

CAPITAL GROUP DOM DEVELOPMENT S.A.

**LONG-FORM AUDITORS' REPORT
ON THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2012**

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 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 2012, the Company's issued share capital amounted to 24 715 thousand zlotys. Equity as at that date amounted to 892 401 thousand zlotys.

Based on the information included in Director's Report as well as current reports published by holding company, as at 31 December 2012, the ownership structure of the holding company's issued share capital was as follows:

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	Number of shares	Number of votes	Par value of 1 share	% of issued share capital
Dom Development B.V.	15 206 172	15 206 172	1,00	61,53%
Jarosław Szanajca	1 534 050	1 534 050	1,00	6,21%
Aviva Otwarty Fundusz Emerytalny Aviva BZ				
WBK	1 313 383	1 313 383	1,00	5,31%
Grzegorz Kielpisz	1 280 750	1 280 750	1,00	5,18%
Other shareholders	5 380 917	5 380 917	1,00	21,77%
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Total	24 715 272	24 715 272	-	100%
	=====	=====	=====	=====

In accordance with National Court Register dated 22 February 2012 the share capital of the Company amounted to 24 715 thousand zlotys. In current financial year and as the date of this opinion the following changes have taken place in the structure of the share capital of the Company:

On 20 June 2012 the Management of the Company has adopted a resolution to increase the share capital of the Company from the current amount of 25 560 thousand zlotys to 24 670 thousand zlotys, through issuance of 110 175 series "Ł" ordinary shares.

On 12 March 2012, The District Court for the Capital City of Warsaw in Warsaw, has registered the increase in share capital of the Company through the issuance of 110 175 series "Ł" ordinary shares. The issuance of series "Ł" shares was based on private subscription, which was directed towards the participants of the Programme II of the Management Option Programme (Program II Opcji Menedżerskich).

The Management Board of the Company, based on a resolution dated 9 August 2012 which was amended on 11 September 2012, has increased the share capital of the Company from the current amount 24 670 thousand zlotys to 24 715 thousand zlotys, through issuance of 24 875 series "M" ordinary shares and 20 000 series "N" ordinary shares.

On 3 October 2012, The District Court for the Capital City of Warsaw in Warsaw, has registered the increase in share capital of the Company described in the paragraph above. The issuance of series "M" and "N" shares was based on private subscription, which was directed towards the participants of the Programme II of the Management Option Programme (Program II Opcji Menedżerskich).

On 21 January 2013, the Management Board of Dom Development S.A. has adopted a resolution regarding the increase of the share capital of the Company, through issuance of series "O" shares under share capital from the current amount of 24 715 thousand zlotys to 24 741 thousand zlotys, which is the increase of 26 thousand zlotys, through the issuance of 26 thousand of series "O" ordinary shares. The issue of series "O" shares was based on private subscription, targeted towards participants of the Programme II of the Management Option Programme (Program II Opcji Menedżerskich). These shares have not been registered by the Court Registry.

Movements in the issued share capital of the Company in the financial year were as follows:

	Number of shares [thousand]	Par value of shares
Opening balance	24 560	1,00
Increase in share capital	155	1,00
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Closing balance	24 715	-
	=====	=====

As at 26 February 2013, 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 holding company's Management Board 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 2012, the Dom Development S.A Group consisted of the following subsidiaries (direct or indirect):

Entity name	Consolidation 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 December 2012
Dom Development Grunty Sp. z o.o.	Purchase accounting	Not applicable	Not applicable	31 December 2012

As at 31 December 2012 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. w likwidacji	Proportionate consolidation	Not applicable	Not applicable	31 December 2012

There were no 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 the Supervisory Board on 29 March 2012 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 with subsequent amendments).

Under the contract executed on 31 May 2010 with the holding company's Management Board, we have audited the consolidated financial statements for the year ended 31 December 2012.

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 26 February 2013, stating the following:

“To the Supervisory Board 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 2012 containing, the consolidated balance sheet as at 31 December 2012, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity, the consolidated cash flow statement for the period from 1 January 2012 to 31 December 2012 and the summary of significant accounting policies and additional notes to the consolidated financial statements ('the attached consolidated financial statements').
2. The truth and fairness¹ 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

¹ Translation of the following expression in Polish: 'rzetelność i jasność'

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 fairly² 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 2012 to 31 December 2012, as well as its financial position³ as at 31 December 2012;
 - 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 Director’s Report for the period from 1 January 2012 to 31 December 2012 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 the Directors’ Report. The information included in the Directors’ Report corresponds with the relevant regulations of the Decree of the Minister of Finance dated 19 February 2009 on current and periodic information published by issuers of securities and conditions for recognition as equivalent the information required by laws of non-EU member states (Journal of Laws No. 33, item 259 with subsequent amendments).”

We conducted the audit of the consolidated financial statements during the period from 19 November 2012 to 30 November 2012 and 4 February 2013 to 22 February 2013. We were present at the Company’s head office from 19 November 2012 to 30 November 2012 and from 4 February 2013 to 22 February 2013.

² Translation of the following expression in Polish: ‘rzetelne i jasne’

³ Translation of the following expression in Polish: ‘sytuacja majątkowa i finansowa’

3.2 Representations provided and data availability

The Management Board of the holding company confirmed its responsibility for the truth and fairness 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 26 February 2013, 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.

At the same time declare that during the audit of the financial statements, there were no limitations of scope.

3.3 Consolidated financial statements for prior financial year

The consolidated financial statements of the Group for the year ended 31 December 2011 were audited by Jarosław Dac, key certified auditor no. 10138, acting on behalf of Ernst & Young Audit sp. z o.o. with its registered office in Warsaw, at Rondo ONZ 1. The key certified auditor issued an unqualified opinion on the consolidated financial statements for the year ended 31 December 2011. The consolidated financial statements for the year ended 31 December 2011 were approved by the General Shareholders' Meeting on 23 May 2012.

The consolidated financial statements of the Group for the financial year ended 31 December 2011, together with the auditors' opinion, a copy of the resolution approving the consolidated financial statements and the Directors' Report, were filed on 30 May 2012 with the National Court Register.

The consolidated balance sheet as at 31 December 2011, the consolidated profit and loss account, the statement of changes in consolidated equity and the consolidated cash flow statement for the year ended 31 December 2011, together with the auditors' opinion and a copy of the resolution approving the financial statements were published in Monitor Polski B No. 1667 on 7 August 2012.

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 2010 – 2012. The ratios were calculated on the basis of financial information included in the financial statements for the years ended 31 December 2011 and 31 December 2012.

The ratios for the year ended 31 December 2012, for the year ended 31 December 2011 and for the year ended 31 December 2010 were calculated on the basis of financial information included in the approved consolidated financial statements for the year ended 31 December 2011 and in the approved consolidated financial statements for the year ended 31 December 2012, that were audited by us.

	2012	2011	2010
Total assets	1 759 690	1 916 100	1 623 749
Shareholders' equity	892 401	835 069	773 380
Net profit/ loss	91 233	82 123	40 480
Return on assets (%)			
$\frac{\text{Net profit} \times 100}{\text{Total assets}}$	5,2%	4,3%	2,5%
Return on equity (%)			
$\frac{\text{Net profit} \times 100}{\text{Shareholders' equity at the beginning of the period}}$	10,9%	10,6%	5,4%
Profit margin (%)			
$\frac{\text{Net profit} \times 100}{\text{Sales of finished goods, goods for resale and raw materials}}$	10,7%	14,2%*	7,9%
Liquidity I			
$\frac{\text{Current assets}}{\text{Short-term creditors}}$	4,2	2,5	3,7
Liquidity III			
$\frac{\text{Cash and cash equivalents}}{\text{Short-term creditors}}$	0,4	0,5	1,0

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	2012	2011	2010
Debtors days			
Trade debtors x 365	10 days	27 days	28 days
Sales of finished goods, goods for resale and raw materials			
Creditors days			
Trade creditors x 365	59 days	161 days*	91 days
Costs of finished goods, goods for resale and raw materials sold			
Inventory days			
Inventory x 365	736 days	1 378 days*	1 063 days
Costs of finished goods, goods for resale and raw materials sold			
Stability of financing (%)			
(Equity + long-term provisions and liabilities) x 100	76,4%	60,3%	73,2%
Total liabilities, provisions and equity			
Debt ratio (%)			
(Total liabilities and provisions) x 100	49,3%	56,4%	52,4%
Total assets			
Rate of inflation:			
Yearly average	3,7%	4,3%	2,6%
December to December	2,4%	4,6%	3,1%

* change results from modification of presentation of revenues from recharges.

4.2 Comments

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

- return on asset ratio reached 5,2% in the year 2012 and was higher than in the year 2011 and 2010 when it reached 4,3% and 2,5% respectively,
- return on equity ratio reached 10,9% in the year 2012 and was higher than in the year 2011 and 2010 when it reached 10,6% and 5,4% respectively,
- profit margin ratio amounted to 10,7% in the year 2012 and was lower than in the year 2011 when it reached 14,2% and higher than in 2010 when it amounted to 7,9%,

- liquidity ratio I leveled at 4,2 in the year 2012, for comparison in the year 2011 and 2010 it leveled at 2,5 and 3,7 respectively,
- liquidity ratio III attained 0,4 in the year 2012 and was lower than in the year 2011 and 2010 when it attained 0,5 and 1,0 respectively,
- debtors days ratio reached 10 days in the year 2012, for comparison in the year 2011 and 2010 it reached 27 days and 28 days respectively,
- creditors days ratio decreased in the year 2012 in relation to the year 2011 and amounted to 59 days, for comparison in the year 2011 it amounted to 161 days and in the year 2010 it amounted to 91 days,
- inventory days ratio for the year 2012 leveled at 736 days and was lower than in the year 2011 and in the year 2010 when it reached 1 378 days and 1 063 days respectively,
- stability of financing ratio amounted to 76,4% as at 31 December 2012 and was higher than in the year 2011 and 2010 when it amounted to 60,3% and 73,2% respectively,
- debt ratio decreased in comparison to the year 2011 and 2010 and as at 31 December 2012 it amounted to 49,3%, for comparison debt ratio amounted to 56,4% as at 31 December 2011 and to 52,4% as at 31 December 2010.

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 2012 as a result of an intended or compulsory withdrawal from or a substantial limitation in its current operations.

In Note 7.3 of the additional notes and explanations to the audited consolidated financial statements for the year ended 31 December 2012, 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 the companies operating within the Group will continue as a going concern in the foreseeable future. No circumstances that would indicate that there is a threat to the continued activity of the Group are known as at the date of the approval of these consolidated financial statements.

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 7.3 and note 7.5 of the additional notes and explanations to the Group's consolidated financial statements for the year ended 31 December 2012.

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 2012.

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 621 thousand zlotys as at 31 December 2012. It was correctly calculated and is consistent with the consolidation documentation.

Information on shareholders' funds has been presented in note 7.17 and note 7.45 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 2012 and include the financial data for the period from 1 January 2012 to 31 December 2012.

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 2012.

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 2012 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 2012 to 31 December 2012 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 the Directors' Report. The information included in the Directors' Report corresponds with the relevant regulations of the Decree of the Minister of Finance dated 19 February 2009 on current and periodic information published by issuers of securities and conditions for recognition as equivalent the information required by laws of non-EU member states (Journal of Laws No. 33, item 259 with subsequent amendments).

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.

on behalf of
Ernst & Young Audit sp. z o.o.
Rondo ONZ 1, 00-124 Warsaw
Reg. No 130

Key Certified Auditor

Jarosław Dac
certified auditor
no. 10138

Warsaw, 26 February 2013