

DOM DEVELOPMENT S.A.

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

I. GENERAL NOTES

1. Background

Dom Development S.A. (hereinafter 'the Company') was incorporated on the basis of a Notarial Deed dated 25 February 1999, as a result of transformation of Dom Development Sp. z o.o., which has been incorporated on 2 November 1995. The Company's registered office is located in Warsaw, at Plac Piłsudskiego 3.

The Company was entered in the Register of Entrepreneurs of the National Court Register under no. KRS 0000031483 on 8 August 2001.

The Company was issued with tax identification number (NIP) 5251492233 on 15 November 1996 and statistical number (REGON) 012212483 on 8 November.

The Company is the holding company of the Dom Development S.A. capital group. Details of transactions with affiliated entities and the list of companies in which the Company holds at least 20% of shares in the share capital or in the total number of votes in the company's governing body are included in Note 7.9 and Note 7.43 of the summary of significant accounting policies and other additional notes ("the additional notes and explanations") to the audited financial statements for the year ended 31 December 2012.

The principal activities of the Company are as follows:

- construction of private accommodation, investments and sale of said accommodation to physical and legal persons,
- property management,
- bookkeeping and accounting services,
- advisory and broking services in relation to mortgages.

As at 31 December 2012, the Company's issued share capital amounted to 24 715 thousand zlotys. Equity as at that date amounted to 892 558 thousand zlotys.

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

DOM DEVELOPMENT S.A.
*Long-form auditors' report
for the year ended 31 December 2012
(in thousand zlotys)*

	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%
Grzegorz Kiełpsz	1 280 750	1 280 750	1,00	5,18%
Aviva Otwarty Fundusz Emerytalny Aviva BZ				
WBK	1 313 383	1 313 383	1,00	5,31%
Other shareholders	5 380 917	5 380 917	1,00	21,77%
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Total	24 715 272	24 715 272	-	100%
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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 "L" 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 "L" ordinary shares. The issuance of series "L" 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 26 000 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 Company's Management Board was composed of:

Jarosław Szanajca	-	President of the Management Board
Jerzy Ślusarski	-	Vice-President of the Management Board
Janusz Zalewski	-	Vice-President of the Management Board
Janusz Stolarczyk	-	Member of the Management Board
Terry Roydon	-	Member of the Management Board

There were no changes in the Company's Management Board composition during the reporting period as well as from the balance sheet date to the date of the opinion.

2. Financial Statements

On 2 August 2006 the General Shareholders' Meeting decided on preparation of the financial statements in accordance with International Financial Reporting Standards as adopted by the EU.

2.1 Auditors' opinion and audit of financial statements

Ernst & Young Audit sp. z o.o. with its registered office in Warsaw, at Rondo ONZ 1, is registered on the list of entities authorised to audit financial statements under no. 130.

Ernst & Young Audit sp. z o.o. was appointed by the Supervisory Board on 29 March 2012 to audit the Company's financial statements.

Ernst & Young Audit sp. z o.o. and the key certified auditor meet the conditions required to express an impartial and independent opinion on the financial statements, as defined in Art. 56.3 and 56.4 of the Act on statutory auditors and their self-governance, audit firms authorized to audit financial statements and public oversight, dated 7 May 2009 (Journal of Laws 2009, No. 77, item 649 with subsequent amendments).

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

Our responsibility was to express an opinion on the financial statements based on our audit. The auditing procedures applied to the financial statements were designed to enable us to express an opinion on the financial statements taken as a whole. Our procedures did not extend to supplementary information that does not have an impact on the financial statements taken as a whole.

Based on our audit, we issued an auditors' opinion dated 26 February 2013, stating the following:

“To the Supervisory Board of Dom Development S.A.

1. We have audited the attached financial statements for the year ended 31 December 2012 of Dom Development S.A. (‘the Company’) located in Warsaw at Plac Piłsudskiego 3, containing balance sheet as at 31 December 2012, the income statement, the statement of comprehensive income, the statement of changes in equity, the 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 financial statements (‘the attached financial statements’).
2. The truth and fairness¹ of the attached financial statements, the preparation of the attached financial statements in accordance with the required applicable accounting policies and the proper maintenance of the accounting records are the responsibility of the Company’s Management Board. In addition, the Company’s Management Board and Members of the Supervisory Board are required to ensure that the attached financial statements and the Directors’ Report meet the requirements of the Accounting Act dated 29 September 1994 (2009 Journal of Laws No. 152 item 1223 with subsequent amendments – ‘the Accounting Act’). Our responsibility was to audit the attached financial statements and to express an opinion on whether, based on our audit, these financial statements comply, in all material respects, with the required applicable accounting policies, whether they truly and fairly² reflect, in all material respects, the financial position and results of the operations of the Company and whether the accounting records that form the basis for their preparation are, in all material respects, properly maintained.
3. We conducted our audit of the attached financial statements in accordance with:
 - chapter 7 of the Accounting Act,
 - national auditing standards issued by the National Council of Statutory Auditors,in order to obtain reasonable assurance whether these financial statements are free of material misstatement. In particular, the audit included examining, to a large extent on a test basis, documentation supporting the amounts and disclosures in the attached financial statements. The audit also included assessing the accounting principles adopted and used and significant estimates made by the Management Board, as well as evaluating the overall presentation of the attached financial statements. We believe our audit

¹ Translation of the following expression in Polish: ‘*rzetelność i jasność*’

² Translation of the following expression in Polish: ‘*rzetelnie i jasno*’

has provided a reasonable basis to express our opinion on the attached financial statements treated as a whole.

4. In our opinion, the attached financial statements, in all material respects:
- present truly and fairly all information material for the assessment of the results of the Company's operations for the period from 1 January 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 and based on properly maintained accounting records;
 - are in respect of the form and content, in accordance with legal regulations governing the preparation of financial statements and the Company's Articles of Association.
5. We have read the Directors' Report for the period from 1 January 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 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 Company's financial statements during the period from 19 November 2012 to 26 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.

2.2 Representations provided and data availability

The Management Board confirmed its responsibility for the truth and fairness of the financial statements and the preparation of the financial statements in accordance with the required applicable accounting policies, and stated that it had provided us with all financial information, accounting records and other required documents as well as all necessary explanations. The Management Board also provided a letter of representations dated 26 February 2013, confirming that:

- the information included in the books of account was complete,
- all contingent liabilities had been disclosed in the financial statements, and
- all material events from the balance sheet date to the date of the representation letter had been disclosed in the financial statements,

and confirmed that the information provided to us was true and fair to the best of the Management Board's knowledge and belief, and included all events that could have had an effect on the financial statements.

³ Translation of the following expression in Polish: '*sytuacja majątkowa i finansowa*'

2.3 Financial statements for prior financial year

The Company's financial statements 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 financial statements for the year ended 31 December 2011. The Company's financial statements for the year ended 31 December 2011 were approved by the General Shareholders' Meeting on 23 May 2012, and the shareholders resolved to appropriate the 2011 net profit as follows:

Dividends for the shareholders	37 005 thousand zlotys
Reserve capital	45 834 thousand zlotys

	82 839 thousand zlotys
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The financial statements for the financial year ended 31 December 2011, together with the auditors' opinion, a copy of the resolution approving the financial statements, a copy of the resolution on the appropriation of profit and the Directors' Report, were filed on 30 May 2012 with the National Court Register.

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

The closing balances as at 31 December 2011 were correctly brought forward in the accounts as the opening balances at 1 January 2012.

3. Analytical Review

3.1 Basic data and financial ratios

Presented below are selected financial ratios indicating the economic or financial performance of the Company for the years 2010 - 2012. 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 2011.

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 financial statements for the year ended 31 December 2011 and in the approved financial statements for the year ended 31 December 2012, that were audited by us.

DOM DEVELOPMENT S.A.
*Long-form auditors' report
for the year ended 31 December 2012
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	2012	2011	2010
Total assets	1 757 196	1 913 616	1 619 897
Shareholders' equity	892 558	835 252	772 847
Net profit/ loss	91 207	82 839	39 689
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%	10,7%	5,3%
Profit margin (%)			
$\frac{\text{Net profit} \times 100}{\text{Sales of finished goods, goods for resale and raw materials}}$	10,7%	14,2%*	7,7%
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
Debtors days			
$\frac{\text{Trade debtors} \times 365}{\text{Sales of finished goods, goods for resale and raw materials}}$	12 days	27 days	38 days
Creditors days			
$\frac{\text{Trade creditors} \times 365}{\text{Costs of finished goods, goods for resale and raw materials sold}}$	59 days	161 days*	109 days
Inventory days			
$\frac{\text{Inventory} \times 365}{\text{Costs of finished goods, goods for resale and raw materials sold}}$	736 days	1 378 days*	1 063 days

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

	2012	2011	2010
Stability of financing (%)			
(Equity + long-term provisions and liabilities) x 100	76,5%	60,3%	73,2%
Total liabilities, provisions and equity			
Debt ratio (%)			
(Total liabilities and provisions) x 100	49,2%	56,4%	52,3%
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.

3.2 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 10,7% and 5,3% 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 7,7%,
- 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 12 days in the year 2012, for comparison in the year 2011 and 2010 it reached 27 days and 38 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 109 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 76,5% 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 49,2%, for comparison debt ratio amounted to 56,4% as at 31 December 2011 and to 52,3% as at 31 December 2010.

3.3 Going concern

Nothing came to our attention during the audit that caused us to believe that the Company is unable to continue as a going concern for at least twelve months subsequent to 31 December 2012 as a result of an intended or compulsory withdrawal from or a substantial limitation in its current operations.

In Note 7.2 of the additional notes and explanations to the audited financial statements for the year ended 31 December 2012, the Management Board has stated that the financial statements were prepared on the assumption that the Company will continue as a going concern for a period of at least twelve months subsequent to 31 December 2012 and that there are no circumstances that would indicate a threat to its continued activity.

II. DETAILED REPORT

1. Accounting System

The Company's accounts are kept using the SunSystems 5.2.1 SP1 computer system at the Company's head office. The Company has up-to-date documentation, as required under Article 10 of the Accounting Act dated 29 September 1994 (2009 Journal of Laws No. 152 item 1223 with subsequent amendments – 'the Accounting Act'), including a chart of accounts approved by the Company's Management Board.

During our audit no material irregularities were noted in the books of account which could have a material effect on the audited financial statements and which were not subsequently adjusted. These would include matters related to:

- the reasonableness and consistency of the applied accounting policies;
- the reliability of the accounting records, the absence of errors in the accounting records and the trail of entries in the accounting records;
- whether business transactions are supported by documents;
- the correctness of opening balances based on approved prior year figures;
- consistency between the accounting entries, the underlying documentation and the financial statements;
- fulfilment of the requirements for safeguarding accounting documents and storing accounting records and financial statements.

2. Assets, Liabilities and Equity, Profit and Loss Account

Details of the Company's assets, liabilities and equity and profit and loss account are presented in the audited financial statements for the year ended 31 December 2012.

Verification of assets, liabilities and equity was performed in accordance with the Accounting Act. Any differences were adjusted in the books of account for the year 2012.

3. Additional Notes and Explanations to the Financial Statements

The additional notes and explanations to the 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.

4. Directors' Report

We have read the Directors' Report on the Company's activities in the period from 1 January 2012 to 31 December 2012 and the basis for preparation of annual financial statements ('Directors' Report') and concluded that the information derived from the attached financial statements reconciles with the Directors' Report. The information included in the Directors' Report corresponds with the relevant provisions of the Decree of the Minister of Finance dated 19 February 2009 on current and periodic information published by issuers of securities and conditions for recognition as equivalent

the information required by laws of non-EU member states (Journal of Laws No. 33, item 259 with subsequent amendments).

5. Conformity with Law and Regulations

We have obtained a letter of representations from the Management Board confirming that no laws, regulations or provisions of the Company's Articles of Association were breached during the financial year.

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