

**DOM DEVELOPMENT S.A.**

**LONG-FORM AUDITORS' REPORT  
ON THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2013**

## **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 (Journal of Laws 2013.330 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:

- real estate construction, investments and sale of real estates,
- 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 2013, the Company's issued share capital amounted to 24 753 thousand zlotys. Equity as at that date amounted to 856 541 thousand zlotys.

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Based on the information included in Director's Report as well as current reports published by holding company, as at 31 December 2013, the ownership structure of the holding company's issued share capital was as follows:

	Number of shares	Number of votes	Par value of 1 share	% of issued share capital
Dom Development B.V.	14 726 172	14 726 172	1,00	59.49%
Jarosław Szanajca	1 534 050	1 534 050	1,00	6.20%
Grzegorz Kielpsz	1 280 750	1 280 750	1,00	5.17%
Aviva Otwarty Fundusz				
Emerytalny Aviva BZ	1 313 383	1 313 383	1,00	5.31%
WBK				
Other shareholders	5 898 842	5 898 842	1,00	23.83%
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Total	24 753 197	24 753 197	-	100%
	=====	=====	=====	=====

In accordance with National Court Register dated 25 February 2014 the share capital of the holding company amounted to 24 753 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 21 January 2013 the Management Board of Dom Development S.A. adopted a resolution to increase the share capital by issuing 26 thousand O series ordinary shares as a part of the authorised capital from the amount of 24 715 thousand zlotys up to 24 741 thousand zlotys, that is by 26 thousand zlotys. The O series shares were issued in a private placement addressed to participants in Management Share Option Programme II. As at 21 February 2013 all of the 26 thousand shares were subscribed. These shares were registered by the District Court for the capital city of Warsaw in Warsaw, 12<sup>th</sup> Commercial Division of the National Court Register on 5 March 2013.

On 31 July 2013 the Management Board of Dom Development S.A. adopted a resolution to increase the Company's share capital by issuing 925 P series ordinary shares and 11 000 R series ordinary shares as a part of the authorised capital from the amount of 24 741 thousand zlotys up to 24 753 thousand zlotys, that is by PLN 11 925. The P and R series shares were issued in a private placement addressed to participants in Management Share Option Programme II. These shares were registered by the District Court for the capital city of Warsaw in Warsaw, 12<sup>th</sup> Commercial Division of the National Court Register on 31 October 2013.

On 21 January 2014 the Management Board of Dom Development S.A. adopted a resolution to increase the Company's share capital by issuing 17 075 S series ordinary shares as a part of the authorised capital from amount of 24 753 thousand zlotys up to 24 770 thousand zlotys, that is by PLN 17 075. As at 25 February 2014, the shares were subscribed, but have not yet been registered by the Court of Registration.

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	Number of shares	Par value of shares
Opening balance	24 715	24 715
Increase in share capital	38	38
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Closing balance	24 753	24 753
	=====	=====

As at 25 February 2014, 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 2013, 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. w likwidacji	Purchase accounting	Not audited until the date of the report		31 December 2013
Dom Development Grunty Sp. z o.o.	Purchase accounting	Not audited until the date of the report		31 December 2013

As at 31 December 2013 shares in the following associates (direct and indirect) were recognised in the Group's consolidated financial statements using the equity method:

Name and registered office	Type of activity
Fort Mokotów Sp. z o.o. w likwidacji	Execution of construction projects

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 Audyt Polska spółka z ograniczoną odpowiedzialnością sp. k. (formerly: 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 Audyt Polska spółka z ograniczoną odpowiedzialnością sp. k. (formerly: Ernst & Young Audit sp. z o.o.) was appointed by Supervisory Board on 22 March 2013 to audit the Group's financial statements.

Ernst & Young Audyt Polska spółka z ograniczoną odpowiedzialnością sp. k. (formerly: 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 24 September 2012 with the holding company's Management Board, we have audited the consolidated financial statements for the year ended 31 December 2013.

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' unqualified opinion dated 25 February 2014, 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 2013, containing the consolidated balance sheet as at 31 December 2013, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated cash flow statement, the consolidated statement of changes in equity for the period from 1 January 2013 to 31 December 2013 and additional notes to financial statements ('the attached consolidated financial statements').
2. The truth and fairness<sup>1</sup> 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

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<sup>1</sup> Translation of the following expression in Polish: 'rzetelność i jasność'

Management Board and Members of the Supervisory Board are required to ensure that the attached consolidated financial statements and the Directors' Report meet the requirements of the Accounting Act dated 29 September 1994 (Journal of Laws 2013.330 with subsequent amendments – 'the Accounting Act'). Our responsibility was to audit the attached consolidated financial statements and to express an opinion on whether, based on our audit, these financial statements comply, in all material respects, with the required applicable accounting policies and whether they truly and fairly<sup>2</sup> 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 Company's 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 2013 to 31 December 2013, as well as its financial position<sup>3</sup> as at 31 December 2013;
- 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.

We have read the 'Directors' Report for the period from 1 January 2013 to 31 December 2013 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 2009.33.259 with subsequent amendments)."

We conducted the audit of the consolidated financial statements during the period from 18 November 2013 to 25 February 2014. We were present at the holding company's head office from 18 November 2013 to 26 November 2013 and from 3 February 2014 to 21 February 2014.

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<sup>2</sup> Translation of the following expression in Polish: 'rzetelne i jasne'

<sup>3</sup> 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<sup>4</sup> 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 25 February 2014, 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 2012 were audited by Jarosław Dac, key certified auditor no. 10138, acting on behalf of Ernst & Young Audyt Polska sp. z o.o. sp. k. (formerly: 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 2012. The consolidated financial statements for the year ended 31 December 2012 were approved by the General Shareholders' Meeting on 22 May 2013, and the shareholders resolved to appropriate the 2012 net profit as follows:

Dividends for the shareholders	91 048 thousands zlotys
Reserve capital	159 thousands zlotys
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	91 207 thousands zlotys
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The consolidated financial statements of the Group for the financial year ended 31 December 2012, together with the auditors' opinion, a copy of the resolution approving the consolidated financial statements and the Directors' Report, were filed on 3 June 2013 with the National Court Register.

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<sup>4</sup> Translation of the following expression in Polish: "rzetelność i jasność"

## 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 2011 – 2013. The ratios were calculated on the basis of financial information included in the financial statements for the years ended 31 December 2012 and 31 December 2013.

	2013	2012	2011
<b>Total assets</b>	1 728 894	1 759 690	1 916 100
<b>Shareholders' equity</b>	856 541	892 401	835 069
<b>Net profit/ loss</b>	54 540	91 233	82 123
<b>Return on assets (%)</b>	3.2%	5.2%	4.3%
$\frac{\text{Net profit/loss} \times 100}{\text{Total assets}}$			
<b>Return on equity (%)</b>	6.1%	10.9%	10.6%
$\frac{\text{Net profit/loss} \times 100}{\text{Shareholders' equity at the beginning of the period}}$			
<b>Profit margin (%)</b>	8.1%	10.7%	14.2%*
$\frac{\text{Net profit/loss} \times 100}{\text{Sales revenue}}$			
<b>Liquidity I</b>	4.5	4.2	2.5
$\frac{\text{Current assets}}{\text{Short-term creditors}}$			
<b>Liquidity III</b>	0.8	0.4	0.5
$\frac{\text{Cash and cash equivalents}}{\text{Short-term creditors}}$			
<b>Debtors days</b>	13 days	10 days	27 days
$\frac{\text{Trade debtors} \times 365}{\text{Sales revenue}}$			



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	<b>2013</b>	<b>2012</b>	<b>2011</b>
<b>Creditors days</b>	77 days	59 days	161 days*
Trade creditors x 365			
Cost of sales			
<b>Inventory days</b>	946 days	736 days	1 378 days*
Inventory x 365			
Cost of sales			
<b>Stability of financing (%)</b>	77.8%	76.4%	60.3%
(Equity + long-term provisions and liabilities) x 100			
Total liabilities, provisions and equity			
<b>Debt ratio (%)</b>	50.5%	49.3%	56.4%
(Total liabilities and provisions) x 100			
Total assets			
<b>Rate of inflation:</b>	0.9%	3.7%	4.3%
Yearly average	0.7%	2.4%	4.6%
December to December			

\*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 3.2% in the year 2013 and was lower than in the year 2012 when it reached 5.2% and higher than in 2011 when it reached 4.3%,
- return on equity ratio reached 6.1% in the year 2013 and was lower than in the year 2012 and 2011 when it reached 10.9% and 10.6% respectively,
- profit margin ratio amounted to 8.1% in the year 2013 and was lower than in the year 2012 and 2011 when it reached 10.7% and 14.2% respectively,
- liquidity ratio I leveled at 4.5 in the year 2013, for comparison in the year 2012 and 2011 it leveled at 4.2 and 2.5 respectively,
- liquidity ratio III reached 0.8 in the year 2013 and was higher than in the year 2012 and 2011 when it attained 0.4 and 0.5 respectively,
- debtors days ratio reached 13 days in the year 2013, for comparison in the year 2012 and 2011 it reached 10 days and 27 days respectively,

- creditors days ratio increased in the year 2013 in relation to the year 2012 and amounted to 77 days, for comparison in the year 2012 it amounted to 59 days and in the year 2011 it amounted to 161 days,
- inventory days ratio for the year 2013 leveled at 946 days and was higher than in the year 2012 when it reached 736 days and higher in comparison to 2011 when it amounted to 1 378 days,
- stability of financing ratio amounted to 77.8% as at 31 December 2013 and was higher than in the year 2012 and 2011 when it amounted to 76.4% and 60.3% respectively,
- debt ratio increased in the year 2013 in relation to the year 2012 and amounted to 50.5%, for comparison in the year 2012 it amounted to 49.3% and in the year 2011 it amounted to 56.4%.

#### **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 2013 as a result of an intended or compulsory withdrawal from or a substantial limitation in its current operations.

In note 7.1 and note 7.2 of the additional notes to the audited consolidated financial statements for the year ended 31 December 2013 the Management Board of the holding company has stated that the financial statements of the Group entities, except for the companies in liquidation, included in the consolidated financial statements were prepared on the assumption that these entities will continue as a going concern for a period of at least twelve months subsequent to 31 December 2013 and that there are no circumstances that would indicate a threat to its continued activity.

## **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 7.2 and the note 7.4 of the additional notes to the Group's consolidated financial statements for the year ended 31 December 2013.

### **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 2013.

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 513 thousand zlotys as at 31 December 2013. It was correctly calculated and is consistent with the consolidation documentation.

Information on shareholders' funds has been presented in note 7.16 and the note 7.44 of the additional notes 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 2013 and include the financial data for the period from 1 January 2013 to 31 December 2013.

### **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 2013.

**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 to the Consolidated Financial Statements**

The additional notes to the consolidated financial statements for the year ended 31 December 2013 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 2013 to 31 December 2013 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 2009.33.259 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 Polska spółka z  
ograniczoną odpowiedzialnością sp. k.  
(formerly: Ernst & Young Audit sp. z o.o.)  
Rondo ONZ 1. 00-124 Warsaw  
Reg. No 130

Key Certified Auditor

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Katarzyna Twarowska  
certified auditor  
No. 11738

Warsaw 25 February 2014