DOM DEVELOPMENT S.A.

CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED

31 DECEMBER 2012

Prepared in accordance
with the International Financial Reporting Standards

CONTENTS

1. APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS BY THE MANAGEMENT BOARD OF THE COMPANY

These consolidated financial statements for the year ended 31 December 2012 were prepared and approved by the Management Board of Dom Development S.A. on 26 February 2013.

Jarosław Szanajca,
President of the Management Board

Janusz Zalewski,
Vice President of the Management Board

Jerzy Ślusarski,
Vice President of the Management Board

Janusz Stolarczyk,
Member of the Management Board

Terry R. Roydon,
Member of the Management Board

(all amounts in thousand PLN unless stated otherwise)

2. CONSOLIDATED BALANCE SHEET

ASSETS	Note	31.12.2012	31.12.2011
Fixed assets			
Intangible assets	7.7	1 211	1 204
Tangible fixed assets	7.8	5 308	4 713
Investments in associates	7.10	-	-
Long-term receivables	7.11	1 679	1 588
Other financial assets		38	-
Total fixed assets		**8 236**	**7 505**
Current assets			
Inventory	7.12	1 305 568	1 465 828
Trade and other receivables	7.13	27 980	49 271
Other current assets	7.14	7 219	13 249
Short-term financial assets	7.15	234 769	-
Cash and cash equivalents	7.16	175 918	380 247
Total current assets		**1 751 454**	**1 908 595**
Total assets		**1 759 690**	**1 916 100**

EQUITY AND LIABILITIES	Note	31.12.2012	31.12.2011
Shareholders' equity			
Share capital	7.17	24 715	24 560
Share premium	7.18	233 733	231 535
Other capital (supplementary capital)		517 362	471 528
Reserve capital from valuation of share options	7.45	25 089	24 280
Reserve capital from valuation of cash flow hedges	7.45	(58)	-
Reserve capital from reduction of share capital		510	510
Accumulated, unappropriated profit (loss)		91 671	83 293
Equity attributable to the shareholders of parent company		**893 022**	**835 706**
Non-controlling interests		(621)	(637)
Total shareholders' equity		**892 401**	**835 069**
Liabilities			
Long-term liabilities			
Long-term loans	7.21	177 000	160 000
Bonds, long-term portion	7.25	220 000	100 000
Deferred tax provision	7.22	7 866	10 328
Long-term provisions	7.23	15 237	15 216
Other long-term liabilities	7.24	32 583	35 049
Total long-term liabilities		**452 686**	**320 593**
Short-term liabilities			
Trade payables, tax and other liabilities	7.27	131 548	196 640
Short-term part of long-term loans	7.21	33 000	57 134
Bonds, short-term portion	7.25	-	170 000
Accrued interest on loans and bonds	7.26	4 310	2 220
Corporate income tax payables		2 507	2 194
Short-term provisions	7.28	6 325	4 935
Deferred income	7.29	236 913	327 315
Total short-term liabilities		**414 603**	**760 438**
Total liabilities		**867 289**	**1 081 031**
Total equity and liabilities		**1 759 690**	**1 916 100**

(all amounts in thousand PLN unless stated otherwise)

3. CONSOLIDATED INCOME STATEMENT

		Year ended	
	Note	**31.12.2012**	**31.12.2011**
Sales revenue	**7.36**	851 413	**578 674**
Cost of sales	**7.37**	(647 435)	**(388 235)**
Gross profit on sales		**203 978**	**190 439**
Selling costs	**7.37**	(38 837)	(35 308)
General administrative expenses	**7.37**	(46 395)	(44 134)
Other operating income	**7.39**	3 983	4 059
Other operating expenses	**7.40**	(9 218)	(11 875)
Operating profit		**113 511**	**103 181**
Financial income	**7.41**	6 816	6 512
Financial costs	**7.42**	(6 815)	(6 881)
Profit before tax		**113 512**	**102 812**
Income tax	**7.34**	(22 279)	(20 689)
Net profit		**91 233**	**82 123**
Net profit attributable to:			
Shareholders of the parent company		91 217	82 659
Non-controlling interests		16	(536)
Earnings per share:			
Basic, from the profit for the period, attributable to parent company's shareholders (PLN)	**7.33**	**3.70**	**3.37**
Diluted, from the profit for the period, attributable to parent company's shareholders (PLN)	**7.33**	**3.69**	**3.35**

(all amounts in thousand PLN unless stated otherwise)

4. CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Year ended	
	31.12.2012	**31.12.2011**
Net profit	**91 233**	**82 123**
Other comprehensive income		-
Net change to cash flow hedges	(72)	-
Income tax	14	-
Other net comprehensive income	(58)	**-**
Total net comprehensive income	**91 175**	**82 123**
Net comprehensive income attributable to:		
Shareholders of the parent company	91 159	82 659
Non-controlling interests	16	(536)

(all amounts in thousand PLN unless stated otherwise)

5. CONSOLIDATED CASH FLOW STATEMENT

	Note	Year ended 31.12.2012	Year ended 31.12.2011
Cash flow from operating activities			
Profit before tax		**113 512**	**102 812**
Adjustments:			
Depreciation		2 994	2 450
(Profit)/loss on foreign exchange differences		321	(161)
(Profit)/loss on investments		563	(790)
Interest cost/(income)		19 094	13 207
Cost of the management option programmes		809	1 670
Changes in the operating capital			
Changes in provisions		1 411	1 211
Changes in inventory		160 688	(354 950)
Changes in receivables		21 199	8 683
Changes in trade payables and other liabilities		(68 430)	79 960
Changes in prepayments and deferred income		(90 518)	131 906
Other adjustments		(321)	814
Cash flow generated from operating activities		**161 322**	**(13 188)**
Interest received		24 077	15 084
Interest paid		(35 359)	(29 073)
Income tax paid		(24 415)	(13 255)
Net cash flow from operating activities		**125 625**	**(40 432)**
Cash flow from investing activities			
Proceeds from the sale of intangible assets and tangible fixed assets		268	60
Proceeds from financial assets, including dividend		-	732
Other income from financial assets		-	1 014
Bank deposits with a maturity over three months		(233 910)	-
Acquisition of intangible and tangible fixed assets		(3 641)	(2 905)
Acquisition of financial assets		(880)	**-**
Net cash flow from investing activities		**(238 163)**	**(1 099)**
Cash flows from financing activities			
Proceeds from issue of shares (exercise of share options)		2 353	-
Proceeds from contracted loans	**7.21**	50 000	189 317
Commercial papers issued	**7.25**	120 000	-
Repayment of loans and borrowings	**7.21**	(57 134)	(180 045)
Redemption of commercial papers	**7.25**	(170 000)	-
Dividends paid	**7.20**	(37 006)	(22 104)
Payment of financial lease liabilities		(4)	(81)
Net cash flow from financing activities		**(91 791)**	**(12 913)**
Increase / (decrease) in net cash and cash equivalents		**(204 329)**	**(54 444)**
Cash and cash equivalents – opening balance		**380 247**	**434 691**
Cash and cash equivalents – closing balance	7.16	**175 918**	**380 247**

(all amounts in thousand PLN unless stated otherwise)

6. CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

	Share capital	Share premium less treasury shares	Other capital (supplementary capital)	Reserve capital			Accumulated unappropriated profit (loss)	Equity attributable to the shareholders of parent company	Non-controlling interests	Total shareholders' equity
				from reduction of share capital	from valuation of cash flow hedges	from valuation of share options				
Balance as at 1 January 2012	**24 560**	**231 535**	**471 528**	**510**	**-**	**24 280**	**83 293**	**835 706**	(637)	**835 069**
Share capital increase by exercising share options (note 7.8)	155	2 198	-	-	-	-	-	**2 353**	-	**2 353**
Transfer of profit to supplementary capital	-	-	45 834	-	-	-	(45 834)	**-**	**-**	**-**
Payment of dividends to shareholders	-	-	-	-	-	-	(37 005)	**(37 005)**	**-**	**(37 005)**
Creation of reserve capital from the valuation of the share options	-	-	-	-	-	809	-	**809**	-	**809**
Net profit for the reporting period	-	-	-	-	-	-	91 217	**91 217**	16	**91 233**
Other net comprehensive income for the reporting period	-	-	-	-	(58)	-	-	**(58)**	**-**	**(58)**
Balance as at 31 December 2012	**24 715**	**233 733**	**517 362**	**510**	**(58)**	**25 089**	**91 671**	**893 022**	**(621)**	**892 401**

	Share capital	Share premium less treasury shares	Other capital (supplementary capital)	Reserve capital			Accumulated unappropriated profit (loss)	Equity attributable to the shareholders of parent company	Non-controlling interests	Total shareholders' equity
				from reduction of share capital	from valuation of cash flow hedges	from valuation of share options				
Balance as at 1 January 2011	**24 560**	**231 535**	**453 943**	**510**	**-**	**22 610**	**40 323**	**773 481**	**(101)**	**773 380**
Share capital increase	-	-	-	-	-	-	-	**-**	**-**	-
Transfer of profit to supplementary capital	-	-	17 585	-	-	-	(17 585)	-	**-**	-
Payment of dividends to shareholders	-	-	-	-	-	-	(22 104)	**(22 104)**	-	**(22 104)**
Creation of reserve capital from the valuation of the share options	-	-	-	-	-	1 670	-	**1 670**		**1 670**
Net profit for the reporting period	-	-	-	-	-	-	82 659	**82 659**	(536)	**82 123**
Other net comprehensive income for the reporting period	-	-	-	-	-	-	-	**-**	-	**-**
Balance as at 31 December 2011	**24 560**	**231 535**	**471 528**	**510**	**-**	**24 280**	**83 293**	**835 706**	**(637)**	**835 069**

(all amounts in thousand PLN unless stated otherwise)

7. ADDITIONAL NOTES TO THE FINANCIAL STATEMENTS

7.1. General information about the parent company of the Dom Development S.A. Capital Group

The parent company of Dom Development S.A. Capital Group ("the Group") is the public limited company Dom Development S.A. ("the Company" / "the parent company") with its registered office in Warsaw (00-078 Warsaw, Plac Piłsudskiego 3) entered into the National Court Register under number 0000031483, maintained by the District Court for the capital city of Warsaw, 12th Commercial Division of the National Court Register.

According to the Polish Classification of Business Activity the Company's scope of activity is the development of building projects – PKD 4110Z (NACE F41.1). The Group conducts its activities mainly in Warsaw and its vicinity, and Wrocław.

The Company is a majority-owned subsidiary of Dom Development B.V. with its registered office in the Netherlands. As at 31 December 2012 the parent company Dom Development S.A. was controlled by Dom Development B.V. which held 61.53% of the Company's shares.

7.2. General information about the Group

The Group's structure and the parent company interest in the share capital of the entities comprising the Group as at 31 December 2012 is presented in the table below:

Entity	Country of registration	% of the share capital held by the parent company	% of the votes held by the parent company	Consolidation method
Subsidiaries				
Dom Development Morskie Oko sp. z o.o., under liquidation	Poland	**100%**	**100%**	full consolidation
Dom Development Grunty sp. z o.o.	Poland	**46%**	**100%**	full consolidation
The Group has been also engaged in the joint venture:				
Fort Mokotów sp. z o.o., under liquidation	Poland	**49%**	**49%**	proportionate consolidation

The main area of activity of the Group is the construction and sale of residential real estate.

The main area of activity of Dom Development Grunty sp. z o.o., a subsidiary is purchase of real estate for development activities of the Group.

The liquidation of Fort Mokotów Sp. z o.o., under liquidation was commenced on 28 July 2008, having completed Marina Mokotów investment.

All companies operating within the Group conduct business activities in the territory of Poland under the Code of Commercial Companies and Partnerships and their term of operation is unlimited, except for Fort Mokotów sp. z o.o., under liquidation.

In the twelve-month period ended 31 December 2012 the Group did not discontinue any of its activities.

In the twelve-month period ended 31 December 2012 the Group did not make any material changes to its structure, including mergers, acquisitions or sale of the Group's entities, long-term investments, demergers, restructuring or discontinuation of activities.

7.3. Basis for the preparation of the consolidated financial statements

These consolidated financial statements have been drafted on a historical cost basis.

The consolidated financial statements have been drafted 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.

The functional currency of the parent company and other companies incorporated in these consolidated financial statements id Polish zloty PLN. These consolidated financial statements are stated in Polish zloty (PLN). Financial data included in the consolidated financial statements are expressed in thousands of PLN unless stated otherwise.

The principles of measurement of assets, liabilities and financial result presented in the additional information to the consolidated financial statements are consistent with the accounting principles adopted by the parent company.

7.4. Compliance statement

Polish law requires the Group to prepare its consolidated financial statements in accordance with the International Financial Accounting Standards (IFRS) adopted by the European Union (EU). Having considered the process of IFRS introduction that takes place in the EU and the activities of the Group, in the context of accounting policies applied by the Group there are no differences in IFRS that have been put into force and IFRS that have been endorsed by the EU for the financial year ended 31 December 2012.

These consolidated financial statements were prepared in accordance with all applicable IFRSs that have been adopted by the European Union.

IFRSs comprise standards and interpretations approved by the International Accounting Standards Board ("IASB") and the International Financial Reporting Interpretations Committee ("IFRIC").

Certain companies operating within the Group keep their books of accounts in accordance with accounting policies (principles) specified in the Accounting Act dated 29 September 1994 ("the Accounting Act") as amended and the regulations issued based on that Act ("Polish Accounting Standards"). The consolidated financial statements incorporate certain adjustments, not included in the books of account of such companies operating within the Group, which were made in order to align the financial statements to IFRS.

These consolidated financial statements are prepared based on the same accounting principles (policies) as for the consolidated financial statements of the Group for the year ended 31 December 2011, except for the following amendments to existing standards and new interpretations that are effective for annual periods beginning on 1 January 2012:

- Amendments to IFRS 7 *Financial Instruments*: *Disclosures: Transfer of Financial Assets* – effective for annual periods beginning on or after 1 July 2011. The adoption of these amendments has not affected the Company's financial condition or operating results or the scope of information presented in the Company's financial statements.

The Group has not decided for earlier adoption of any standard, interpretation or improvement/amendment, which was published and has not yet come into force.

The following standards and interpretations issued by the International Accounting Standards Council or the International Financial Reporting Interpretation Committee that have not come into force:

- Phase one for IFRS 9 *Financial Instruments*: *Classification and Measurement* – effective for annual periods beginning on or after 1 January 2015 – not endorsed by the EU until the date of approval of these financial statements. The International Accounting Standards Board is addressing collaterals and impairment in the next phases. The adoption of the phase one of IFRS 9 will impact the classification and measurement of financial assets of the Company. The company will review this impact in conjunction with other phases, when published, in order to present a consistent picture,
- Amendments to IAS 12 *Income Taxes*: *Recovery of Underlying Assets* – effective for annual periods beginning on or after 1 January 2012 – in the EU effective latest for annual periods beginning on or after 1 January 2013,
- Amendment to IFRS 1 *First-time Adoption of International Financial Reporting Standards*: *Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters* – effective for annual periods beginning on or after 1 July 2011 – in the EU effective latest for annual periods beginning on or after 1 January 2013,
- IFRS 10 *Consolidated Financial Statements* – effective for annual periods beginning on or after 1 January 2013 – in the EU effective latest for annual periods beginning on or after 1 January 2014,
- IFRS 11 *Joint Ventures* – effective for annual periods beginning on or after 1 January 2013 – in the EU effective latest for annual periods beginning on or after 1 January 2014,
- IFRS 12 *Disclosure of Interests in Other Entities* – effective for annual periods beginning on or after 1 January 2013 – in the EU effective latest for annual periods beginning on or after 1 January 2014,
- IFRS 13 *Fair Value Measurement* – effective for annual periods beginning on or after 1 January 2013,
- *Amendments to IAS 19 Employee Benefits* – effective for annual periods beginning on or after 1 January 2013,
- Amendments to IAS 1 *Presentation of Financial Statements*: *Presentation of other comprehensive income* – effective for annual periods beginning on or after 1 July 2012,
- IFRIC 20 *Stripping Costs in the Production Phase of a Surface Mine* – effective for annual periods beginning on or after 1 January 2013,
- Amendments to IFRS 7 *Financial Instruments*: *Disclosures: Offsetting of Financial Assets and Financial Liabilities* – effective for annual periods beginning on or after 1 January 2013,
- Amendments to IAS 32 *Financial Instruments*: *Presentation: Offsetting of Financial Assets and Financial Liabilities* – effective for annual periods beginning on or after 1 January 2014,
- Amendments to IFRS 10, IFRS 11 and IFRS 12 *Transition Guidance* – effective for annual periods beginning on or after 1 January 2013 – not endorsed by the EU until the date of approval of these financial statements,
- IAS 27 *Separate Financial Statements* – effective for annual periods beginning on or after 1 January 2013 – in the EU effective latest for annual periods beginning on or after 1 January 2014,
- IAS 28 *Investments in Associates and Joint Ventures* – effective for annual periods beginning on or after 1 January 2013 – in the EU effective latest for annual periods beginning on or after 1 January 2014,
- *Amendment to IFRS 1 First-time Adoption of International Financial Reporting Standards: Government Loans* – effective for annual periods beginning on or after 1 January 2012 – not endorsed by the EU until the date of approval of these financial statements,
- Improvements resulting from IFRS reviews (published in May 2012) – effective for annual periods beginning on or after 1 January 2013 – not endorsed by the EU until the date of approval of these financial statements,
- Amendments to IFRS 10, IFRS 12 and IFRS 27 *Investment Entities* (published on 31 October 2012) – effective for annual periods beginning on or after 1 January 2014 – not endorsed by the EU until the date of approval of these financial statements.

The Management Board does not expect that the introduction of the above mentioned standards and interpretations should materially impact the accounting policies adopted by the Group.

The Group intends to introduce the above amendments as regarding consolidation and presentation of a joint venture in the Group's consolidated financial statements for 2013 and in the Group's interim condensed financial statements in 2013.

7.5. Significant accounting policies

Basis of consolidation

These consolidated financial statements comprise the financial statements of Dom Development S.A. and its subsidiaries drafted for the year ended 31 December 2012. The financial statements of the subsidiaries, after giving consideration to the adjustments made to achieve conformity with IFRS, are drafted for the same reporting period as those of the parent company, using consistent accounting policies, and based on the same accounting policies applied to similar business transactions and events. Adjustments are made to bring into line any dissimilar accounting policies that may exist.

All significant intercompany balances and transactions, including unrealised gains arising from intra-group transactions, have been eliminated in full. Unrealised losses are eliminated unless they indicate an impairment.

Subsidiaries are consolidated from the date on which control is transferred to the Group and cease to be consolidated from the date on which control is transferred out of the Group. Control is exercised by the parent company when the parent company holds, directly or indirectly, through its subsidiaries, more than half of the votes at the shareholders' meeting of that subsidiary, unless it is possible to prove that such holding does not represent control. Control is also exercised if the Company has the power to govern the financial or operating policy of a subsidiary.

Changes in the ownership interest of the parent company which do not result in the loss of control over a subsidiary are accounted for as equity transactions. In such cases, the Group adjusts the carrying value of the controlling interests and non-controlling interests in order to reflect the relative changes in the interests in the subsidiary. All differences between the value of the adjustment to the non-controlling interests and the fair value of the amount paid or received, are accounted for as the shareholders' equity and attributed to the owners of the parent company.

Investments in associates

Investment in associates are accounted for using the equity method. Associates are entities in which the parent company has, either directly or through its subsidiaries, significant influence and which are neither its subsidiaries nor a joint venture. The financial statements of the associates are the basis for valuation of shares held by the parent company using the equity method. The reporting periods applied by the associates and the parent company are the same, except for Towarzystwo Ubezpieczeń Wzajemnych „Bezpieczny Dom" (as described in note 7.10). Associates apply accounting policies as defined in the Accounting Act. Relevant adjustments are made to align financial data of the associates with IFRS applied by the Group, before the share in their net assets is calculated. Investments in associates are disclosed in the balance sheet at cost plus post-purchase changes in the parent's share in the associates' net assets, less any impairment losses. The consolidated income statement reflects the parent's share in the results of the associates. A carrying value adjustment may also be required due to a change in proportion of the share in the associate, resulting from changes in other comprehensive income of this associate. The Group's share in these changes is disclosed in other comprehensive income of the Group.

Impairment assessment of the investment in associates takes place when there are reasons indicating that such impairment occurred or when impairment write down made in the past years is no longer required.

Interests in the joint venture

The Group recognizes it's interest in the joint venture using proportionate consolidation. The Group combines its proportional share in joint venture's assets, liabilities, income and expenses with similar items in the consolidated financial statements on a line-by-line basis. Relevant adjustments are made to align financial data for the joint venture with IFRS applied by the Group, before such is incorporated in the consolidated financial statements.

Tangible fixed assets

All tangible fixed assets are stated at purchase price less accumulated depreciation (except for land), less accumulated impairment write downs. Replacement cost of existing parts of a tangible fixed asset can be capitalised, if material. Depreciation is calculated on straight-line basis over the useful life of the asset. Depreciation rates for buildings and structures range from 2.5% to 4.5%, and for plants and equipment from 10% to 30%.

Inventory

Finished goods

Finished goods represent mainly housing units and parking places. They are valued at the lower of either the cost or net realizable value.

The net realisable value is the estimated sales price evaluated by the Management Board based on market prices.

Work in progress

Work in progress is valued at the lower of either the purchase price/cost of production or net realisable value. In case of discrepancies an impairment write down is made. For the Company's real estate development projects, assessment of the need for impairment write down is determined using the "inventory impairment test" described below based on the analysis of production costs and net realisable value.

Inventory impairment test:

If a construction project is expected to generate a loss, this entails a revaluation write down of work in progress (including the value of land), which is immediately recognised in the income statement.

For each real estate development project there are budgets prepared, which cover both, past and future cash flows for each undertaken project. These budgets are subject to revaluation at least once every three months. For the purposes of impairment review, budgets of projects cover all past and projected net revenues less direct costs of land acquisition, design, construction and other costs related to the preparation of a project, show-flats and sales offices on-site. These budgets are also encumbered with related past and projected costs of external financing and projected claims from customers (if applicable).

The budgets of projects are prepared in compliance with the prudence principle.

If a project contribution, calculated taking into account all revenues and the above-mentioned costs, is positive, there is no need to make an inventory impairment revaluation write down. A negative contribution implies that there is a potential problem of impairment, which, following a thorough analysis of cash flows for a given project, results in the recording of an impairment revaluation write down in the amount of the estimated negative value of this contribution.

The revaluation write down is recognized as the cost of sales in "Inventory write down to the net realisable value". The reversal, if any, of such an impairment write down for a given project is possible if the projected contribution for this project assumes a positive value.

If the project consists of several stages, the inventory impairment review is conducted in the following manner:

a) all future phases of the project are treated as a single project for the purposes of impairment review,
b) each phase of the project, in which sales and construction have already begun, is separated from the rest of the (construction) project and is considered separately for the purposes of impairment review.

Costs of external financing

Costs of external financing are disclosed as costs in the income statement in the period, in which they were incurred, except for capitalized costs, i.e. costs that may be assigned to costs of production of qualifying assets (in the case of the Group: to work-in-progress) as a part of their production costs.

The financial costs are capitalized into work-in-progress exclusively in the period, during which the real estate development project is active. The project is considered active if designing or construction work is underway for the acquired land and during the process of obtaining key administrative decisions necessary to run the project.

The financial costs cease to be capitalized upon completion of substantially all activities, which have to be undertaken in order to prepare flats for hand-over to customers.

The capitalization of financial costs is suspended in the case of suspension of activities connected with the project-related investment activity, including works related to design, the construction process and obtaining required permits and administrative decisions concerning the project.

Trade and other receivables

Trade receivables are recognised and disclosed at original invoice amounts less provision for bad debts. Revaluation write down for doubtful debt is estimated when it is unlikely to collect the full amount of a receivable.

If the effect of the time value of money is material, the value of receivables is determined by discounting the estimated future cash flows to present value. Where discounting is used, any increase in the balance due to the passage of time is recognized as financial income.

Bank deposits with a maturity over three months

Bank deposits with a maturity over three months (as of the date when they are made) are presented in "Short-term financial assets".

Cash and cash equivalents

Cash and short-term deposits are disclosed in the balance sheet at a nominal value and comprise cash at banks, in hand and short-term deposits with an original maturity of three months or less. For the purpose of the cash flow statement, the balance of cash and cash equivalents consist of cash and cash equivalents as defined above less outstanding bank overdrafts.

Interest-bearing loans, borrowings and commercial papers

All loans, borrowings and commercial papers are initially recognized at the fair value less transaction costs associated with the loans or borrowings.

After initial recognition, interest-bearing loans, borrowings and commercial papers are subsequently valued at amortised cost, using the effective interest rate method.

Amortised cost is calculated by taking into account any transaction costs for loan or borrowing, and any discount or premium related to raising the funds.

Trade payables, tax and other liabilities

Short-term trade payables, and tax and other liabilities are disclosed at the amount due and payable.

If the effect of the time value of money is material (in particular it relates to the guarantee retentions), the value of payables is determined by discounting the estimated future cash flows to present value. Where discounting is used, any decrease in the balance due to the passage of time is recognized as financial cost.

Provisions

Provisions are created when a company operating within the Group has a present obligation (legal or constructive) as a result of a past event, and if it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The expense relating to any provision is disclosed in the income statement net of any reimbursement.

Revenue recognition

Revenue is recognised to the extent that it is probable that the Group will achieve economic benefits from a given transaction and the revenue can be reliably measured. The following specific recognition criteria must be met before revenue is recognised:

Sale of products

The revenue from the sale of real estate (housing units, commercial space, etc.) – pursuant to the guidelines included in IFRIC 15 "Agreements for the Construction of Real Estate" – this revenue is recognised at the moment when control over the real estate is transferred to the buyer of said real estate together with the transfer of significant risks and rewards typical to the ownership rights. According to the Company's judgement this occurs at the moment of handover of the real estate to the buyer, which is based on a handover document signed by both parties and subject to the condition that the buyer has made 100% payment of the sale price for the real estate.

Sale of services

The revenue from the sale of services, including income from housing real estate administration fees, is recognized within the period when a service is provided.

Foreign currency translation

The financial statements are presented in PLN, which is the Group's functional and presentation currency. Transactions in foreign currencies are initially recorded at the exchange rate of the functional currency at the date of the transaction. Pecuniary assets and liabilities in foreign currencies are translated at the exchange rate of the functional currency in applicable on the balance sheet date. The exchange rate differences are recognised in the income statement as financial income/cost.

Taxes

Current tax

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those applicable as at the balance sheet date.

Deferred tax

For financial reporting purposes, the deferred tax is calculated by the method of the balance sheet liabilities in relation to the timing differences as at the balance sheet date between the tax value of assets and liabilities and their carrying value recognized in the financial statements.

Deferred tax assets are recognised with regards to all negative timing differences, carry-forward of unused tax credits and unused tax losses to the extent that it is probable that the taxable profit will be available against which the deductible timing differences and the carry-forward of unused tax credits and unused tax losses, can be utilised.

The carrying value of a deferred tax asset is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be realised. An unrecognised deferred tax asset is reassessed at each balance sheet date and is recognised to the extent that it reflects the probability that future taxable profit will allow the deferred tax asset to be recovered.

The provision for deferred tax is created in the amount of the income tax that will be payable in future due to positive timing differences, i.e. the differences that will increase the taxable base in the future.

The assets and provisions for deferred tax are valued at the tax rates that are expected to be applicable to the year when the asset component is realised or the provision is released, assuming as the basis the tax rates (and tax regulations) that are legally or actually applicable as at the balance sheet date.

The income tax for the items recognised outside of the income statement is recognised outside of the income statement, that is in other comprehensive income for items recognised as other comprehensive income or directly in the shareholders' equity for items recognised as the shareholders' equity.

The assets and provisions for deferred tax are offset by the Group only if a legally enforceable right exists to offset the current tax assets against current tax liabilities and the deferred tax relates to the same taxable entity and the same taxation authority.

Dividends

Dividends are recognised when the shareholders' rights to receive the payment are established.

(all amounts in thousand PLN unless stated otherwise)

Earnings per share

Earnings per share for each reporting period is calculated as the quotient of the net profit for the given accounting period and the weighted average of shares in that period.

7.6. Key figures based on professional judgement and basis for estimates

In addition to the accounting estimations, when applying the accounting policies in relation to the issues described below, the most significant was the professional judgement and the assumptions made by the management.

Budgets of the construction projects

The decision to purchase real estate (land) is based upon analysis, where the so called "purchase budget" is the major component. This budget is prepared to assess the future profitability of projects. The budgets for these construction projects are updated based on management's best knowledge and experience from when the real estate is purchased. The budgets for all construction projects are verified and updated when necessary, at least once every three months. Updated project budgets are the basis for:

- verification of their profitability and any potential inventory impairment write down,
- preparation of financial forecasts, annual budgets and medium term plans.

Recognition of revenue from the sale of products

The revenue from the sale of real estate (housing units, commercial space, etc.) is recognised at the moment when control over the real estate is transferred to the buyer of said real estate together with the transfer of significant risks and rewards typical to the ownership rights. According to the Company's judgement this occurs at the moment of handover of the real estate to the buyer, which is based on a handover document signed by both parties and subject to the condition that the buyer has made 100% payment of the sale price for the real estate.

7.7. Intangible assets

	Other intangible assets	Computer software	Total
GROSS VALUE			
Balance as at 1 January 2011	**1 136**	**3 632**	**4 768**
Additions	43	950	993
(Disposals)	-	-	-
Balance as at 31 December 2011	**1 179**	**4 582**	**5 761**
Additions	**175**	**828**	**1 003**
(Disposals)	**-**	**-**	**-**
Balance as at 31 December 2012	**1 354**	**5 410**	**6 764**
DEPRECIATION			
Balance as at 1 January 2011	**1 034**	**2 882**	**3 916**
Additions	7	634	641
(Disposals)	-	-	-
Balance as at 31 December 2011	**1 041**	**3 516**	**4 557**
Additions	**-**	**-**	**-**
(Disposals)	**89**	**907**	**996**
Balance as at 31 December 2012	**1 130**	**4 423**	**5 553**
NET VALUE			
as at 31 December 2011	**138**	**1 066**	**1 204**
as at 31 December 2012	**224**	**987**	**1 211**

(all amounts in thousand PLN unless stated otherwise)

Intangible assets are depreciated throughout their estimated economic useful lives, which for computer software is 2 years on average. There are no intangible assets with an undefined useful life.

As at 31 December 2012 there were no circumstances that would require the Group to create revaluation write downs for its intangible assets.

The costs of depreciating intangible assets were disclosed in selling costs and general administrative expenses.

No collaterals have been established on intangible assets.

7.8. Tangible fixed assets

TANGIBLE FIXED ASSETS	31.12.2012	31.12.2011
Tangible fixed assets, including:		
- plants and equipment	1 129	1 056
- vehicles	2 931	2 338
- other tangible fixed assets	1 248	1 319
Total tangible fixed assets	**5 308**	**4 713**

TANGIBLE FIXED ASSETS	Land and buildings	Vehicles	Equipment and other tangible fixed assets	Total
GROSS VALUE				
Balance as at 1 January 2011	**8**	**5 023**	**4 917**	**9 948**
Additions	-	1 191	721	1 912
(Disposals)	-	(201)	(266)	(467)
Balance as at 31 December 2011	**8**	**6 013**	**5 372**	**11 393**
Additions	**-**	**1 689**	**966**	**2 655**
(Disposals)	**-**	**(958)**	**(214)**	**(1 172)**
Balance as at 31 December 2012	**8**	**6 744**	**6 124**	**12 876**
ACCUMULATED DEPRECIATION				
Balance as at 1 January 2011	**8**	**2 928**	**2 401**	**5 337**
Additions	-	948	861	1 809
(Disposals)	-	(201)	(265)	(466)
Balance as at 31 December 2011	**8**	**3 675**	**2 997**	**6 680**
Additions	**-**	**1 035**	**964**	**1 999**
(Disposals)	**-**	**(896)**	**(215)**	**(1 111)**
Balance as at 31 December 2012	**8**	**3 814**	**3 746**	**7 568**
NET VALUE				
as at 31 December 2011	-	2 338	2 375	4 713
as at 31 December 2012	**-**	**2 930**	**2 378**	**5 308**

The additions to tangible fixed assets are the result of tangible fixed assets purchased.

(all amounts in thousand PLN unless stated otherwise)

No collaterals have been established on fixed assets.

BALANCE SHEET TANGIBLE FIXED ASSETS(OWNERSHIP STRUCTURE)	31.12.2012	31.12.2011
owned	**5 281**	4 350
used on the basis of rental, lease or other agreement, including lease agreement, in this:	**28**	363
- lease	**28**	363
Total balance sheet tangible fixed assets	**5 308**	**4 713**

7.9. Lease

The Company is a party (as a lessee) to lease agreements relating to fixed assets which are recorded in the books as financial lease. The lease agreements are as a rule concluded for a three-year term and as such all liabilities are also due within 3 years. The subjects of the leases are mainly cars. The agreements contain a buy-out clause after the expiration of the lease term.

LEASE	31.12.2012	31.12.2011
Gross fixed assets	74	807
Amortisation	(46)	(444)
Carrying value of tangible fixed assets	**28**	**363**
Leased assets as a % of total fixed assets	0.52%	7.7%
Lease liabilities	**4**	**85**
Depreciation of leased assets recognised as an operating cost	89	349
Interest on lease agreements recognised as a financial cost	4	81

The fair value of lease liabilities approximately equals their book value. The Company's financial lease liabilities are secured by the leased assets.

The Group is a party to the lease agreement for office space and parking places for the purpose of its headquarters in Warsaw (operating lease). The agreement was signed for a period of seven years and will expire on 15 November 2018. The rent is determined in Euro and is indexed on an annual basis by the Consumer Price Index.

7.10. Investments in associates and jointly controlled entities

Condensed information about the jointly-controlled company:

FORT MOKOTÓW SP. Z O.O., UNDER LIQUIDATION *)	Balance sheet date	
	31.12.2012	31.12.2011
Financial data:		
Current assets	4 466	5 551
Fixed assets	1	4
Shareholders' equity	(1)	999
Short-term liabilities	481	857
Long-term liabilities	-	-
Sales revenue	-	-
Operating profit(loss)	(1 192)	(1 153)
Net profit(loss)	(1 000)	(1 306)
Interest	49.00%	49.00%

*) For the purpose of the consolidated financial statements, Fort Mokotów sp. z o.o., under liquidation, is consolidated by proportional consolidation method and treated as a joint venture.

In the years ended 31 December 2012 and 2011 there was no change to the revaluation write downs for the shares of the associates in the Group's consolidated financial statements.

(all amounts in thousand PLN unless stated otherwise)

7.11. Long-term receivables

As at 31 December 2012 and 31 December 2011, the Group disclosed long-term receivables in the amount of PLN 1 679 thousand and PLN 1 588 thousand respectively. As at 31 December 2012 the long-term receivables included refundable deposits in the amount of PLN 1 537 thousand and other long-term receivables amounting to PLN 142 thousand. As at 31 December 2011 the long-term receivables included refundable deposits in the amount of PLN 1 426 thousand and other long-term receivables amounting to PLN 162 thousand. All these receivables are denominated in PLN.

There is no need to create a write down revaluating the value of long-term receivables.

7.12. Inventory

INVENTORY	31.12.2012	31.12.2011
Advances on deliveries	**16 614**	**8 197**
including: at purchase prices/production costs	16 683	8 266
write down to the net realisable value	(69)	(69)
Semi-finished goods and work in progress	**945 529**	**1 237 579**
including: at purchase prices/production costs	960 380	1 248 933
write down to the net realisable value	(14 851)	(11 354)
Finished goods	**343 425**	**220 052**
including: at purchase prices/production costs	350 073	227 260
write down to the net realisable value	(6 648)	(7 208)
Total	**1 305 568**	**1 465 828**

INVENTORY REVALUATION WRITE DOWNS	01.01- - 31.12.2012	01.01- - 31.12.2011
Opening balance	**18 631**	**14 371**
Increments	9 970	4 625
Use	(7 033)	(365)
Closing balance	**21 568**	**18 631**

The value of inventory revaluation write downs have resulted from the impairment tests and analysis performed by the Group.

The methodology of inventory impairment reviews has been described in note 7.5 "Significant accounting policies".

CARRYING VALUE OF INVENTORY USED TO SECURE THE PAYMENT OF LIABILITIES AND VALUE OF THE MORTGAGES ESTABLISHED	31.12.2012	31.12.2011
Carrying value of inventory used to secure liabilities	337 000	454 000
Mortgages: Value of mortgages used to secure real estate purchase agreements	22 000	34 000
Value of mortgages used to secure loans	315 000	420 000

(all amounts in thousand PLN unless stated otherwise)

Preparatory works

If there is no certainty as to the possibility of purchasing land for a potential project, the costs of preparatory works associated with the project are disclosed as costs in the Company's income statement during the period in which they occur. Remaining preparatory works are capitalised under work in progress.

The below table presents the cost of preparatory works recognised in the income statement.

	01.01- -31.12.2012	01.01- -31.12.2011
Preparatory works	890	666

7.13. Trade and other receivables

As at the balance sheet date the trade and other receivables amounted to PLN 27 980 thousand as at 31 December 2012, and PLN 49 271 thousand as at 31 December 2011.

TRADE AND OTHER RECEIVABLES	31.12.2012	31.12.2011
Trade receivables	22 818	43 435
Receivables from related entities	-	-
Tax receivables	4 408	4 663
Other receivables	754	1 173
Total	**27 980**	**49 271**

The Group made receivables revaluation write downs, which have been disclosed under "Other operating costs".

The revaluation write downs have been made based on the Company's best knowledge and experience as well as analysis of particular balances.

AGING STRUCTURE OF TRADE RECEIVABLES	31.12.2012	31.12.2011
Up to 3 months	3 490	24 864
From 3 to 6 months	3	29
From 6 months to 1 year	582	122
Over 1 year	21 592	21 007
Gross trade receivables	**25 667**	**46 022**
Receivables revaluation write downs	(2 849)	(2 587)
Net trade receivables	**22 818**	**43 435**

The write downs fully relate to overdue trade receivables.

As at 31 December 2012 the main item in trade receivables over one year are receivables in the nominal amount of PLN 18 580 thousand due from Erabud for the refund of a prepayment for the purchase of land (the amount is exclusive of VAT).

On 27 January 2011 the Company entered into a conditional settlement agreement with Erabud Sp. z o.o. with registered office in Warsaw which was approved by the court on 10 February 2011. Pursuant to the said settlement, Erabud Sp. z o.o. agreed to withdraw the suit filed against the Company for the execution of a preliminary sale agreement dated 4 January 2008 related to the sale of land in Józefosław, Piaseczno commune. Furthermore, Erabud Sp. z o.o. agreed to pay the sum of PLN 22 672 thousand (inclusive of VAT) to the Company as reimbursement of the amount paid to Erabud Sp. z o.o. by the Company at the time of conclusion of the above-mentioned preliminary sale agreement as an advance payment towards the price for the above real estate, within 36 months after the date of conclusion of the settlement.

(all amounts in thousand PLN unless stated otherwise)

The claims of the Company for payment by Erabud Sp. z o.o. of the sum of PLN 22 672 thousand with interest are secured by a warranty given by Sobiesław Zasada S.A. with its registered office in Krakow, a blank promissory note issued by the warrantor, Sobiesław Zasada S.A. with its registered office in Krakow which may be filed out in accordance with the terms provided in the promissory note declaration (agreement), and the mortgage of up to PLN 45 345 thousand.

CHANGE IN THE WRITE DOWNS FOR TRADE AND OTHER RECEIVABLES	01.01--31.12.2012	01.01--31.12.2011
Opening balance	**3 017**	**2 785**
a) Additions	502	232
b) Disposals	(240)	-
Closing balance	**3 279**	**3 017**

As of the balance sheet dates there were no trade or other receivables in foreign currencies.

The costs and revenues associated with the creation and reversal of receivables revaluation write downs are recognised under other operating expenses or other operating income respectively.

7.14. Other current assets

OTHER CURRENT ASSETS	31.12.2012	31.12.2011
Deferred costs	2 569	2 303
Accrued financial income on deposits	4 650	2 946
Advance payment for conditional purchase of shares	-	8 000
Total	**7 219**	**13 249**

The Company purchased 51% of shares in Perlo Sp. z o.o. on 30 December 2011. In accordance with the share sale agreement the Company submitted to notarial deposit the amount of PLN 8 million constituting the payment of the price for the acquired shares. The payment was to be released to the seller after the conditions stipulated in the agreement were met. Since these conditions have not been met on 2 February 2012, the Company exercised its right to withdraw from the aforementioned agreement. On 3 February 2012 it received the refund of the entire amount paid from the notarial deposit.

7.15. Short-term financial assets

SHORT-TERM FINANCIAL ASSETS	31.12.2012	31.12.2011
Bank deposits with a maturity over three months	233 910	-
Cash in an escrow account	859	-
Total	**234 769**	**-**

Bank deposits with a maturity over three months as of the date when they are made are presented in “Bank deposits with a maturity over three months”.

The Company makes bank deposits with various maturity based on current analysis of cash needs and realizable rate of return on deposits offered by banks.

Cash received from the Group’s customers as advances for the sale of products which is deposited in escrow accounts until the relevant requirements specified in the “Act on the Protection of Rights of a Dwelling Unit or House Buyer” are met, is presented in “Cash in an escrow account”.

(all amounts in thousand PLN unless stated otherwise)

7.16. Cash and cash equivalents

Cash and cash equivalents are represented by cash at bank and cash in hand, including short-term bank deposits with up to three months maturity on the date when they are made. The book value of these assets corresponds to their fair value.

CASH AND CASH EQUIVALENTS	31.12.2012	31.12.2011
Cash in hand and at bank	8 239	6 309
Short-term deposits	167 634	373 887
Other	45	51
Total	**175 918**	**380 247**

In accordance with the adopted accounting policies, the Company discloses overdrafts as a reduction in cash and cash equivalents when it holds deposits that exceed the overdrafts in the same banks.

7.17. Share capital

SHARE CAPITAL (STRUCTURE) AS AT 31.12.2012								
Series/ issue	Type of share	Type of preference	Limitation of right to shares	Number of shares	Nominal value of series/issue (PLN)	Capital covered with	Registration date	Right to dividends (from)
A	Bearer	-	-	21 344 490	21 344 490	cash	12.09.2006	12.09.2006
F	Bearer	-	-	2 705 882	2 705 882	cash	31.10.2006	31.10.2006
H	Bearer	-	-	172 200	172 200	cash	14.02.2007	14.02.2007
I	Bearer	-	-	92 700	92 700	cash	14.02.2007	14.02.2007
J	Bearer	-	-	96 750	96 750	cash	14.02.2007	14.02.2007
L	Bearer	-	-	148 200	148 200	cash	14.02.2007	14.02.2007
Ł	Bearer	-	-	110 175	110 175	cash	12.03.2012	07.05.2012
M	Bearer	-	-	24 875	24 875	cash	03.10.2012	09.11.2012
N	Bearer	-	-	20 000	20 000	cash	03.10.2012	09.11.2012
Total number of shares				**24 715 272**				
Total share capital					**24 715 272**			
Nominal value per share = PLN 1								

SHARE CAPITAL (STRUCTURE) AS AT 31.12.2011								
Series/ issue	Type of share	Type of preference	Limitation of right to shares	Number of shares	Nominal value of series/issue (PLN)	Capital covered with	Registration date	Right to dividends (from)
A	Bearer	-	-	21 344 490	21 344 490	cash	12.09.2006	12.09.2006
F	Bearer	-	-	2 705 882	2 705 882	cash	31.10.2006	31.10.2006
H	Bearer	-	-	172 200	172 200	cash	14.02.2007	14.02.2007
I	Bearer	-	-	92 700	92 700	cash	14.02.2007	14.02.2007
J	Bearer	-	-	96 750	96 750	cash	14.02.2007	14.02.2007
L	Bearer	-	-	148 200	148 200	cash	14.02.2007	14.02.2007
Total number of shares				**24 560 222**				
Total share capital					**24 560 222**			
Nominal value per share = PLN 1								

(all amounts in thousand PLN unless stated otherwise)

Description of changes to the share capital in the Company in the period from 1 January until 31 December 2012

On 20 January 2012, the Company's Management Board adopted a resolution on the increase of the share capital of the Company, within the authorised capital, from the amount of PLN 24 560 222.00 to PLN 24 670 397.00 by issuing 110 175 "Ł" series ordinary bearer shares.

The increase of the Company's share capital by issuance of 110 175 "Ł" series ordinary bearer shares was registered by the District Court for the capital city of Warsaw, 12th Commercial Division of the National Court Register on 12 March 2012. The "Ł" series shares were issued in a private placement procedure addressed to participants in Management Share Option Programme II.

The Management Board of the Company, pursuant to a resolution dated 9 August 2012 as amended on 11 September 2012, increased the share capital in the Company within the authorized capital, from the amount of PLN 24 670 397.00 up to PLN 24 715 272 by the issue of 24 875 "M" series ordinary bearer shares and 20 000 "N" series ordinary bearer shares.

This increase of the Company's share capital was registered by the District Court for the capital city of Warsaw in Warsaw, 12th Commercial Division of the National Court Register on 3 October 2012. The "M" and "N" series shares were issued in a private placement procedure addressed to participants in Management Share Option Programme II.

List of shareholders who hold, directly or indirectly through subsidiaries, at least 5% of the overall number of votes at the General Shareholders Meeting ("GSM") as at 31 December 2012.

	Status as at the date of preparing of the financial statements			
	Shares	**% of capital**	**Number of votes at the GSM**	**% of votes at the GSM**
Dom Development B.V.	15 206 172	61.53	15 206 172	61.53
Jarosław Szanajca	1 534 050	6.21	1 534 050	6.21
Aviva Powszechne Towarzystwo Emerytalne Aviva BZ WBK SA *)	1 313 383	5.31	1 313 383	5.31
Grzegorz Kiełpsz	1 280 750	5.18	1 280 750	5.18

*) Shareholding of Aviva Powszechne Towarzystwo Emerytalne AVIVA BZ WBK S.A. (*General Pension Society*) ("Society") has been presented as per the latest notice as of 11.07.2011 received by the Company from the Society.

The shares of Dom Development S.A. or rights thereto (options) owned by the persons performing management and supervisory functions at Dom Development S.A. as at 31 December 2012.

	Status as at the date of preparing of these financial statements		
	Shares	**Share options**	**Total**
The Management Board			
Jarosław Szanajca	1 534 050	-	1 534 050
Zalewski Janusz	300 000	103 534	403 534
Jerzy Ślusarski	5 363	78 634	83 997
Janusz Stolarczyk	105 200	49 447	154 647
Terry Roydon	58 500	61 767	120 267
The Supervisory Board			
Grzegorz Kiełpsz	1 280 750	-	1 280 750
Markham Dumas	5 000	-	5 000
Mark Spiteri	711	12 330	13 041

(all amounts in thousand PLN unless stated otherwise)

7.18. Share premium

In the twelve-month period ended 31 December 2012, the value of the item „Share premium" changed by PLN 2 198 thousand as a result of the increase of the share capital, described in note 7.17.

The value of the share premium was PLN 233 733 thousand and PLN 231 535 thousand as at 31 December 2012 and 31 December 2011 respectively.

7.19. Additional information on shareholders' equity

As at 31 December 2012 and 31 December 2011 the Company's shares were not owned by any of its subsidiaries.

In the twelve-month period ended 31 December 2012 and 2011 the Company did not hold any treasury shares.

7.20. Dividend and profit distribution

On 23 May 2012, the Ordinary General Meeting of the Shareholders of the Company resolved to assign PLN 37 005 thousand from the Company's profit for 2011 to dividends. This implies the payment of PLN 1.50 per share. The dividend day was set at 12 June 2012 and the dividend payment day was set at 26 June 2011. The dividend was paid out in accordance with the resolution. While the amount of PLN 45 834 thousand was allocated to the increase of the Company's supplementary capital. In the year ended 31 December 2011, the dividend allocation was PLN 22 104 thousand and the dividend payment amounted to PLN 0.90 per share.

7.21. Loans

Description of material changes in the twelve-month period ended 31 December 2012

In 2012, the Group prematurely repaid two loans: the last tranche of the loan in the amount of PLN 45 million provided by PKO BP S.A. due on 31 December 2012 and the investment loan in the amount of PLN 12.1 million provided by Bank Millennium S.A. due on 30 June 2012. On 29 March 2012, the Company and PKO BP S.A. signed Annex no. 1 to the investment loan agreement dated 11 October 2011 under which the loan amount was increased by PLN 50 million, that is up to PLN 210 million. The loan is to be entirely repaid in December 2016.

LOANS DUE WITHIN		**31.12.2012**	**31.12.2011**
Less than 1 year		33 000	57 134
More than 1 year and less than 2 years		33 000	25 000
More than 2 years and less than 5 years		144 000	135 000
Over 5 years		-	-
Total loans		**210 000**	**217 134**
including:	long-term	177 000	160 000
	short-term	33 000	57 134

(all amounts in thousand PLN unless stated otherwise)

As at 31 December 2012 and 31 December 2011 all the loans taken by the Group were expressed in the Polish zloty.

BANK LOANS AS AT 31.12.2012						
Bank	**Registered office**	**Loan amount as per agreement**	**Currency**	**Outstanding loan amount (less accrued interest)**	**Currency**	**Due date**
PKO BP	Warsaw	210 000	PLN	210 000	PLN	31.12.2016
Total bank loans				**210 000**	**PLN**	

In "Loans" the Group states the nominal value of the liability, and the interest charged as at the balance sheet date are presented separately in "Accrued interest on loans and bonds".

Due to the fact that the interest on the loans is correlated to the WIBOR interest rate, the Company's Management Board estimates that the fair value of the loans taken by the Company approximately equals their book value, including accrued interest.

Bank overdrafts

In the case that the Company holds overdrafts and deposits in the same banks and the amount of deposits exceeds the amount of overdrafts, and the deposit end date falls earlier than repayment of the overdrafts, the Company discloses these overdrafts as a reduction in cash and cash equivalents in the balance sheet.

OVERDRAFTS AS AT 31.12.2012						
Bank	**Registered office**	**Loan amount as per agreement**	**Currenc y**	**Outstanding loan amount (less accrued interest)**	**Currency**	**Due date**
Bank Pocztowy	Warsaw	5 000	PLN	-	PLN	05.07.2013
Total overdrafts		**5 000**	**PLN**	**-**	**PLN**	

OVERDRAFTS AS AT 31.12.2011						
Bank	**Registered office**	**Loan amount as per agreement**	**Currency**	**Outstanding loan amount (less accrued interest)**	**Currency**	**Due date**
BOŚ	Warsaw	5 000	PLN	-	PLN	19.08.2012
Total overdrafts		**5 000**	**PLN**	**-**	**PLN**	

The Company's Management Board estimates that the fair value of overdrafts taken by the Company approximately equals their book value.

(all amounts in thousand PLN unless stated otherwise)

7.22. Deferred tax assets and provisions

Deferred tax is the outcome of the following items:

	Balance sheet		Income statement / Statement of comprehensive income	
	31.12.2012	31.12.2011	01.01-31.12.2012	01.01-31.12.2011
Deferred tax provision				
Foreign exchange differences	-	78	(78)	37
Accrued interest	883	575	308	285
Discounting of liabilities	629	357	272	(81)
Result on the sale of units – without legal ownership transfer agreements	12 964	12 806	158	7 620
Capitalised financial costs	5 418	6 409	(991)	86
Other	2	12	(10)	(168)
Total deferred tax provision	**19 896**	**20 237**	**(341)**	**7 779**
Deferred tax assets				
Foreign exchange differences	28	-	28	-
Inventory revaluation	3 822	3 264	558	**809**
Receivables revaluation write downs and other provisions	627	739	(112)	(287)
Provision for employee benefits	2 309	1 609	700	483
Provision for other costs	4 453	3 371	1 082	1 052
Financial costs	673	673	-	-
Discounting of receivables	9	252	(243)	(82)
Valuation of financial assets	104	-	104	
Other	5	1	4	(2)
Total deferred tax assets	**12 030**	**9 909**	**2 121**	**1 973**
Deferred tax expense concerning income statement			**(2 448)**	**5 806**
Deferred tax expense concerning other net comprehensive income			**(14)**	**-**
Deferred tax provision shown in the balance sheet, net	**7 866**	**10 328**		

7.23. Long-term provisions

LONG-TERM PROVISIONS	31.12.2012	31.12.2011
Provision for repair costs, long-term portion	13 011	12 793
Provision for disputes	1 170	1 600
Provision for retirement benefits	462	411
Other	594	412
Total	**15 237**	**15 216**

SHORT-TERM PROVISIONS – CHANGES	01.01--31.12.2012	01.01--31.12.2011
Opening balance	**15 216**	**14 296**
Provisions created in the financial year	1 491	3 114
Provisions used in the financial year	(1 470)	(2 194)
Closing balance	**15 237**	**15 216**

(all amounts in thousand PLN unless stated otherwise)

7.24. Other long-term liabilities

OTHER LONG-TERM LIABILITIES	01.01--31.12.2012	01.01--31.12.2011
Guarantee retentions, long-term portion	21 548	17 603
Real estate purchase liabilities	9 096	17 384
Other	1 939	62
Closing balance	**32 583**	**35 049**

7.25. Bonds

BONDS	31.12.2012	31.12.2011
Nominal value of the bonds issued, long-term portion	220 000	100 000
Nominal value of the bonds issued, short-term portion	-	170 000
Nominal value of the bonds issued	220 000	270 000

In "Bonds" the Group states the nominal value of the liability, and the interests charged as at the balance sheet date are presented separately in "Accrued interest on loans and bonds".

Due to the fact that the interest on the bonds is correlated to the WIBOR interest rate, the Company's Management Board estimates that the fair value of the bonds issued by the Group approximately equals their book value, including accrued interest.

Core details concerning the bonds issued

On 5 November 2007, the Company and Bank BPH S.A. (currently Pekao S.A.) signed a Bond Issue Programme Agreement, pursuant to which Dom Development S.A. is allowed to issue mid-term bonds (with a maturity over 1 year and under 7 years) with an aggregate value of no more than PLN 400 million, which is to be construed as the nominal value of all issued and unredeemed bonds on any day during the term of the Programme.

Description of material changes in the twelve-month period ended 31.12.2012

On 2 February 2012, the Company issued 12 000 unsecured bonds with the nominal value of PLN 10 000 each and the aggregate nominal value of PLN 120 000 thousand. The maturity date for these bonds is 2 February 2017. The issue value equals their nominal value. The interest rate is set at WIBOR 6M plus margin.

Concurrently, on 2 February 2012 and 24 February 2012 the Company purchased for redemption 9 120 bonds with the nominal value of PLN 8 500 each and the aggregate nominal value of PLN 77 520 thousand, and 700 bonds with the nominal value of PLN 8 500 each and the aggregate nominal value of PLN 5 950 thousand respectively. The maturity date for these bonds is 28 November 2012. The purchase price equals their nominal value.

On 3 April 2012 the Company purchased for redemption 4 000 bonds with the nominal value of PLN 8 500 each and the aggregate nominal value of PLN 34 000 thousand. The maturity date for these bonds is 28 November 2012. The purchase price equals their nominal value.

(all amounts in thousand PLN unless stated otherwise)

On 28 November 2012, that is on the maturity date, the Company purchased for redemption 6 180 bonds with the nominal value of PLN 8 500 each and the aggregate nominal value of PLN 52 530 thousand.

BONDS ISSUED AS AT 31.12.2012				
Series	**Issue date**	**Amount**	**Currency**	**Contractual maturity date**
II	30.06.2010	85 000	PLN	30.06.2015
II	15.07.2010	15 000	PLN	30.06.2015
III	02.02.2012	120 000	PLN	02.02.2017
	Total:	**220 000**	**PLN**	

7.26. Accrued interest on loans and bonds

ACCRUED INTEREST ON LOANS AND BONDS	31.12.2012	31.12.2011
Accrued interest on bonds	4 310	1 093
Accrued interest on loans	-	1 127
Total accrued interest on loans and bonds	**4 310**	**2 220**

7.27. Trade payables, tax and other liabilities

TRADE PAYABLES, TAX AND OTHER LIABILITIES	31.12.2012	31.12.2011
Trade payables, including guarantee retentions (short-term portion)	103 936	171 731
Tax liabilities	1 075	2 170
Accrued costs	25 957	22 238
Company Social Benefits Fund	501	414
Other	79	87
Total liabilities	**131 548**	**196 640**
Accrued costs structure	**25 957**	**22 238**
- estate construction costs	10 209	11 700
- employee costs	9 517	8 048
- rent for office space	1 284	173
- other	4 947	2 317

Trade payables, tax and other liabilities are not interest-bearing liabilities. In addition to the guarantee retentions (as described below), the maturity for the trade payables, tax and other liabilities is from 14 to 120 days.

The table below presents the carrying value of liabilities due to guarantee retentions connected to the execution of real estate development projects. The short-term and long-term portion of these liabilities are disclosed in relevant items of short-term and long-term liabilities.

	31.12.2012	31.12.2011
Guarantee retentions, short-term portion	26 121	19 729
Guarantee retentions, long-term portion	21 548	17 603
Total guarantee retentions	**47 669**	**37 332**

(all amounts in thousand PLN unless stated otherwise)

7.28. Short-term provisions

SHORT-TERM PROVISIONS	31.12.2012	31.12.2011
Provision for repair costs, short-term portion	4 337	4 264
Provision for disputes	1 290	534
Other	698	137
Total	**6 325**	**4 935**

SHORT-TERM PROVISIONS – CHANGES	01.01--31.12.2012	01.01--31.12.2011
Opening balance	**4 934**	**4 645**
Provisions created in the financial year	5 785	4 426
Provisions used in the financial year	(4 394)	(4 136)
Closing balance	**6 325**	**4 935**

7.29. Deferred income

DEFERRED INCOME	31.12.2012	31.12.2011
Deferred income related to the payments received from customers for the purchase of products, not settled as income in the income statement	236 913	327 315
Other	-	-
Total	**236 913**	**327 315**

7.30. Benefits after employment

The Company does not operate a special employee benefits programme after termination of employment.

7.31. Financial assets and liabilities

Categories of financial assets and liabilities, and maximum credit risk exposure

FINANCIAL ASSETS AND LIABILITIES	31.12.2012	31.12.2011
FINANCIAL ASSETS		
Long-term receivables	1 679	1 588
Trade and other receivables	23 572	44 608
Receivables from related entities	-	-
Total borrowings and receivables	**25 251**	**46 196**
Other	45	51
Financial assets valued at their fair value through the income statement (designated for trading)	**45**	**51**
Cash in hand and at bank	8 239	6 309
Short-term deposits	167 634	373 887
Short-term financial assets	234 769	-
Maximum credit risk exposure	**435 938**	**426 443**
FINANCIAL LIABILITIES		
Loans	210 000	218 261
Own bonds issued	224 310	271 093
Trade payables, accrued and other liabilities	162 555	229 105
Financial liabilities valued at amortised cost	**596 865**	**718 459**

(all amounts in thousand PLN unless stated otherwise)

Fair value of financial assets and liabilities of the Group is not materially different from their carrying value.

7.32. Financial risk management

The Group is exposed to the following types of financial risk:

- Market risk (interest rate risk)
- Credit risk
- Liquidity risk

Market risk

The market risk is a type of risk which reflects the impact of changes in market prices, such as currency exchange rates, interest rates or prices of capital instruments, on the Company's financial results or the value of financial instruments held.

The market risk generally incorporates risks such as:

- currency risk
- interest rate risk

Currency risk

If there are significant foreign currency items, the Group uses foreign currency derivatives (forward and swap) to hedge its significant F/X transactions.

As at 31 December 2012 and 31 December 2011 the Group did not have any significant assets, liabilities and future payments in foreign currencies, therefore there was no need to have hedging currency derivatives.

Interest rate risk

The fixed interest rate bank loans expose the Company to the risk of changes in the loan fair value. The variable interest rate loans and borrowings result in the cash flow risk.

The current financing structure implies that the Group does not have fixed rate loans. Currently, the Company has only short- and medium-term variable interest rate loans and bonds which results in the cash flow risk exposure.

Furthermore, the Group has short-term bank deposits which bear variable interest, the gains from which depend on the benchmark interest rate change and partially offsets the cash flow risk associated with financing.

As at the balance sheet date the Group did not have fixed interest rate long-term financial instruments.

The structure of variable interest rate financial instruments as at the balance sheet date is as follows:

VARIABLE INTEREST RATE INSTRUMENTS	31.12.2012	31.12.2011
Financial assets	410 642	380 196
Financial liabilities	434 310	489 354
Total, net	**(23 668)**	**(109 158)**

Interest bearing financial assets, i.e. bank deposits, are disclosed as financial assets. Interest bearing financial liabilities, i.e. loans, own bonds and financial lease liabilities, are disclosed as financial liabilities.

(all amounts in thousand PLN unless stated otherwise)

Analysis of financial result sensitivity to interest rate change

A 100-basis point (bp) change in the interest rate of instruments as at the balance sheet date would increase (decrease) the net assets and income statement (after tax) by the amounts listed in the table below. The analysis prepared for 12-month periods ended 31 December 2012 and 31 December 2011 assumes that all other variables remain unchanged.

	Income statement		**Net assets**	
	Increase by 100 bp	**Decrease by 100 bp**	**Increase by 100 bp**	**Decrease by 100 bp**
31 December 2012				
Variable interest rate assets	1 109	(1 109)	1 109	(1 109)
Variable interest rate liabilities*	(1 173)	1 173	(1 173)	1 173
Net sensitivity	**(64)**	**64**	**(64)**	**64**
31 December 2011				
Variable interest rate assets	1 027	(1 027)	1 027	(1 027)
Variable interest rate liabilities*	(1 321)	1 321	(1 321)	1 321
Net sensitivity	**(295)**	**295**	**(295)**	**295**

* The financial costs which are related to loans and bonds, and financial income related to deposits are capitalized by the Company to work-in-progress. These costs (and income) are gradually moved to the income statement together with the manufacturing costs of the inventories sold. It has been assumed in the above analysis that one third of the financial costs and income accrued in a given period are disclosed in the income statement, while the remaining portion is capitalised in the inventory and will be disclosed in the income statement in the following accounting periods.

Credit risk

Cash at bank, cash in hand, trade receivables and other receivables constitute the Company's main financial assets, and represent its highest exposure to credit risk in relation to financial assets.

The Company's credit risk is mostly related to trade receivables. The amounts presented in the balance sheet are net amounts and include write-downs revaluating bad debts, estimated by the Company's Management Board on the basis of previous experience, specific nature of the operations and analysis of the current economic environment.

Credit risk relating to the liquid funds and derivative financial instruments is limited since the transactions were concluded with reputable banks, enjoying high credit ratings awarded by international rating agencies.

In order to maintain the financial liquidity and the expected level of funds availability the Group has a specialised unit that monitors this aspect. The unit monitors the liquid funds and the forecasted cash flow on a current basis and decides on their allocation in order to maximise the attainable financial income while hedging the Group against the credit risk.

Credit risk is not highly concentrated in the Group. The risk is spread over a large number of partners and customers. Furthermore, it has to be pointed out that the receivables from the main activity of the Company, i.e. the sale of apartments and detached houses, are fully secured because release of the sold product takes place after a buyer has paid the full price as set out in the preliminary sales agreement.

The aging structure of trade receivables has been presented in note 7.13 "Trade and other receivables".

(all amounts in thousand PLN unless stated otherwise)

Liquidity risk

The liquidity risk is the risk that the Group will not be able to pay its financial liabilities when they become due. The Group's objective is to ensure, to the highest possible extent, that its liquidity will always be maintained at a level, which enables paying the liabilities when they become due, without incurring unacceptable losses or facing the risk of compromising the Group's reputation.

The table below presents the total value of future non-discounted cash flows for Group's financial liabilities, broken up by the maturity dates as set out in the contracts:

	Total	0 – 6 months	6 – 12 months	1 – 2 years	2 – 5 years
31 December 2012					
Loans	249 282	6 773	39 773	44 417	158 319
Own bonds issued	275 352	8 228	8 228	16 456	242 440
Trade and other payables	168 481	131 976	9 755	4 711	22 039
Financial lease liabilities	4	4	-	-	-
Total	**693 119**	**146 981**	**57 756**	**65 584**	**422 798**
31 December 2011					
Loans	259 915	18 749	51 462	35 221	154 483
Own bonds issued	309 389	10 204	179 119	8 040	112 026
Trade payables	233 617	203 355	8 619	7 492	14 151
Financial lease liabilities	85	37	21	27	-
Total	**803 006**	**232 345**	**239 221**	**50 780**	**280 660**

The Group manages its liquidity mostly by:

- short-, medium- and long-term planning of cash flow; detailed short-term plans are updated at least once a month,
- selection of appropriate financing sources on the basis of analysis of the Company needs and the market,
- day-to-day monitoring of ratios resulting from agreements with banks,
- diversification of financing sources for the conducted development activity,
- co-operation with stable and reputable financial institutions.

Capital management

It is fundamental for the policy of the Management Board to maintain a strong capital base in order to secure the trust of investors, creditors and the market as well as to ensure further growth of the Group.

For the years ended 31 December 2012 and 2011 the return on equity (calculated as net profit to the annual average value of shareholders' equity) amounted to 10.6% and 10.3%, respectively. In that period, the average weighted cost of interest on the Company's debt amounted to 7.5% in 2012 and 6.5% in 2011.

As at 31 December 2012 and 2011 the net financial leverage ratio (calculated as the loans and bonds payable less cash and cash equivalents and short-term financial assets divided by equity) amounted to 2.5% and 13.2% respectively.

The Group does not have in place a defined plan of buy-out of the treasury shares.

The companies operating within the Group are not subject to any external capital requirements, except for the legal regulations of the Code of Commercial Companies.

(all amounts in thousand PLN unless stated otherwise)

7.33. Earnings per share

CALCULATION OF BASIC AND DILUTED EARNINGS PER SHARE	01.01-31.12.2012	01.01-31.12.2011
Basic earnings per share		
Profit for calculation of the basic earnings per share	91 217	82 659
The weighted average number of ordinary shares for the calculation of basic earnings per share	24 659 635	24 560 222
Basic earnings per share (PLN)	**3.70**	**3.37**
Diluted earnings per share		
Profit for calculation of the diluted earnings per share	91 217	82 659
Potential diluting shares related to the Management Share Option Programme	30 930	132 308
The weighted average number of ordinary shares for the calculation of diluted earnings per share	24 690 565	24 692 530
Diluted earnings per share (PLN)	**3.69**	**3.35**

As the Company has no discontinued operations, the earnings per share from the continued operations equal the earnings per share calculated above.

7.34. Income tax

INCOME TAX	01.01--31.12.2012	01.01--31.12.2011
Current income tax	24 727	14 883
Deferred tax	(2 448)	5 806
Total	**22 279**	**20 689**

The difference between the income tax calculated as the product of the gross profit before tax and the statutory tax rate and the actual income tax expense accounted for in the income statement of the Company is presented in the table below.

RECONCILIATION	01.01--31.12.2012	01.01--31.12.2011
Gross profit before tax	**113 512**	**102 812**
As per 19% tax rate	21 567	19 534
Permanent differences not subject to the current and deferred tax in the financial statements (except for cost of the management options and dividend received)	558	977
Tax effect of management options permanently not being a tax deductible cost	154	317
Dividends received	-	(139)
Actual income tax expense	**22 279**	**20 689**
Effective tax rate:	**19.63%**	**20.12%**

The legal regulations relating to VAT, corporate income tax, personal income tax and social insurance premiums are frequently amended due to frequent changes in the tax system. The applicable regulations are often unclear which brings about differences in interpretation from one tax authority to another as well as between tax authorities and tax payers.

The tax and other settlements (such as customs duty or transactions with foreign entities) may be the subject of inspections by the tax authorities or other authorities, which are authorised to impose significant fines. All tax arrears identified in the course of audit are subject to high interest. Tax settlements may be audited at any time within 5 years from the end of the accounting period when they are due. Under these conditions, the tax risk in Poland is considerably higher than in other countries with stable tax systems.

(all amounts in thousand PLN unless stated otherwise)

7.35. Segment reporting

The Group does not conduct segment reporting as its activities take place within a single segment.

7.36. Operating income

REVENUE BREAKDOWN	01.01-31.12.2012	01.01-31.12.2011
Sales of finished goods	838 799	568 082
Sales of services	12 614	10 592
Sales of goods (land)	-	-
Total	**851 413**	**578 674**

The Group has changed the presentation of revenue concerning pass-through costs. These are predominantly the cost of utilities incurred by the Company and then charged to construction works contractors hired by the Group. In the consolidated income statement incorporated in the consolidated financial statements for 2011, the revenue concerning pass-through costs and the costs to be passed-through were disclosed separately for assets and liabilities in "Sales of services" and "Cost of services sold" respectively. The above mentioned revenue and cost are disclosed as net value in these consolidated financial statements. As a result of this change in the consolidated income statement for 2011 incorporated in these consolidated financial statements, the above mentioned revenue and costs have been reduced by the amount of PLN 5 592 thousand.

7.37. Operating costs

OPERATING COSTS	01.01-31.12.2012	01.01-31.12.2011
Cost of sales		
Cost of finished goods sold	(630 270)	(372 653)
Cost of services sold	(14 040)	(11 322)
Cost of goods sold	-	-
Inventory write down to the net realisable value	(3 125)	(4 260)
Total cost of sales	**(647 435)**	**(388 235)**
Selling costs, and general administrative expenses		
Selling costs	(38 837)	(35 308)
General administrative expenses	(46 395)	(44 134)
Total selling costs, and general administrative expenses	**(85 232)**	**(79 442)**
Selling costs, and general administrative expenses by kind		
Depreciation	(2 994)	(2 450)
Cost of materials and energy	(11 958)	(12 595)
External services	(23 446)	(20 587)
Taxes and charges	(221)	(213)
Remuneration	(38 176)	(34 260)
Social security and other benefits	(4 032)	(4 082)
Management Option Programme	(809)	(1 670)
Other prime costs	(3 596)	(3 585)
Total selling costs, and general administrative expenses by kind	**(85 232)**	**(79 442)**

The presentation of pass-through costs was changed by the Group which has been described in note 7.36.

(all amounts in thousand PLN unless stated otherwise)

7.38. Payroll costs

PAYROLL COST AND AVERAGE EMPLOYMENT (including the management)	01.01-31.12.2012	01.01-31.12.2011
Individual personnel categories (number of staff)	**153**	**134**
White-collar workers	153	134
Blue-collar workers	-	-
General remuneration elements, including:	**42 208**	**38 342**
Remuneration	38 176	34 260
Social security and other benefits	4 032	4 082

7.39. Other operating income

OTHER OPERATING INCOME	01.01-31.12.2012	01.01-31.12.2011
Revenues from contractual penalties, arrangements and compensations	2 991	425
Reversal of provision for costs	170	421
Reversal of provision for receivables	582	-
Other	240	3 213
Total	**3 983**	**4 059**

7.40. Other operating expenses

OTHER OPERATING EXPENSES	01.01-31.12.2012	01.01-31.12.2011
Provision for penalties and arrangements with customers	1 033	433
Donations	173	91
Provision for other costs	1 931	2 414
Cost of repairs and defects (including change in provision)	5 180	6 255
Cost of research and abandoned projects	315	2 500
Other	586	182
Total	**9 218**	**11 875**

7.41. Financial income

FINANCIAL INCOME	01.01-31.12.2012	01.01-31.12.2011
Dividends	-	78
Interest on bank deposits and other (non-capitalized part of interest)	3 987	6 214
Revenue from discounting receivables and payables	2 714	-
Other	115	220
Total	**6 816**	**6 512**

(all amounts in thousand PLN unless stated otherwise)

7.42. Financial costs

FINANCIAL COSTS	01.01-31.12.2012	01.01-31.12.2011
Interest on loans and bonds (non-capitalized part of interest)	5 359	6 283
Other interest	43	168
Foreign exchange differences	375	59
Commissions and fees	261	279
Valuation of long-term investments	770	-
Other	7	92
Total	**6 815**	**6 881**

7.43. Interest cost

INTEREST COST	01.01-31.12.2012	01.01-31.12.2011
Financial costs (interest) capitalised under work in progress*)	9 693	10 128
Financial costs (interest) disclosed in the income statement	5 359	6 283
Total interest costs	**15 052**	**16 411**

*) The financial costs incurred as a result of the financing of real estate development projects are generally capitalised as work in progress and relate to the costs of interest, commissions and fees on bonds and loans taken for the execution of the projects. This amount consists of the difference between financial costs on the above mentioned sources of financing and financial income obtained as a result of investing free cash into short-term deposits and similar financial instruments.

7.44. Transactions with related entities

In the twelve-month periods ended 31 December 2012 and 2011, the Company was a party to transactions with related entities, as listed below. Descriptions of the transactions have been presented in the tables. In exceptional cases, descriptions of particular agreements or explanations have also been provided.

DOM DEVELOPMENT S.A. AS A BUYER OF GOODS OR SERVICES			
Counterparty	**Transaction description**	**01.01-31.12.2012**	**01.01-31.12.2011**
Woodsford Consulting Limited	Consulting services as per the agreement dated 27 June 2007	1 606	1 471
Hansom Property Company Limited	Consulting services as per the agreement dated 31 March 1999	255	238
Holland Park Advisory Limited	Consulting services as per the agreement dated 5 January 2011	98	384
Kirkley Advisory Limited	Consulting services as per the agreement dated 01 March 2012	50	-
Dom Development Grunty sp. z o.o.	Services rendered as per the annex to the agreement dated 12 April 2007	85	85

DOM DEVELOPMENT S.A. AS A SERVICE PROVIDER (SELLER)			
Counterparty	**Transaction description**	**01.01-31.12.2012**	**01.01-31.12.2011**
Fort Mokotów sp. z o.o., under liquidation	Repair services as per the agreement dated 22 July 2005	414	336
Fort Mokotów sp. z o.o., under liquidation	Other	21	41
Dom Development Grunty sp. z o.o.	Other	6	6
Dom Development B.V.	Other	-	25
Dom Development Morskie Oko sp. z o.o.	Other	5	5

(all amounts in thousand PLN unless stated otherwise)

DOM DEVELOPMENT S.A. AS A RECIPIENT OF A VALUE OF CONTRIBUTED SHARES			
Counterparty	**Transaction description**	**01.01-31.12.2012**	**01.01-31.12.2011**
Towarzystwo Ubezpieczeń Wzajemnych Bezpieczny Dom, under liquidation	Refund of the value of contributed shares in association with liquidation of the Towarzystwo (*insurance company*)	-	1 674

DOM DEVELOPMENT S.A. AS A LENDER			
Counterparty	**Transaction description**	**01.01-31.12.2012**	**01.01-31.12.2011**
Dom Development Grunty sp. z o.o.	Interest accrued on the borrowing	59	78

DOM DEVELOPMENT S.A. AS A DIVIDEND PAYER			
Counterparty	**Transaction description**	**01.01-31.12.2012**	**01.01-31.12.2011**
Dom Development B.V.	Dividends	22 809	13 686

BALANCES WITH RELATED ENTITIES – balances as in the books of the Company				
Entity	**Receivables from related entities**		**Liabilities to related entities**	
	31.12.2012	**31.12.2011**	**31.12.2012**	**31.12.2011**
Total balance	**2 470**	**2 646**	**128**	**224**
Subsidiaries	**2 447**	**2 525**	**-**	**-**
Dom Development Morskie Oko sp. z o.o. additional contributions to the capital	1 147	1 147	-	-
Dom Development Morskie Oko sp. z o.o.		-	-	-
Dom Development Grunty sp. z o.o.	1 300	1 378	-	-
Joint-ventures	**23**	**121**	**-**	**-**
Fort Mokotów sp. z o.o., under liquidation	23	121	-	-
Other entities	**-**	**-**	**128**	**224**
Woodsford Consulting Limited	-	-	128	120
Holland Park Advisory Limited	-	-	-	104

In 2012 the Company did not enter into any sale agreements with members of the management or their families.

The transactions with the related entities are based on the arm's length principle.

The transactions stated above also include transactions with subsidiaries and the joint venture that has been eliminated in these consolidated financial statements.

(all amounts in thousand PLN unless stated otherwise)

7.45. Incentive Plan – Management Option Programmes

As at 31 December 2012 there were two active Management Option Programmes adopted as part of the Incentive Scheme for the Management staff of the Company.

Name of the Programme	Options in the programme (number of shares)	Options granted (number of shares)	Options exercised (number of shares)	Options in the programme (number of shares)	Options granted (number of shares)	Options exercised (number of shares)
	31.12.2012			31.12.2011		
Programme II	726 000	726 000	155 050	726 000	726 000	-
Programme III	360 000	120 000	-	360 000	120 000	-

Management Option Programme II

The Management Option Programme II concerns 726 000 shares in Dom Development S.A. ("Programme II"). Under Programme II a few issues of share options with the nominal value of PLN 1.00 each ("Tranche") took place. The option may not be exercised earlier than 3 years and later than 7 years from its grant.

The Supervisory Board of Dom Development S.A. granted all the above mentioned options in the years 2006-2012. The value of each Tranche was calculated each time at the grant date. These values, reduced by the value of expired options, have been evenly accounted for in the income statement through the three-year periods i.e. the vesting period. The vesting period was determined individually for each tranche.

Management Option Programme III

On 2 December 2010, the Supervisory Board of the Company acting pursuant to the power of attorney granted by the Ordinary General Shareholders Meeting of the Company on 20 May 2010, accepted the Rules of Senior Management Option Programme III regarding 360 000 shares in Dom Development S.A. (Programme III). Programme III is based on the following terms and conditions for the grant and exercising of the options:

- the grant of options will be limited up to 120 000 shares in any 12-month period,
- the exercise of options will depend on inter alia the fulfilment of significant condition to be set by the Supervisory Board and related to the minimum of the Company's total annual audited consolidated earnings per share to be achieved in the 3 full financial years commencing after the date when the option has been granted,
- the share buy-out price will be PLN 1.00 per share.

On 19 May 2011 the General Meeting of Shareholders adopted a resolution identifying the persons eligible to participate in Programme III, in particular to cover 120 000 shares under the first tranche of Programme III on the terms and conditions specified in the resolution by the Supervisory Board dated 13 December 2010.

Changes to the Management Option Programmes

On 29 March 2012 the Supervisory Board of the Company adopted a resolution concerning Management Share Option Programme II for 726 000 Shares in Dom Development S.A. (hereinafter "Program II") and Management Share Option Programme III for Senior Executives for 360 000 Shares in Dom Development S.A. (hereinafter "Program III"), pursuant to which the Supervisory Board decided not to grant any options to any person under the programmes concerned.

The Supervisory Board granted 726 000 options under Programme II. In the case that any of these options expires, the number of shares attributable to the expired options will not be taken into account by the Supervisory Board and the options will not be granted again.

The Supervisory Board granted 120 000 options under Programme III. None of the remaining 240 000 options will be granted by the Supervisory Board. Just like in Programme II, in the case that any of these 120 000 options expires, the number of shares attributable to the expired options will not be taken into account by the Supervisory Board and the options will not be granted again.

(all amounts in thousand PLN unless stated otherwise)

Grant of new share options

In the twelve-month period ended 31 December 2012 the Company did not grant any new share options.

Exercise of the share options

The increase of the Company's share capital by issuance of 110 175 "Ł" series ordinary bearer shares was registered on 12 March 2012 (see note 7.16). The "Ł" series shares were issued in a private placement procedure addressed to participants in Management Share Option Programme II.

The increase of the Company's share capital by issuance of 24 875 "M series ordinary bearer shares and 20 000 "N" series ordinary bearer shares (see note 7.16) was registered on 3 October 2012 (see note 7.16). The "M" and "N" series shares were issued in a private placement procedure addressed to participants in Management Share Option Programme II.

Expiry of share options

In the twelve-month period ended 31 December 2012 the number of share options eligible to participate in Management Option Programme II was reduced by 30 510 options and the number of share options eligible to participate in Management Option Programme III was reduced by 11 767 options as a result of termination of employment contracts with the persons eligible to participate in these Programmes.

Cost of Management Option Programmes accounted for in the income statement

In the twelve-month period ended 31 December 2012 and 2011 the amounts of PLN 809 and PLN 1 670 thousand respectively, were accounted for in the income statement for the management options granted and in the reserve capital from valuation of share options.

Share options granted and exercisable as at respective balance sheet dates, and changes in the presented periods

SHARE OPTIONS		**01.01-31.12.2012**	**01.01-31.12.2011**
Unexercised options at the beginning of the period	**Number of options**	**846 000**	**726 000**
	Total exercise price	**46 927**	**46 930**
Options granted in the period	Number of options	-	126 000
	Total option exercise value	-	385
Options expired in the period	Number of options	42 277	6 000
	Total option exercise value	2 101	388
Options exercised in the period	Number of options	155 050	-
	Total option exercise value	2 353	-
	Weighted average exercise price per share		-
Unexercised options at the end of the period	**Number of options**	**648 673**	**846 000**
	Total exercise price	**42 473**	**46 927**
Exercisable options at the beginning of the period	Number of options	490 975	310 800
	Total exercise price	37 968	35 580
Exercisable options at the end of the period	Number of options	534 440	490 975
	Total exercise price	42 100	37 968

(all amounts in thousand PLN unless stated otherwise)

Structure of share options granted and not exercised, and not expired as at 31 December 2012:

Programme	Grant date	Number of options	Exercise price per option (PLN)
Programme II	6.12.2006	144 900	114.48
Programme II	7.12.2007	151 400	114.48
Programme II	10.12.2008	48 125	14.91
Programme II	15.01.2009	11 000	16.97
Programme II	10.12.2009	179 015	40.64
Programme II	12.07.2011	6 000	44.16
Programme III	13.12.2010	108 233	1.00
Total		**648 673**	

7.46. Remuneration of members of the Company's management and supervisory bodies

Remuneration for key executives	01.01-31.12.2012	01.01-31.12.2011
1. The Management Board		
Remuneration	5 163	4 651
including payments from profit	-	-
2. The Supervisory Board		
Remuneration	1 032	1 032

The composition of the Management Board and the Supervisory Board as at 31 December 2012 has been presented in note 7.49.

Service agreements between members of the management and supervisory bodies and the Company or its subsidiaries defining the benefits to be paid upon termination of the employment contracts

Members of the Company's Management Board: Jarosław Szanajca, Janusz Zalewski, Janusz Stolarczyk and Jerzy Ślusarski are employed by the Company on the basis of employment contracts.

Under these contracts, the employment of individual members of the Management Board may be terminated pursuant to the following conditions:

Full name of the member of the Management Board	Notice period (months) when given by		Comments	
	the Company	the Employee		
Szanajca Jarosław	8	8	First payment of 50% of 8-times monthly remuneration to be paid after providing a termination notice	The balance of 50% to be paid in 5 equal monthly payments
Ślusarski Jerzy	6	6	No special clauses	
Zalewski Janusz	6	6	No special clauses	
Stolarczyk Janusz	9	3	First payment of 50% of 9-times monthly remuneration to be paid after providing a termination notice	The balance of 50% to be paid in 8 equal monthly payments

(all amounts in thousand PLN unless stated otherwise)

7.47. Contingent liabilities

CONTINGENT LIABILITIES	31.12.2012	31.12.2011
Guarantees	2 105	2 110
Sureties	489	727
Total	**2 594**	**2 837**

Additionally, some of the Company's liabilities are secured with promissory notes:

COLLATERALS FOR LIABILITIES	31.12.2012	31.12.2011
Promissory notes, including:		
– promissory notes as an additional guarantee for BOŚ bank in respect of claims arising from the granted loan	-	5 000
– promissory notes as an additional guarantee for Bank Pocztowy in respect of claims arising from the granted loan	5 000	-
– promissory notes as an additional guarantee for PKO BP bank in respect of claims arising from the granted loan	210 000	175 000
– promissory notes as other guarantees	1 889	1 889
Total	**216 889**	**181 889**

7.48. Material court cases as at 31 December 2012

As at 31 December 2012 the companies operating within the Group were not a party to any material court cases.

7.49. Changes in the composition of the Management Board and the Supervisory Board of the Company

The Management Board

No changes in the composition of the Management Board took place in 2012.

As at 31 December 2012 the Management Board of Dom Development S.A. was composed of 5 members:
Jarosław Szanajca, President of the Management Board
Janusz Zalewski, Vice President of the Management Board
Jerzy Ślusarski, Vice President of the Management Board
Janusz Stolarczyk, Member of the Management Board
Terry Roydon, Member of the Management Board

The Supervisory Board

In the period from 1 January until 31 March 2012 the Supervisory Board was composed of the following members:
Grzegorz Kiełpsz, Chairman of the Supervisory Board
Marek Moczulski, Vice Chairman of the Supervisory Board
Richard Lewis, Vice Chairman of the Supervisory Board
Krzysztof Grzyliński, 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.

Mr. Richard Lewis resigned from the position of Member and Vice Chairman of the Supervisory Board of the Company on 28 November 2011, with effect on 31 March 2012. The reason for the resignation of Mr. Richard Lewis was his retirement effective on 31 March 2012.

(all amounts in thousand PLN unless stated otherwise)

Consequently, Dom Development B.V. with its registered office in Rotterdam appointed Mr. Mark Spiteri as a Member of the Supervisory Board and Mr. Markham Dumas as the Vice Chairman of the Supervisory Board, with effect on 1 April 2012, pursuant to par. 7.4 of the Articles of Association of the Company.

In the period from 1 April 2012 until 31 December 2012 the Supervisory Board was composed of the following members:

Grzegorz Kiełpsz, Chairman of the Supervisory Board
Markham Dumas, Vice Chairman of the Supervisory Board
Marek Moczulski, Vice Chairman of the Supervisory Board
Mark Spiteri, Member of the Supervisory Board
Michael Cronk, Member of the Supervisory Board
Włodzimierz Bogucki, Member of the Supervisory Board
Krzysztof Grzyliński, Member of the Supervisory Board.

7.50. Additional information on the operating activity of the Company

In the twelve-month period ended 31 December 2012 the following material changes in the portfolio of the Company's development investments under construction took place:

Projects where the construction commenced in the period from 1 January 2012 until 31 December 2012:

Project	Standard	Number of apartments
Derby 14, phase 2	Popular	154
Wilno, phase 4	Popular	109
Młyny Królewskie	Popular	294
Saska I, phase 3/1	Popular	159
Wilno, phase 2B	Popular	124
Derby 14, phase 3	Popular	189
Klasyków I, phase 2	Popular	236
Saska I, phase 3/2	Popular	163
Willa na Harfowej	Popular	90
Adria, phase 3	Popular	183

Projects where the construction was completed in the period from 1 January 2012 until 31 December 2012:

Project	Standard	Number of apartments
Wilno, phase 1 (stage 1A)	Popular	130
Regaty, phase 5	Popular	180
Klasyków I, phase 3	Popular	187
Opera B	Luxury apartments	11
Przy Ratuszu	Popular	465
Saska I, phase 2/1	Popular	190
Wilno, phase 1B	Popular	84
Derby 14, phase 1	Popular	174
Adria, phase 2	Popular	230
Saska I, phase 2/2	Popular	144
Wilno, phase 2 (stage 2A)	Popular	117
Akropol	Popular	366
Oaza, phase 1	Popular	116
Saska I, phase 2/3	Popular	105

(all amounts in thousand PLN unless stated otherwise)

7.51. Material post-balance sheet events

Share capital increase

On 21 January 2013 the Management Board of Dom Development S.A. adopted a resolution to increase the share capital by issuing 26 000 "O" series ordinary bearer shares as a part of the authorised capital from the then current amount of PLN 24 715 272.00 up to PLN 24 741 272.00, that is by PLN 26 000.00. The "O" series shares were issued in a private placement procedure addressed to participants in Management Share Option Programme II. As at 21 February 2013 all of the 26 000 shares were subscribed. The shares have not yet been registered by the Court of Registration.

7.52. Approval of the financial statements for 2011

On 23 May 2012 the Ordinary General Shareholders Meeting of Dom Development S.A. approved the financial statements of Dom Development S.A. for the year ended on 31 December 2011, the Management Board's report of activities of Dom Development S.A. in 2011 and the consolidated financial statements of Dom Development S.A. Capital Group for the year ended on 31 December 2011 and the Management Board's report of activities of Dom Development S.A. Capital Group in 2011, as presented by the Management Board. The Ordinary General Shareholders Meeting gave a vote of approval for the Management Board for the year 2011.

7.53. Forecasts

The Management Board of Dom Development S.A. does not publish any financial forecasts concerning both, the parent company and the Capital Group.

7.54. Information on remuneration of the statutory auditor or the entity authorised to audit financial statements

Fee (net, exclusive of VAT) of Ernst & Young spółka z o.o. that is the entity authorised to audit financial statements of the Company paid or due for the year ended 31 December 2012 and 31 December 2011 broken up by services, is presented in the table below:

SERVICES	01.01--31.12.2012	01.01--31.12.2011
– Obligatory audit of annual and review of semi-annual financial statements	270	280
– Other attestation services	40	-
– Other services	7	4
Total	**317**	**284**

(all amounts in thousand PLN unless stated otherwise)

7.55. Selected financial data translated into EURO

In accordance with the financial reporting requirements the following financial data of the Company have been translated into euro:

SELECTED DATA FROM THE BALANCE SHEET	31.12.2012 thousand EURO	31.12.2011 thousand EURO
Total current assets	428 417	432 122
Total assets	430 431	433 821
Total shareholders' equity	218 287	189 067
Long-term liabilities	110 730	72 585
Short-term liabilities	101 415	172 169
Total liabilities	212 144	244 754
PLN/EURO exchange rate as at the balance sheet date	***4.0882***	***4.4168***

SELECTED DATA FROM THE INCOME STATEMENT	01.01- -31.12.2012 thousand EURO	01.01- -31.12.2011 thousand EURO
Sales revenue	204 000	139 773
Gross profit on sales	48 874	45 999
Operating profit	27 198	24 923
Profit before tax	27 198	24 834
Net profit	21 860	19 836
Average PLN/EURO exchange rate for the reporting period	***4.1736***	***4.1401***