in 2005 they amounted to 38%). There was an increase of operating revenues by 69.8%, while the value of goods and materials sold increased by 57.4%. That favourable trend resulted in almost two times higher level of the gross profit from sales, which amounted to PLN 189,493,548.81. A significant increase of financial profit in 2006 in comparison to 2005 was caused by the dividend paid out by the co-subsiary Fort Mokotów Sp. z o. o. The net profit generated by the Company in 2006 was almost four times higher than in the previous year. This had a favorable influence on the profitability ratios in 2006.

Due to a significant increase of the net profit and the balance sheet total the return on assets ratio defining the Company's ability to utilize its resources to generate profits amounted in 2006 to 13.5%, which is a two times increase in comparison to the previous year. Similarly the net sales profitability ratio improved and amounted to 20.0% in 2006 in comparison to 7.6% in the previous year. The Company is characterized by high return on equity, which increased from the level of 23.1% in 2005 to 25.7% in 2006.

Liquidity ratios also improved as compared to 2005 and remain above the level recommended by relevant standards.

Proportions of the ratios describing efficiency of operation changed – the receivables days and the payables days decreased. The stock turnover ratio increased to 428 days in 2006 in comparison to 367 days in 2005. This was due to the fact that the Company made disproportionate purchases in comparison to its business expansion. Material increase of the ratio results also from the long-lasting production cycle. As the Company is expanding its activities the increase of the of stock turnover ratio is justified.

The financial results, as well as the overall financial situation of the Company do not indicate any threat to its operational continuity.

III. DETAILED INFORMATION

1. Assessment of the Accounting System

1.1 Accounting system

The Company maintains its accounting with the application of the Sun System 4.2 software implemented by Hogart. The Company possesses full documentation of the software containing a description of the IT system with a description of the procedures and functions and the instructions on the use of the system.

In 2005 the Company implemented 'Papyrus' software to record revenues and expenditure connected with management of housing estates.

In the audited year there were no changes related to the evaluation of assets, liabilities, revenues and costs.

According to the continuity principle, the assets and liabilities shown in the accounting books as of December, 2006, were recorded in the same value in the accounting books opened for the current accounting year.

The accounting books are maintained on a current basis, and chronologically, on the basis of respective source documents.

The accounting books are maintained in a reliable manner and in the manner enabling to connect the records made in the financial and accounting system with the accounting documents and the financial statements.

The electronic data processing system is technically correct and connected with a company chart of accounts, ensuring the verifiability of the accounting books.

The Company meets the requirements of the accounting act of September 29, 1994, as amended, within the scope of archiving the documents and the computer data.

1.2 Inventory-taking of Assets Components

Organization and functioning of the inventory-taking of assets components meets the requirements specified in the amended Accounting Act.

In the auditing period the inventory-taking covered the following items:

- by means of a physical inventory of assets components:

- cash in hand	as of December, 31 2006
- production in progress	as of December, 31 2006
- finished products	as of December,31 2006

- by means of acquiring confirmations of balances from banks and contracting parties:

- cash at bank	as of December, 31 2006
- trade receivables from related entities	as of December, 31 2006
- trade payables to other entities	as of November, 30 2006

No inventory-taking of trade receivables from the other entities by means of acquiring confirmations of balances from contracting parties has been conducted.

- by means of comparing the accounting data with relevant documents and verifying the real value:

- public and legal clearings	as of December, 31 2006
- other clearings	as of December, 31 2006

The representative of the auditor participated in the inventory-taking of production in progress and confirmed the reliability and correctness of the made physical inventory.

2. Information on the Selected Items of the Balance Sheet and Profit and Loss Account

Detailed information on the balance sheet and profit and loss account items are included in the notes to the financial statements of Dom Development S.A.

3. Introduction and Notes to the Financial Statement

The Company prepared additional information consisting of introduction and notes to the financial statements, which meets the disclosure requirements of International Financial Reporting Standards.

The financial data presented therein is consistent with the accounting records and the audited financial statements.

4. Statement of Changes in the Shareholders equity

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

5. Cash flow statement

Cash flow statement is consistent with the balance sheet, profit and loss account and accounting records.

6. Directors' Report

In compliance with the article 49 of Accounting Act, The Code of Commercial Partnerships and regulation of the Minister's of Finance Decree of 19 October 2005 on the current and

periodic information submitted by the issuers of securities the management prepared the Directors' Report.

The information contained in the report on the activities is compliant with the information contained in the audited financial statements of the Company for 2006.

7. Management's Declaration

The management of the Company submitted a written statement on a complete account of data in the books of account, all the contingent liabilities and all significant post-balance sheet events.

Warszawa, 8 March 2007

BDO Numerica Sp. z o.o.
ul. Postępu 12
02-676 Warszawa
Nr ewidencyjny 523

The auditor conducting the audit:

Marcin Jagodziński
Polish Certified Auditor
Reg. No. 90042/7384

Acting on behalf of
BDO Numerica Sp z o.o.:

dr André Helin
State Authorized
Public Accountant
Polish Certified Auditor 90004/502
President of BDO Numerica Sp. z o.o.