

## **CAPITAL GROUP**

**Dom Development S.A.  
Pl. Piłsudskiego 3  
00-078 Warsaw**

**Auditor's Opinion and Report  
on the Consolidated 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 the Supervisory Board of Dom Development S.A.**

We have audited the enclosed consolidated financial statements of Dom Development S.A. Capital Group prepared in accordance with International Financial Reporting Standards (IFRS), in which the holding company is Dom Development S.A. with its registered office at pl. Piłsudskiego 3 in Warsaw, consisting of:

- introduction to the consolidated financial statements;
- consolidated balance sheet prepared as at 31 December 2006, showing total assets and liabilities of PLN 923,923,143.82;
- consolidated the profit and loss account for the period from 1 January 2006 until 31 December 2006, showing a net profit of PLN 135,198,656.47;
- statement of changes in the consolidated shareholders' equity, showing the increase of shareholders' equity by PLN 358,471,229.57;
- consolidated cash flow statement for the period from 1 January 2006 to 31 December 2006, showing a net cash increase by PLN 153,697,656.55;
- notes to the financial statements.

The Management Board of the holding company is responsible for preparing these consolidated financial statements.

Our responsibility was to audit the consolidated financial statements and to express the opinion on the reliability, regularity and clarity of these consolidated financial statements.

We conducted our audit in accordance with:

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

We planned and conducted the audit of the consolidated financial statements in such a manner as to achieve 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 consolidated 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 consolidated financial statements.

The basis for preparing the consolidated financial statements in accordance with International Financial Reporting Standards for the period 1 January 2006 – 31 December 2006 were standalone financial statements of the companies constituting Dom Development S.A. Capital Group, prepared in accordance with Polish Accounting Act and the financial statement of the parent Company Dom Development S.A. prepared in accordance with International Financial Reporting Standards. The standalone financial statements of the subsidiaries for 2006

prepared in accordance with the Accounting Act do not show significant differences in comparison with the standalone financial statements which would have been prepared in accordance with International Financial Reporting Standards. For purposes of the consolidated financial statements for 2006, the standalone financial statements of Fort Mokotów Sp. z o.o., a co-subsiary, prepared in accordance with the Accounting Act, has been transformed in accordance with International Financial Reporting Standards to comply with the accounting principles used by the holding company.

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

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

- give a true and fair view of the Dom Development S.A. Capital Group 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 and International Accounting 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 binding The Capital Group influencing the contents of the consolidated financial statements.

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 consolidated financial statements.

Warsaw, 8 March 2007

**BDO Numerica Sp. z o.o.**  
**ul. Postępu 12**  
**02-676 Warsaw**  
**Registration no. 523**

**The auditor conducting the audit:**

**Marcin Jagodziński**  
Certified Auditor  
Identification 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.

## **CAPITAL GROUP**

**Dom Development S.A.  
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## **I. GENERAL INFORMATION**

### **1. Information on the holding company**

#### **1.1 Name and legal status**

Dom Development S.A.

#### **1.2 Registered office**

Pl. Piłsudskiego 3, 00-078 Warsaw

#### **1.3 Areas of activity**

In accordance with the register, the holding 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 the 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 the 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 share capital of Dom Development S.A. Capital Group 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 – as at 31 December shares of series H, I, J, L were not registered in the Registration Curt.

## **1.8 The Company's Management**

As at 31.12.2006 the holding 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 – Member of the Management Board
- Janusz Stolarczyk – Member of the Management Board

## **1.9 The Supervisory Board**

As at 31.12.2006 the holding Company's Supervisory Board comprised:

- Zygmunt Kostkiewicz – Chairman of the Supervisory Board
- Richard Lewis – Vice-Chairman of the Supervisory Board
- Stanisław Plakwicz – Member of the Supervisory Board
- Michael Cronk – Member of the Supervisory Board
- Markham Dumas – Member of the Supervisory Board
- Włodzimierz Bogucki – Member of the Supervisory Board

## **1.10 Employment**

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

## **2. Information about the related companies**

As at 31 December 2006 Dom Development S.A. Capital Group consisted of the following entities:

The holding company:

- Dom Development S.A.

Subsidiaries:

- Dom Development Morskie Oko Sp. z o.o.
- Dom Development Na Dolnej Sp. z o.o.
- Dom Development Zarządzanie Nieruchomościami Sp. z o.o.

Jointly-controlled entities:

- Fort Mokotów Sp. z o.o.

Associated entities:

- Dom Development Grunty Sp. z o.o.
- Przedsiębiorstwo Techniczno-Inwestycyjne Sp. z o. o.
- Towarzystwo Ubezpieczeń Wzajemnych „Bezpieczny Dom”

### **2.1 Holding company**

#### **Dom Development S.A.**

Registered office

Areas of activity

- Pl. Piłsudskiego 3  
00-078 Warsaw
  - construction and investments related to real estate,
  - construction of residential premises and the sale of such premises to natural and legal persons,
  - purchase, sale and manufacturing of raw materials, finished goods and industrial semi-products, in particular those connected with the construction industry,
  - export and import of all products, articles and technologies, in particular those connected with the construction industry,
  - providing advertising and consulting services,
  - conducting other activity and providing other services designated for the above-mentioned activities or related to them.

Nature of capital link

- Holding company



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Date of the financial statements	- 31.12.2006
Period of the financial statements	- 1.01.2006 – 31.12.2006
Balance sheet total (PLN)	- 856,488,330.50
Financial result (PLN)	- 115,938,956.66
Change in cash (PLN)	- 145,543,756.82
Entity authorized to audit the financial statements	- BDO Numerica Sp. z o.o.

## 2.2 Subsidiaries

### Dom Development Morskie Oko Sp. z o.o.

Registered offices	- Pl. Piłsudskiego 3, 00-078 Warsaw
Areas of activity	<ul style="list-style-type: none"> <li>• design as regards urban planning, architecture, and technology, as well as supervising design and contractor work,</li> <li>• executing general construction, construction and assembly work related to erecting buildings,</li> <li>• dismantling and demolition of civil engineering structures; earth work,</li> <li>• carrying out tests, expert opinions, opinions and technical analyses as regards construction industry,</li> <li>• fulfilling the function of the general contractor and investor of general construction work as regards engineering structures,</li> <li>• geodetic and cartographic activity related to the executed investment projects, together with post-execution measurements.</li> </ul>
Nature of capital link	- Subsidiary
Consolidation method	- Full
Shares ownership structure	- 100% of shares is held by Dom Development S.A.
Date of the financial statements	- 31.12.2006
Period of the financial statements	- 1.01.2006 – 31.12.2006
Balance sheet total (PLN)	- 1,969,381.74
Financial result (PLN)	- -153,628.96
Change in cash (PLN)	- -12,481,130.43
Entity authorized to conduct the audit	- BDO Numerica Sp. z o. o.
Opinion from the audit	- Opinion with explanatory paragraph

The auditor's opinion on the financial statements of Dom Development Morskie Oko Sp. z o. o. for the period 1 January 2006 – 31 December 2006 included the following explanatory paragraph:

„Without qualifying our opinion of the audited financial statements, we want to stress that there is an information included in the introduction in point 5 of the financial statements concerning the Company's operational continuity”.

### **Dom Development Na Dolnej Sp. z o.o.**

Registered offices	- Pl. Piłsudskiego 3, 00-078 Warsaw
Areas of activity	<ul style="list-style-type: none"> <li>• design as regards urban planning, architecture, and technology, as well as supervising design and contractor work,</li> <li>• executing general construction, construction and assembly work related to erecting buildings,</li> <li>• dismantling and demolition of civil structures; earth work,</li> <li>• carrying out tests, expert opinions, opinions and technical analyses as regards construction industry,</li> <li>• fulfilling the function of the general contractor and investor of general construction work,</li> <li>• geodetic and cartographic activity related to executed investment projects, together with post-execution measurements.</li> <li>• real estate management</li> </ul>
Nature of capital link	- Subsidiary
Consolidation method	- Full
Shares ownership structure	- 100% of shares is held by Dom Development S.A.
Date of the financial statements	- 31.12.2006
Period of the financial statements	- 1.01.2006 – 31.12.2006
Balance sheet total (PLN)	- 49,438.81
Financial result (PLN)	- -5,843.30
Change in cash (PLN)	- -30,778.37
Entity authorized to conduct the audit	- The entity is not subject to the obligation of the audit

### **Dom Development Zarządzanie Nieruchomościami Sp. z o.o.**

Registered offices	- Pl. Piłsudskiego 3, 00-078 Warsaw
Areas of activity	- Managing real estate on commission
Nature of capital link	- Subsidiary
Consolidation method	- Full
Shares ownership structure	- 100% of shares is held by Dom Development S.A.
Date of the financial statements	- 31.12.2006
Balance sheet total (PLN)	- 110,122.63
Financial result (PLN)	- -8,421.29
Change in cash (PLN)	- -116,506.53
Entity authorized to conduct the audit	- The entity is not subject to the obligation of the audit

## 2.3 Jointly-controlled entities

### Fort Mokotów Sp. z o.o.

Registered offices

- ul. Puławska 15, 02-515 Warsaw

Areas of activity

- design as regards urban planning, architecture, and technology, as well as supervising design and contractor work,
- executing general construction, construction and assembly work related to erecting buildings,
- dismantling and demolition of civil structures; earth work,
- carrying out tests, expert opinions, opinions and technical analyses as regards construction industry,
- fulfilling the function of the general contractor and investor of general construction work,
- geodetic and cartographic activity related to executed investment projects, together with post-execution measurements.
- sale of houses and residential premises
- advisory services as regards conducting business activity and management
- activity related to organizing fairs and exhibitions

Nature of capital link

- Jointly-controlled entity

Consolidation method

- Proportional method

Shares ownership structure

- 49% of shares is held by Dom Development S.A.

Date of the financial statements

- 31 December 2006

Balance sheet total (PLN) \*

- 133,912,491.86

Financial result (PLN) \*

- 89,669,377.93

Change in cash (PLN) \*

- 42,412,887.88

Entity authorized to conduct the audit

- Ernst & Young Audit Sp. z o. o.

Opinion from the audit

Opinion with explanatory paragraph

*\* As per the separate financial statements audited by Ernst & Young Audit Sp. z o. o., which were subsequently restated for the purpose of consolidation.*

"Without qualifying our opinion, we draw your attention to the fact, that three cases are being considered together by the Voivodship Administrative Court and in the Supreme Administrative Court as regards the "Marina Mokotów" project undertaken by the Company. The Company has assessed the risk arising out of these cases as low and has created no related provisions in its financial statements for the year 2005. However, should the outcome of the cases be unfavorable for the Company, it may face negative financial consequences which cannot be assessed as at the date of this opinion. These cases are presented in more detail in Note 41 of the additional notes to the financial statements for the year ended on 31 December 2006".

## 2.4 Associated entities

### Dom Development Grunty Sp. z o.o.

Registered offices	- Plac Piłsudskiego 3, 00-078 Warsaw
Areas of activity	<ul style="list-style-type: none"> <li>• Construction</li> <li>• Development and sale of own real estate</li> <li>• Buying and selling of own real estate</li> <li>• Real estate activities on a contract basis</li> </ul>
Nature of capital link	- Associated entity
Consolidation method	- Equity method
Shares ownership structure	- 46% of shares is held by Dom Development S.A.
Date of the financial statements	- 31 December 2006
Balance sheet total (PLN)	- 33,464,895.99
Financial result (PLN)	- -8,067.94
Change in cash (PLN)	- -1,606,565.34
Entity authorized to conduct the audit	- The entity is not subject to the obligation of the audit

### Przedsiębiorstwo Techniczno-Inwestycyjne Sp. z o.o.

Registered offices	- ul. Żurawia nr 32/34, 00-515 Warsaw
Areas of activity	In 2006 the Company did not start the activity described in the National Court Register (KRS)
Nature of capital link	- Associated entity
Consolidation method	- Full
Shares ownership structure	- 48% of shares is held by Dom Development S.A. and 12% of shares is held by Dom Development Grunty Sp.
Date of the financial statements	- 31 December 2006
Balance sheet total (PLN)	- 33,772.86
Financial result (PLN)	- -18,481.08
Change in cash (PLN)	- 26,481.79
Entity authorized to conduct the audit	- The entity is not subject to the obligation of the audit

### Towarzystwo Ubezpieczeń Wzajemnych „Bezpieczny Dom”

Registered offices	- Ul. Żurawia nr 32/34, 00-515 Warsaw
Areas of activity	Insurance activity, as specified in group 16 division 2
Nature of capital link	- Associated entity
Consolidation method	- Equity method
Shares ownership structure	- 49.26% of shares is held by Dom Development S.A.. a 4.93% of shares is held by Fort Mokotów Sp. z o. o.
Balance sheet total (PLN)	- 3,903,516.99
Financial result (PLN)	- 167,250.79
Change in cash (PLN)	- -12,183.16

Date of the financial statements	- 31 December 2006
Entity authorized to conduct the audit	- Agencja Konsultingu i Auditingu Gospodarczego „Accord’ab” Sp. z o. o.
Opinion from the audit	- Opinion with explanatory paragraph

The auditor's opinion on the financial statements of Towarzystwo Ubezpieczeń Wzajemnych „Bezpieczny Dom” for the period 1 January 2006 – 31 December 2006 included the following explanatory paragraph: „Giving an unqualified opinion about correctness and reliability of the audited financial statements, we would like to draw the reader's attention to the fact that Towarzystwo offers only one unreinsured product and portfolio of correlated risks with specific features”.

## **2.5 Entities excluded from consolidation**

All the entities which form the capital group have been included in the consolidated financial statements. Towarzystwo Ubezpieczeń Wzajemnych „Bezpieczny Dom”, Przedsiębiorstwo Techniczno - Inwestycyjne Sp. z o. o. and Dom Development Grunty Sp. z o. o. was consolidated according to equity method.

## **3. Information on the audited consolidated financial statements**

We have audited the consolidated financial statements of the Dom Development S.A. Capital Group prepared in accordance with IFRS for the period from 1 January 2006 to 31 December 2006, consisting of:

- introduction to the consolidated financial statements;
- consolidated balance sheet prepared as at 31 December 2006, showing total assets and liabilities of PLN 923,923,143.82;
- consolidated profit and loss account for the period from 1 January 2006 until 31 December 2006, showing a net profit of PLN 135,198,656.47;
- statement of changes in the consolidated shareholders' equity, showing the increase of shareholders' equity by PLN 358,471,229.57;
- consolidated cash flow statement for the period from 1 January 2006 to 31 December 2006, showing a net cash increase by PLN 153,697,656.55;
- notes to the financial statements.

## **4. Information on 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.

## **5. Information on the consolidated financial statements for the previous year**

The consolidated financial statements prepared in accordance with IFRS for the period 1 January 2005 – 31 December 2005 were audited by BDO Polska Sp. z o.o. and were given an unqualified opinion.

The consolidated financial statements of Dom Development S.A for the period 1 January 2005 – 31 December 2005 were approved by Resolution of the Shareholders' Meeting.

The consolidated financial statements for 2005 were submitted to the Registration Court and published in Monitor Polski B no. 833 item 4774.

## **II. FINANCIAL ANALYSIS**

Below are presented selected consolidated profit and loss account and consolidated balance sheet items as well as key financial ratios.

### **1. Comparability of data**

Below, selected values from the profit and loss account, balance sheet and basic financial ratios have been presented. The data meet the requirements of comparability.

## 2. Consolidated balance sheet

	31.12.2006	% of balance sheet total	31.12.2005	% of balance sheet total
<b>ASSETS</b>				
<b>Fixed assets</b>	<b>17,045,696.62</b>	<b>1.8%</b>	<b>20,154,161.23</b>	<b>3.4%</b>
Intangible fixed assets	730,169.87	0.1%	394,040.02	0.1%
Tangible fixed assets	5,534,553.46	0.6%	7,265,349.21	1.2%
Investments in associated entities	841,053.08	0.1%	559,044.00	0.1%
Deferred income tax assets	7,517,265.14	0.8%	9,872,247.93	1.7%
Long-term receivables	1,517,905.36	0.2%	927,730.36	0.2%
Long-term deferred costs	904,749.71	0.1%	1,135,749.71	0.2%
<b>Current assets</b>	<b>906,877,447.20</b>	<b>98.2%</b>	<b>566,232,332.26</b>	<b>96.6%</b>
Inventory	594,864,513.45	64.4%	396,650,227.86	67.6%
Trade and other receivables	60,807,971.57	6.6%	43,422,831.66	7.4%
Other current assets	23,669,995.65	2.6%	52,321,962.76	8.9%
Cash and cash equivalents	227,534,966.53	24.6%	73,837,309.98	12.6%
<b>TOTAL ASSETS</b>	<b>923,923,143.82</b>	<b>100.0%</b>	<b>586,386,493.49</b>	<b>100.0%</b>
<b>EQUITY AND LIABILITIES</b>				
<b>Shareholders' equity</b>	<b>491,881,942.28</b>	<b>53.2%</b>	<b>133,410,712.71</b>	<b>22.8%</b>
Share capital	24,050,372.00	2.6%	21,854,340.00	3.7%
Share premium less treasury shares	230,370,719.33	24.9%	10,819,818.87	1.8%
Reserve capital from valuation of share options	1,505,790.64	0.2%	-	0.0%
Other capital (supplementary capital)	79,301,372.18	8.6%	53,403,253.44	9.1%
Reserve capital from reducing the share capital	509,850.00	0.1%	-	0.0%
Accumulated, unappropriated profit	156,143,838.13	16.9%	47,333,300.40	8.1%
<b>Long-term liabilities</b>	<b>154,814,177.94</b>	<b>16.8%</b>	<b>166,877,570.15</b>	<b>28.5%</b>
Long-term loans and borrowings	22,200,000.00	2.4%	78,332,948.91	13.4%
Deferred tax liability	52,004,236.25	5.6%	34,977,411.19	6.0%
Bonds	80,000,000.00	8.7%	50,000,000.00	8.5%
Other	609,941.69	0.1%	3,567,210.05	0.6%
<b>Short-term liabilities</b>	<b>277,227,023.60</b>	<b>30.0%</b>	<b>286,098,210.63</b>	<b>48.8%</b>
Trade payables and other liabilities	143,801,348.56	15.6%	134,885,296.23	23.0%
Short-term loans and borrowings	98,915,383.99	10.7%	107,035,211.89	18.3%
Short-term tax liabilities	638,501.42	0.1%	1,884,426.38	0.3%
Short-term provisions	3,663,773.99	0.4%	4,377,880.98	0.7%
Accrued liabilities and deferred income	30,208,015.64	3.3%	37,915,395.15	6.5%
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>923,923,143.82</b>	<b>100.0%</b>	<b>586,386,493.49</b>	<b>100.0%</b>



### **3. Profit and loss account**

	<b>Year ending 31.12.06</b>	<b>Change %</b>	<b>Year ending 31.12.05</b>
Sales revenues	729,816,267.55	35.9%	537,165,772.66
Cost of sales	496,870,869.09	21.9%	407,673,964.64
<b>Gross profit on sales</b>	<b>232,945,398.46</b>	79.9%	<b>129,491,808.02</b>
Selling costs	21,669,004.60	0.5%	21,570,600.20
General administrative expenses	41,291,638.68	29.4%	31,904,331.11
Other operating income	5,730,671.97	51.6%	3,780,142.99
Other operating expenses	10,757,377.76	29.8%	8,289,384.52
<b>Operating profit</b>	<b>164,958,049.39</b>	130.7%	<b>71,507,635.18</b>
Financial income	7,152,224.62	88.2%	3,801,320.14
Financial costs	4,337,407.39	-59.3%	10,646,880.22
<b>Profit before tax</b>	<b>167,772,866.62</b>	159.5%	<b>64,662,075.10</b>
Income tax expense	32,574,210.15	160.3%	12,511,959.45
<b>Profit after tax</b>	<b>135,198,656.47</b>	159.2%	<b>52,150,115.65</b>

#### **4. Key financial ratios**

		<b>01.01.06 - 31.12.06</b>	<b>01.01.05 - 31.12.05</b>
<b>Return on assets</b>	<u>net financial result</u> total assets	14.6%	8.9%
<b>Return on equity</b>	<u>net financial result</u> equity	27.5%	39.1%
<b>Net sales profitability</b>	<u>net financial result</u> revenues from sales	18.5%	9.7%
<b>Current ratio</b>	<u>total current assets</u> short-term liabilities	3.3	2.0
<b>Quick ratio</b>	<u>total current assets - inventories</u> short-term liabilities	1.1	0.6
<b>Receivables days</b>	<u>average net trade receivables*) x 360 days</u> revenues from sales	26	72
<b>Payables days</b>	<u>average trade liabilities*) x 360 days</u> operating expenses	90	83
<b>Inventory days</b>	<u>average inventories*) x 360 days</u> costs of sales	359	287
<b>Book value per one share</b>	<u>shareholders' equity</u> number of shares	20.5	6.1
<b>Net financial result per one share</b>	<u>financial result for the last 12 months</u> number of shares	5.6	2.4

\*) 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.

## **5. Interpretation of ratios and general financial position**

The analysis of consolidated financial statements 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 98.2% of the consolidated balance sheet total and as at 31 December 2005 they had amounted to 96.6%. The main reason for the change was a three times increase of short term investments caused mainly by the shares issue which occurred in the second half of 2006. The inventories remained at a high level.

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 by about 3%.

The Group in 2006 generated higher margins as compared to 2005 (in 2006 average margins amounted to 47% while in 2005 they amounted to 32%). There was an increase of operating revenues by 35.9%, while the value of goods and materials sold increased by 21.9%. That favourable trend resulted in almost two times higher level of the gross profit from sales, which amounted to PLN 232,945,398.46.

The net profit generated by the Group in 2006 was almost two and a half 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 Group's ability to utilize its resources to generate profits amounted in 2006 to 14.6%. Similarly the net sales profitability ratio improved from 9.7 in 2005 to 18.5% in 2006. The Company is characterized by high return on equity, which decreased from the level of 39.1% in 2005 to 27.5% in 2006.

Liquidity ratios also improved and remain above the level recommended by relevant standards.

Proportions of the ratios describing efficiency of operation changed – the receivables days shortened whereas the payables days extended. The stock turnover ratio increased from 287 days in 2005 to 359 days in 2006. This was due to the fact that the Group made disproportionate purchases in comparison to its business expansion. Material increase of the ratio results also from the long-lasting production cycle. As the Group 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 Group do not indicate any threat to its operational continuity.

### **III DETAILED INFORMATION**

#### **1. Method used in consolidation of the financial statements**

##### **1.1 Accounting principles (policy)**

The accounting principles used by the Capital Group have been discussed in the Introduction to the Financial Statements.

##### **1.2 Consolidation methods**

The subsidiaries were consolidated based on the full consolidation method, the jointly owned subsidiary based on proportional consolidation method, whereas the associated entities based on the equity method.

According to IAS 31 "Interests in Joint Ventures", point 32 "When recognizing an interest in jointly controlled entity, it is essential that a venturer reflects the substance and economic reality of the arrangement, rather than the joint venture's particular structure or form". On the basis of mentioned regulations the Company considered Fort Mokotów Sp. z o.o. as a joint venture and consolidated it using percentage method.

According to the Company's Deed the shareholders are PKO Inwestycje S.A. and Dom Development S.A.; they shares in stated capital and voting rights are adequately 51% and 49%.

The Management Board of Fort Mokotów Sp. z o.o. consists of 4 persons; the President and one member are recommended by PKO Inwestycje S.A and 2 other members are recommended by Dom Development S.A. The Management Board's resolutions are taken with absolute majority of votes and at least 3 members have to vote positively. In some key cases regarding statutory issues the Management Board's resolutions demands unanimity of all members.

The Supervisory Board composes of 5 person, 3 of the recommends PKO Inwestycje S.A and 2 of them recommends Dom Development S.A.

##### **1.3 The methods used to calculate and write down goodwill on consolidation and negative goodwill on consolidation**

As at 31 December 2005 Dom Development is the sole owner of the companies Dom Development Na Dolnej Sp. z o.o., Dom Development Morskie Oko Sp. z o.o., Dom Development Zarządzanie Nieruchomościami Sp. z o.o. and a co-owner (share of 49%) of Fort Mokotów Sp. z o.o. Because both subsidiaries and co-dependent entity were recorded in financial assets of Dom Development S.A. at net capital value, there is no goodwill or negative goodwill on consolidation in the consolidated financial statements.

##### **1.4 The methods used to consolidate capital and determine minority capital**

The share capital of the Group is the share capital of the holding company.

Only those portions of the corresponding components of the subsidiaries' equities that have been created since the date on which the holding company began to exercise control over the subsidiaries have been included in the equity of the group.

The equity of the group was adjusted by the value of the holding company's share in the financial results of the associated companies included in the consolidated financial statements.

Because the subsidiary companies are fully owned by Dom Development S.A., the consolidated financial statements include no items relating to minority shareholders. Przedsiębiorstwo Techniczno – Inwestycyjne Sp. z o. o. and Towarzystwo Ubezpieczeń Wzajemnych „Bezpieczny Dom” were consolidated according to equity method.

### **1.5 The methods used to prepare the consolidated financial statements**

The consolidated financial statements for the period from 1 January 2006 to 31 December 2006 have been prepared in accordance with International Financial Reporting Standards.

The consolidated financial statements in accordance with International Financial Reporting Standards have been prepared on the basis of the financial statements of the companies making up the Group prepared in accordance with the Accounting Act and the financial statements of the holding company prepared in accordance with International Financial Reporting Standards and presented as if the Group constituted a single entity.

The holding company and the subsidiary companies were consolidated using full consolidation method. The jointly owned subsidiary was consolidated based on proportional consolidation method and the associated companies have been recorded in the financial statements using equity accounting. Towarzystwo Ubezpieczeń Wzajemnych „Bezpieczny Dom” and Przedsiębiorstwo Techniczno – Inwestycyjne Sp. z o. o. were consolidated with the equity method.

Because the subsidiary companies are fully owned by Dom Development S.A., the consolidated financial statements include no items relating to minority shareholders.

Adjustments were made in the consolidated financial statements with regard to the revenue, costs and settlements relating to transactions carried out between the holding company and the subsidiaries and co-subsidiaries.

The consolidated cash flow statement for the year 2005 contains the cash flow statements of the holding company and the subsidiaries and the co-subsidiary, with appropriate consolidation adjustments relating to mutual transactions.

Explanations and material data contained in the notes to the consolidated financial statement prepared in accordance with IFRS present in a true and fair manner all information material for the evaluation of the profitability and financial position, as well as the financial result of the Capital Group.

The principles and methods used in the valuation of assets and liabilities, and in the determination of the financial result, presented in the notes to the consolidated financial

statements, are consistent with the methods adopted by the individual companies comprising the Group.

## **1.6 Consolidation Documentation**

The holding company prepared the consolidation documentation including:

- the financial statements of the consolidated entities;
- specification of adjustments and exclusions made during the consolidation;
- calculation of the fair value of the net assets of the subsidiaries.

## **2. Introduction to the Consolidated Financial Statements and Notes to the Financial Statements**

Dom Development S.A. prepared additional information consisting of introduction and notes to the consolidated financial statements.

The data contained in the additional information have been presented completely and correctly.

## **3. Specification of Changes in the Consolidated Shareholders' Equity**

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

## **4. The Consolidated Cash Flow Statement**

The consolidated cash flow statement has been prepared by:

- adding the corresponding items of the cash flows of the subsidiaries included in the consolidated financial statements,
- making consolidation adjustments consisting of excluding the cash flow between the companies included in the consolidated financial statements.

## **5. Declaration of the Management of the Holding Company**

The management of the holding company of Dom Development S.A. submitted a written declaration on the complete account of the data in the books of account, all the contingent liabilities and all significant post-balance sheet events.

Warsaw, 8 March 2007

**BDO Numerica Sp. z o.o.  
ul. Postępu 12  
02-676 Warsaw  
Registration no. 523**

**The auditor conducting the audit:**

**Marcin Jagodziński**  
Certified Auditor  
Identification 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.

## **List of appendices**

**APPENDIX NO. 1 - CONTROL LIST – GOODWILL, NEGATIVE GOODWILL IN THE CONSOLIDATED FINANCIAL STATEMENTS**

**APPENDIX NO. 2 - CONTROL LIST – FINANCIAL RESULT OF THE CAPITAL GROUP**

**APPENDIX NO. 3 - CONTROL LIST OF CAPITALS**



**GOODWILL, NEGATIVE GOODWILL IN THE CONSOLIDATED FINANCIAL STATEMENT**

There is no goodwill or negative goodwill on consolidation In the consolidated financial statement.

**Appendix No. 2**

**THE GROUP'S FINANCIAL RESULT**

<b>The holding Company's financial result for 2006</b>	<b>115,938,956.66</b>
<b>Dom Development Morskie Oko Sp. z o.o.</b>	<b>450,972.59</b>
- financial result for 2006 of Dom Development Morskie Oko Sp. z o. o.	-153,628.96
- adjustment for sales invoices issued in 2006	-116,908.96
- adjustment for intra group operating costs in 2006	125,704.36
- adjustment of provision for receivables from Dom Development S.A.	233,671.46
- adjustment of deferred tax assets	349,805.00
- other	12,329.69
<b>Dom Development Na Dolnej Sp. z o.o.</b>	<b>-1,110.00</b>
- financial result for 2006 Dom Development Na Dolnej Sp. z o. o.	-5,843.30
- other	4,733.30
<b>Dom Development Zarządzanie Nieruchomościami Sp. z o. o.</b>	<b>-1,600.00</b>
- financial result for 2006 Dom Development Zarządzanie Nieruchomościami Sp. z o. o.	-8,421.29
- other	6,821.29
<b>Fort Mokotów Sp. z o.o. (after changes in financial statement in accordance with accounting policy of the holding Company)</b>	<b>18,813,620.22</b>
- financial result for 2006 (49%) Fort Mokotów Sp. z o. o.	34,232,960.12
- adjustment for intra group sales invoices issued in 2006	-4,952,274.19
- adjustment for intra group operating costs in 2006	3,503,678.24
- adjustment for dividend received from Fort Mokotów Sp. z o. o.	-14,245,976.95
- adjustment for deferred tax assets	275,233.00
<b>Towarzystwo Ubezpieczeń Wzajemnych "Bezpieczny Dom"</b>	<b>-2,183.00</b>
- adjustment of provision for financial assets	-2,183.00
<b>The Group's financial result for 2006</b>	<b>135,198,656.47</b>

### Appendix no. 3

#### CONTROL LIST OF CAPITALS

**The holding company's equity as at 31 December 2006** **451,677,060.77**

**The equity of the subsidiary Morskie Oko Sp. z o. o. as at 31 December 2006** **43,280.09**

**Adjustments:** **14,762.41**

- share capital	-50,000.00
- additional payments to capital made by the holding company for covering the loss from previous years	-146,909.05
- adjustment of prior years	-392,930.09
- adjustment of current year	604,601.55

**The equity of the subsidiary Dom Development Na Dolnej Sp. z o. o. as at 31 December 2006** **31,699.03**

**Adjustments:** **-35,176.03**

- share capital	-50,000.00
- adjustment of prior years	10,090.67
- adjustment of current year	4,733.30

**The equity of the subsidiary Dom Development Zarządzanie Nieruchomościami Sp. z o. o. as at 31 December 2006** **88,030.22**

**Adjustments:** **-90,304.17**

- share capital	-100,000.00
- adjustment of prior years	2,874.54
- adjustment of current year	6,821.29

**The equity of the joint venture Fort Mokotów Sp. z o. o. as at 31 December 2006 (after changes in financial statement in accordance with accounting policy of the holding Company)** **46,875,823.11**

**Adjustments:** **-6,726,877.15**

- share capital	-1,960,000.00
- adjustment of prior years	-3,593,514.20

- adjustment of current year	-15,419,339.90
- adjustment of dividend received from Fortu Mokotów Sp. z o. o.	14,245,976.95
<b>Towarzystwo Ubezpieczeń Wzajemnych "Bezpieczny Dom"</b>	<b>3,644.00</b>
<b>Adjustments:</b>	
- adjustment of provision for financial assets	3,644.00
<b>The Group's equity as at 31 December 2006</b>	<b>491,881,942.28</b>