DOM DEVELOPMENT S.A.

CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED

31 DECEMBER 2011

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 2011 were prepared and approved by the Management Board of the Company on 29 February 2012.

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	31.12.2011	31.12.2010
Fixed assets			
Intangible assets	7.7	1 204	852
Tangible fixed assets	7.8	4 713	4 611
Investments in associated entities	7.10	-	1 667
Long-term receivables	7.11	1 588	15 791
Total fixed assets		**7 505**	**22 921**
Current assets			
Inventory	7.12	1 465 828	1 118 968
Trade and other receivables	7.13	49 271	43 752
Other current assets	7.14	13 249	3 417
Cash and cash equivalents	7.15	380 247	434 691
Total current assets		**1 908 595**	**1 600 828**
Total assets		**1 916 100**	**1 623 749**

EQUITY AND LIABILITIES	Note	31.12.2011	31.12.2010
Shareholders' equity			
Share capital	7.16	24 560	24 560
Share premium		231 535	231 535
Reserve capital from valuation of share options	7.44	24 280	22 610
Other capital (supplementary capital)		471 528	453 943
Reserve capital from reduction of share capital		510	510
Accumulated, unappropriated profit (loss)		83 293	40 323
Equity attributable to the shareholders of parent company		**835 706**	**773 481**
Non-controlling interests		(637)	(101)
Total shareholders' equity		**835 069**	**773 380**
Liabilities			
Long-term liabilities			
Long-term loans	7.20	160 000	107 330
Deferred tax provision	7.21	10 328	4 522
Bonds, long-term portion	7.24	100 000	270 000
Long-term provisions	7.22	15 216	14 296
Other long-term liabilities	7.23	35 049	19 018
Total long-term liabilities		**320 593**	**415 166**
Short-term liabilities			
Trade payables, tax and other liabilities	7.26	196 640	132 710
Short-term part of long-term loans	7.20	57 134	100 532
Bonds, short-term portion	7.24	170 000	-
Accrued interest on loans and bonds	7.25	2 220	1 637
Corporate income tax payables		2 194	566
Short-term provisions	7.27	4 935	4 645
Deferred income	7.28	327 315	195 113
Total short-term liabilities		**760 438**	**435 203**
Total liabilities		**1 081 031**	**850 369**
Total equity and liabilities		**1 916 100**	**1 623 749**

(all amounts in thousands PLN unless stated otherwise)

3. CONSOLIDATED INCOME STATEMENT

	Note	Year ended 31.12.2011	31.12.2010
Sales revenue	**7.35**	584 266	513 679
Cost of sales	**7.36**	(393 827)	(384 145)
Gross profit on sales		**190 439**	**129 534**
Selling costs	**7.36**	(35 308)	(26 316)
General administrative expenses	**7.36**	(44 134)	(43 144)
Other operating income	**7.38**	4 059	5 363
Other operating expenses	**7.39**	(11 875)	(6 387)
Operating profit		**103 181**	**59 050**
Financial income	**7.40**	6 512	5 116
Financial costs	**7.41**	(6 881)	(13 077)
Profit before tax		**102 812**	**51 089**
Income tax	**7.33**	(20 689)	(10 609)
Net profit		**82 123**	**40 480**
Net profit attributable to:			
Shareholders of the parent company		82 659	40 415
Non-controlling interests		(536)	65
Earnings per share:			
Basic, from the profit for the period, attributable to parent company's shareholders (PLN)	**7.32**	**3.37**	**1.65**
Diluted, from the profit for the period, attributable to parent company's shareholders (PLN)	**7.32**	**3.35**	**1.64**

(all amounts in thousands PLN unless stated otherwise)

4. CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Year ended	
	31.12.2011	**31.12.2010**
Net profit	**82 123**	**40 480**
Other comprehensive income	-	-
Total comprehensive income	**82 123**	**40 480**
Comprehensive income attributable to:		
Shareholders of the parent company	82 659	40 415
Non-controlling interests	(536)	65

(all amounts in thousands PLN unless stated otherwise)

5. CONSOLIDATED CASH FLOW STATEMENT

	Note	Year ended 31.12.2011	Year ended 31.12.2010
Cash flow from operating activities			
Profit before tax		**102 812**	**51 089**
Adjustments:			
Depreciation		2 450	2 380
Profit/loss on foreign exchange differences		(161)	7
Profit/loss on investments		(790)	(152)
Interest cost/income		13 207	23 230
Cost of the management option programmes		1 670	3 884
Changes in the operating capital			
Changes in provisions		1 211	1 571
Changes in inventory		(354 950)	185 412
Changes in receivables		8 683	(29 452)
Changes in short term liabilities, excluding loans and borrowings		79 960	20 737
Changes in prepayments		131 906	50 010
Other adjustments		814	(684)
Cash flow generated from operating activities		**(13 188)**	**308 032**
Interest paid and received		(13 989)	(21 342)
Income tax paid		(13 255)	(19 459)
Net cash flow from operating activities		**(40 432)**	**267 231**
Cash flow from investing activities			
Proceeds from the sale of intangible assets and tangible fixed assets		60	1 597
Proceeds from financial assets (including dividends)		732	-
Other income from financial assets		1 014	3
Acquisition of intangible and tangible fixed assets		(2 905)	(3 096)
Net cash flow from investing activities		**(1 099)**	**(1 496)**
Cash flows from financing activities			
Proceeds from contracted loans		189 317	83 416
Commercial papers issued		-	99 690
Repayment of loans and borrowings		(180 045)	(195 204)
Redemption of commercial papers		-	(30 000)
Dividends paid	**7.19**	(22 104)	(19 648)
Payment of financial lease liabilities		(81)	(145)
Net cash flow from financing activities		**(12 913)**	**(61 891)**
Increase / (decrease) in net cash and cash equivalents		**(54 444)**	**203 844**
Cash and cash equivalents – opening balance		**434 691**	**230 847**
Cash and cash equivalents – closing balance	**7.15**	**380 247**	**434 691**

(all amounts in thousands PLN unless stated otherwise)

6. CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

	Share capital	Share premium	Other capital (supplementary capital)	Reserve capital from reduction of share capital	Reserve capital from valuation of share options	Accumulated, unappropriated profit (loss)	Equity attributable to the shareholders of parent company	Non-controlling interests	Total equity
Balance as at 1 January 2011	**24 560**	**231 535**	**453 943**	**510**	**22 610**	**40 323**	**773 481**	**(101)**	**773 380**
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**
Total comprehensive income for the year ended 31 December 2011	-	-	-	-	-	82 659	**82 659**	(536)	**82 123**
Balance as at 31 December 2011	**24 560**	**231 535**	**471 528**	**510**	**24 280**	**83 293**	**835 706**	(637)	**835 069**

	Share capital	Share premium	Other capital (supplementary capital)	Reserve capital from reduction of share capital	Reserve capital from valuation of share options	Accumulated, unappropriated profit (loss)	Equity attributable to the shareholders of parent company	Non-controlling interests	Total equity
Balance as at 1 January 2010	**24 560**	**231 535**	**388 361**	**510**	**18 726**	**85 138**	**748 830**	**(166)**	**748 664**
Transfer of profit to supplementary capital	-	-	65 582	-	-	(65 582)	**-**	**-**	**-**
Payment of dividends to shareholders	-	-	-	-	-	(19 648)	**(19 648)**	**-**	**(19 648)**
Creation of reserve capital from the valuation of the share options	-	-	-	-	3 884	-	**3 884**	**-**	**3 884**
Total comprehensive income for the year ended 31 December 2010	-	-	-	-	-	40 415	**40 415**	**65**	**40 480**
Balance as at 31 December 2010	**24 560**	**231 535**	**453 943**	**510**	**22 610**	**40 323**	**773 481**	**(101)**	**773 380**

(all amounts in thousands PLN unless stated otherwise)

7. ADDITIONAL NOTES TO THE FINANCIAL STATEMENTS

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

The parent company of Dom Development S.A. Capital Group ("the Group") is the joint stock 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.

The Company is a majority-owned subsidiary of Dom Development B.V. with its registered office in the Netherlands. As at 31 December 2011 the parent company Dom Development S.A. was controlled by Dom Development B.V. which held 61.91% 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 2011 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.	Poland	100%	100%	full consolidation
Dom Development Grunty sp. z o.o.	Poland	46%	100%	full consolidation
Moreover, the Group was 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 the associated entity Towarzystwo Ubezpieczeń Wzajemnych „Bezpieczny Dom", under liquidation, is financial risk insurance. The liquidation was completed on 23 February 2011.

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.

In the twelve-month period ended 31 December 2011 the Group did not discontinue any of its activities.

In the twelve-month period ended 31 December 2011 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 prepared on a historical cost basis.

The consolidated financial statements have been prepared on the assumption that the companies operating within the Group will continue as a going concern in the foreseeable future. No circumstances that would indicate that there is a threat to the continued activity of the Group are known as at the date of the approval of these consolidated financial statements.

The functional currency of the parent company and other companies incorporated in these consolidated financial statements is 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). At this particular time, due to the endorsement of IFRS by the EU and the activities of the Group, there are no differences in the IFRS policies applied by the Group and IFRS that have been endorsed by the EU.

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 policies as for the consolidated financial statements of the Group for the year ended 31 December 2010, except for the following amendments to existing standards and new interpretations that are effective for annual periods beginning on 1 January 2011:

- Amendments to IAS 24 *Related Party Disclosures* (revised in November 2009) – effective for annual periods beginning on or after 1 January 2011. The purpose of these amendments is to simplify and clarify the definition of the related entity. This amendment has eliminated the need to disclose information about transactions with a related entity to the government who is controlling or jointly controlling the reporting entity or has significant influence upon it or to another entity being a related entity since the same government is controlling or jointly controlling the reporting entity and the other entity or has significant influence upon it. 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.
- Amendments to IFRIC 14 IAS 19 – *The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*: Prepayments of the Minimum Funding Requirements – effective for annual periods beginning on or after 1 January 2011. This amendment eliminates unintended effects of IFRIC 14 concerning voluntary payments for pensions in the situation where minimum finance requirement are in place. The adoption of these amendments had no impact on the financial position or performance of the Group.
- IFRIC 19 *Extinguishing Financial Liabilities with Equity Instruments* – effective for annual periods beginning on or after 1 July 2010. IFRIC 19 explains the accounting principles applied when as a result of debt terms renegotiation by the entity the liability is retired through issue of equity instruments to the creditor by the debtor. The adoption of this interpretation had no impact on the financial position or performance of the Group.
- Amendments to IAS 32 *Financial instruments*: *presentation: Classification of Rights Issues*. This amendment clarifies how to recognise specific subscription rights when the issued financial instruments are denominated in a currency

other than the issuer's functional currency. The adoption of these improvements had no impact on the financial position or performance of the Group.

- Improvements resulting from IFRS reviews (published in May 2010) – some improvements are effective for annual periods beginning on or after 1 July 2010, the rest is effective for annual periods beginning on or after 1 January 2011. The adoption of these improvements had no impact on the financial position or performance of the Group.
- Amendments to IFRS 1 *First-time Adoption of International Financial Reporting Standards*: *Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters* – effective for annual periods beginning on or after 1 July 2010. The adoption of these improvements had no impact on the financial position or performance of the Group.

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 2013 – not endorsed by the EU until the date of approval of these financial statements. The International Accounting Standards Board will address 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 Group. The Group will review this impact in conjunction with other phases, when published, in order to present a consistent picture,
- Amendments to IFRS 7 *Financial instruments*: *Disclosures: Transfer of Financial Assets* – effective for annual periods beginning on or after 1 July 2011,
- Amendments to IAS 12 *Income Taxes*: *Recovery of Underlying Assets* – 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,
- 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 – not endorsed by the EU until the date of approval of these financial statements,
- IFRS 10 *Consolidated Financial Statements* – 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,
- IFRS 11 *Joint Ventures* – 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,
- IFRS 12 *Disclosure of Interests in Other Entities* – 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,
- IFRS 13 *Fair Value Measurement* – 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 IAS 19 *Employee Benefits* – 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 IAS 1 *Presentation of Financial Statements*: *Presentation of other comprehensive income* – effective for annual periods beginning on or after 1 July 2012 – not endorsed by the EU until the date of approval of these financial statements,
- IFRIC 20 *Stripping Costs in the Production Phase of a Surface Mine* – 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 7 *Financial instruments*: *Disclosures: Offsetting of Financial Assets and Financial Liabilities* – 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 IAS 32 *Financial instruments*: *presentation: Offsetting of Financial Assets and Financial Liabilities* – 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.

7.5. Significant accounting policies

Basis of consolidation

These consolidated financial statements comprise the financial statements of Dom Development S.A. and its subsidiaries prepared for the year ended 31 December 2011. The financial statements of the subsidiaries, after giving consideration to the adjustments made to achieve conformity with IFRS, are prepared 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 obtained by 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 associated entities

Investments 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-acquisition 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 the item 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.

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 the settlement.

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 (for measurement) and presentation currency. Transactions in foreign currencies are initially recorded at the exchange rate of the functional currency at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the exchange rate of the functional currency as at 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 thousands 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 drafted 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 2010	**1 136**	**2 749**	**3 885**
Additions	-	883	883
(Disposals)	-	-	-
Balance as at 31 December 2010	**1 136**	**3 632**	**4 768**
Additions	43	950	993
(Disposals)	-	-	-
Balance as at 1 December 2011	**1 179**	**4 582**	**5 761**
DEPRECIATION			
Balance as at 1 January 2010	**1 008**	**2 160**	**3 168**
Additions	26	722	748
(Disposals)	-	-	-
Balance as at 31 December 2010	**1 034**	**2 882**	**3 916**
Additions	7	634	641
(Disposals)	-	-	-
Balance as at 1 December 2011	**1 041**	**3 516**	**4 557**
NET VALUE			
as at 31 December 2010	**102**	**750**	**852**
as at 31 December 2011	**138**	**1 066**	**1 204**

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.

(all amounts in thousands PLN unless stated otherwise)

As at 31 December 2011 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 full as general administrative expenses.

No collaterals have been established on intangible assets.

7.8. Tangible fixed assets

TANGIBLE FIXED ASSETS	31.12.2011	31.12.2010
Tangible fixed assets, including:		
- plants and equipment	1 056	1 186
- vehicles	2 338	2 095
- other tangible fixed assets	1 319	1 330
Total tangible fixed assets	**4 713**	**4 611**

TANGIBLE FIXED ASSETS	Land and buildings	Vehicles	Equipment and other tangible fixed assets	Total
GROSS VALUE				
Balance as at 1 January 2010	**1 355**	**4 566**	**4 282**	**10 203**
Additions	-	706	1 506	**2 212**
(Disposals)	(1 347)	(249)	(871)	**(2 467)**
Balance as at 31 December 2010	**8**	**5 023**	**4 917**	**9 948**
Additions	-	1 191	721	1 912
(Disposals)	-	(201)	(266)	(467)
Balance as at 1 December 2011	**8**	**6 013**	**5 372**	**11 393**
ACCUMULATED DEPRECIATION				
Balance as at 1 January 2010	**8**	**2 276**	**2 464**	**4 748**
Additions	-	884	748	**1 632**
(Disposals)	-	(232)	(811)	**(1 043)**
Balance as at 31 December 2010	**8**	**2 928**	**2 401**	**5 337**
Additions	-	948	861	1 809
(Disposals)	-	(201)	(265)	(466)
Balance as at 1 December 2011	**8**	**3 675**	**2 997**	**6 680**
CARRYING VALUE				
as at 31 December 2010	-	2 095	2 516	4 611
as at 31 December 2011	-	2 338	2 375	4 713

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

No collaterals have been established on fixed assets.

BALANCE SHEET TANGIBLE FIXED ASSETS(OWNERSHIP STRUCTURE)	31.12.2011	31.12.2010
owned	4 350	3 200
used on the basis of rental, lease or other agreement, including lease agreement, in this:	363	1 411
- lease	363	1 411
Total balance sheet tangible fixed assets	**4 713**	**4 611**

(all amounts in thousands PLN unless stated otherwise)

OFF-BALANCE SHEET TANGIBLE FIXED ASSETS	31.12.2011	31.12.2010
used on the basis of rental, lease or other agreement, including lease agreement, in this:	-	70
- value of assets under operating lease	-	70

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	31.12.2011	31.12.2010
Gross fixed assets	807	2 204
Depreciation	(444)	(793)
Carrying value of tangible fixed assets	**363**	**1 411**
Leased assets as a % of total fixed assets	7,7%	30,6%
Lease liabilities	**85**	**516**
Depreciation of leased assets recognised as an operating cost	349	660
Interest on lease agreements recognised as a financial cost	81	145

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

As at 31 December 2010, the Company held 40.32% of the share capital in Towarzystwo Ubezpieczeń Wzajemnych "Bezpieczny Dom", under liquidation ("Towarzystwo"). The value of Towarzystwo's shares disclosed in the Company's balance sheet was PLN 965 thousand as at 31 December 2010. The liquidation procedure was completed on 23 February 2011 and the Company received PLN 1 674 thousand as its share in net assets after the liquidation of the Towarzystwo.

Condensed information about the jointly-controlled company:

FORT MOKOTÓW SP. Z O.O., UNDER LIQUIDATION *)	Balance sheet date	
	31.12.2011	31.12.2010
Financial data:		
Current assets	5 551	6 999
Fixed assets	4	109
Shareholders' equity	999	2 305
Short-term liabilities	857	613
Long-term liabilities	-	-
Sales revenue	-	32
Operating profit(loss)	(1 153)	(1 821)
Net profit(loss)	(1 306)	(1 595)
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 2011 and 2010 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 thousands PLN unless stated otherwise)

7.11. Long-term receivables

As at 31 December 2011 and 31 December 2010, the Group disclosed long-term receivables in the amount of PLN 1 588 thousand and PLN 15 791 thousand respectively. 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. As at 31 December 2010 the long-term receivables consist of receivables from the sale of infrastructure items in the amount of PLN 14 511 thousand, refundable deposits in the amount of PLN 1 086 thousand and other receivables in the amount of PLN 194 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	**31.12.2011**	**31.12.2010**
Advances on deliveries	**8 197**	**22 375**
including: at purchase prices/production costs	8 266	22 444
including: write down to the net realisable value	(69)	(69)
Semi-finished goods and work in progress	**1 237 579**	**899 712**
including: at purchase prices/production costs	1 248 933	910 817
including: write down to the net realisable value	(11 354)	(11 105)
Finished goods	**220 052**	**196 881**
including: at purchase prices/production costs	227 260	200 078
including: write down to the net realisable value	(7 208)	(3 197)
Total	**1 465 828**	**1 118 968**

INVENTORY REVALUATION WRITE DOWNS	**01.01- - 31.12.2011**	**01.01- - 31.12.2010**
Opening balance	**14 371**	**26 831**
Increments	4 625	5 089
Reversal	(365)	(17 549)
Closing balance	**18 631**	**14 371**

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	**31.12.2011**	**31.12.2010**
Carrying value of inventory used to secure liabilities	454 000	379 468
Mortgages:		
Value of mortgages used to secure real estate purchase agreements	34 000	-
Value of mortgages used to secure loans	420 000	776 111

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- -31.12.2011	**01.01- -31.12.2010**
Preparatory works	666	393

(all amounts in thousands PLN unless stated otherwise)

7.13. Trade and other receivables

As at the balance sheet date the trade and other receivables amounted to PLN 49 271 thousand as at 31 December 2011, and PLN 43 752 thousand as at 31 December 2010.

TRADE AND OTHER RECEIVABLES	31.12.2011	31.12.2010
Trade receivables	43 435	38 777
Receivables from related entities	-	6
Tax receivables	4 663	3 835
Other receivables	1 173	1 134
Total	**49 271**	**43 752**

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	31.12.2011	31.12.2010
Up to 3 months	24 864	17 909
From 3 to 6 months	29	1 426
From 6 months to 1 year	122	262
Over 1 year	21 007	21 665
Gross trade receivables	**46 022**	**41 262**
Receivables revaluation write downs	(2 587)	(2 485)
Net trade receivables	**43 435**	**38 777**

The write-downs fully relate to overdue trade receivables.

As at 31 December 2011 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.

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- -31.12.2011	01.01- -31.12.2010
Opening balance	**2 785**	**2 755**
a) Additions	232	641
b) Disposals	-	(611)
Closing balance	**3 017**	**2 785**

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.

(all amounts in thousands PLN unless stated otherwise)

7.14. Other current assets

OTHER CURRENT ASSETS	31.12.2011	31.12.2010
Deferred costs	2 303	1 888
Accrued financial income on deposits	2 946	1 529
Advance payment for conditional purchase of shares	8 000	-
Total	**13 249**	**3 417**

The Company purchase 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. Cash and cash equivalents

Cash and cash equivalents are represented by cash at bank, cash in hand and short-term financial assets with up to three months maturity. The book value of these assets corresponds to their fair value.

CASH AND CASH EQUIVALENTS	31.12.2011	31.12.2010
Cash in hand and at bank	6 309	1 947
Short-term deposits	373 887	432 712
Other	51	32
Total	**380 247**	**434 691**

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.

7.16. Share capital

SHARE CAPITAL (STRUCTURE) AS AT 31.12.2011 AND 31.12.2010								
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								

Description of changes to the share capital in the Company in the period from 1 January 2011 to the date of preparing and approval of these financial statements.

In the period from 1 January 2011 to the date of preparing and approval of these financial statements there have been no changes in the share capital of the Company.

(all amounts in thousands PLN unless stated otherwise)

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 2011.

	Balance as at 31 December 2011			
	Shares	% of capital	Number of votes at the GSM	% of votes at the GSM
Dom Development B.V.	15 206 172	61.91	15 206 172	61.91
Jarosław Szanajca	1 534 050	6.25	1 534 050	6.25
Aviva Powszechne Towarzystwo Emerytalne Aviva BZ WBK SA *)	1 313 383	5.35	1 313 383	5.35
Grzegorz Kiełpsz	1 280 750	5.21	1 280 750	5.21

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

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 2011.

	Balance as at 31 December 2011		
	Shares	Share options	Total
The Management Board			
Jarosław Szanajca	1 534 050	-	1 534 050
Janusz Zalewski	300 000	123 534	423 534
Jerzy Ślusarski	9 363	109 634	118 997
Janusz Stolarczyk	100 200	64 447	164 647
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

7.17. Share premium

In the twelve-month period ended 31 December 2011 and 2010, the value of the item „Share premium" did not change. In the twelve-month period ended 31 December 2011 and 2010 the Group did not hold any treasury shares.

7.18. Additional information on shareholders' equity

As at 31 December 2011 and 31 December 2010 the Company's shares were not owned by any of its subsidiaries.

7.19. Dividends

On 19 May 2011 the Ordinary General Meeting of the Shareholders of the Company resolved to assign PLN 22 104 thousand from the Company's profit for 2010 to dividends. This implies the payment of PLN 0.90 per share. The dividend day was set at 7 June 2011 and the dividend payment day was set at 22 June 2011. The dividend was paid out in accordance with the resolution. While the amount of PLN 17 585 thousand was allocated to the increase of the Company's supplementary capital.

In the preceding year, the dividend allocation was PLN 19 648 thousand and the dividend payment amounted to PLN 0.80 per share.

(all amounts in thousands PLN unless stated otherwise)

7.20. Loans

LOANS DUE WITHIN	31.12.2011	31.12.2010
Less than 1 year	57 134	100 532
More than 1 year and less than 2 years	25 000	107 330
More than 2 years and less than 5 years	135 000	-
Over 5 years	-	-
Total loans	**217 134**	**207 862**
including: long-term	160 000	107 330
short-term	57 134	100 532

As at 31 December 2011 and 31 December 2010 all the loans taken by the Group were expressed in Polish zloty.

BANK LOANS AS AT 31.12.2011						
Bank	**Registered office**	**Loan amount as per agreement**	**Currency**	**Outstanding loan amount (less accrued interest)**	**Currency**	**Due date**
PKO BP	Warsaw	200 000	PLN	45 000	PLN	31.12.2012
BOŚ	Warsaw	17 300	PLN	-	PLN	30.09.2011
BOŚ	Warsaw	11 990	PLN	-	PLN	30.12.2012
PKO BP	Warsaw	15 000	PLN	-	PLN	31.05.2012
Bank Millennium	Warsaw	15 000	PLN	12 134	PLN	30.06.2012
PKO BP	Warsaw	160 000	PLN	160 000	PLN	31.12.2016
Total bank loans				**217 134**	**PLN**	

In the "Loans" item the Group states the nominal value of the liability, and the interest charged as at the balance sheet date are presented separately in the item "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 31.12.2011						
Bank	**Registered office**	**Loan amount as per agreement**	**Currenc y**	**Outstanding loan amount (less accrued interest)**	**Currency**	**Due date**
BOŚ	Warsaw	5 000	PLN	-	PLN	19.08.2012
Total overdrafts		**5 000**	**PLN**	**-**	**PLN**	

OVERDRAFTS AS AT 31.12.2010						
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 thousands PLN unless stated otherwise)

7.21. Deferred tax assets and provisions

Deferred tax is the outcome of the following items:

	Balance sheet		Income statement / Statement of comprehensive income	
	31.12.2011	31.12.2010	01.01-31.12.2011	01.01-31.12.2010
Deferred tax provision				
Foreign exchange differences	78	41	37	2
Accrued interest	575	290	285	35
Discounting of liabilities	357	438	(81)	438
Result on the sale of units – without legal ownership transfer agreements	12 806	5 186	7 620	(9 569)
Capitalised financial costs	6 409	6 323	86	413
Other	12	180	(168)	106
Total deferred tax provision	**20 237**	**12 458**	**7 779**	**(8 575)**
Deferred tax assets				
Provision for the housing estate costs	-	-	-	(128)
Inventory revaluation	3 264	2 455	**809**	(2 367)
Receivables revaluation write downs and other provisions	739	1 026	(287)	(435)
Provision for employee benefits	1 609	1 126	483	176
Provision for other costs	3 371	2 319	1 052	1 059
Financial costs	673	673	-	-
Discounting of receivables	252	334	(82)	334
Other	1	3	(2)	(50)
Total deferred tax assets	**9 909**	**7 936**	**1 973**	**(1 411)**
Deferred tax expense			**5 806**	**(7 164)**
Deferred tax provision shown in the balance sheet, net	**10 328**	**4 522**		

7.22. Long-term provisions

LONG-TERM PROVISIONS	31.12.2011	31.12.2010
Provision for repair costs, long-term portion	12 793	11 618
Provision for disputes	1 600	1 745
Provision for retirement benefits	411	360
Other	412	573
Total	**15 216**	**14 296**

The Company has changed the presentation of provisions for repair costs, retirement benefits and disputes. In the balance sheet presented in the financial statements for the twelve-month period ended 31 December 2010 the provisions for repair costs, retirement benefits and disputes were disclosed entirely in short-term liabilities as "Short-term provisions". In these financial statements a long-term portion of these provisions was disclosed in long-term liabilities as "Long-term provisions". As a result of this change, a long-term portion of these provisions in the amount of PLN 12 179 thousand was moved from "Short-term provisions" to "Long-term provisions" in the balance sheet prepared as at 31 December 2010 and incorporated in these financial statements.

SHORT-TERM PROVISIONS – CHANGES	01.01--31.12.2011	01.01--31.12.2010
Opening balance	**14 296**	**13 105**
Provisions created in the financial year	3 114	4 988
Provisions used in the financial year	(2 194)	(3 797)
Closing balance	**15 216**	**14 296**

(all amounts in thousands PLN unless stated otherwise)

7.23. Other long-term liabilities

OTHER LONG-TERM LIABILITIES	01.01--31.12.2011	01.01--31.12.2010
Guarantee retentions, long-term portion	17 603	19 018
Real estate purchase liabilities	17 384	-
Other	62	-
Closing balance	**35 049**	**19 018**

7.24. Bonds

BONDS	31.12.2011	31.12.2010
Nominal value of the bonds issued, long-term portion	100 000	270 000
Nominal value of the bonds issued, short-term portion	170 000	-
Nominal value of the bonds issued	270 000	270 000

On 5 November 2007, the Company and Bank BPH S.A. (currently Pekao S.A.) signed a Bond Issue Programme Agreement, pursuant to which during the seven-year term of the programme 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.

On 28 November 2007, the Company issued 20 000 unsecured bonds with the nominal value of PLN 10 000 each and the aggregate nominal value of PLN 200 million. The maturity date for these bonds is 28 November 2012. The issue value equals their nominal value. The interest rate is set at WIBOR 3M plus margin. On 22 December 2010 the Company redeemed bonds with a total value of PLN 30 million.

On 30 June 2010, the Company issued 8 500 unsecured bonds with the nominal value of PLN 10 000 each and the aggregate nominal value of PLN 85 million. The maturity date for these bonds is 30 June 2015. The issue value equals their nominal value. The interest rate is set at WIBOR 6M plus margin.

On 15 July 2010, the Company issued 1 500 unsecured bonds with the nominal value of PLN 10 000 each and the aggregate nominal value of PLN 15 million. The maturity date for these bonds is 30 June 2015. The issue value equals their nominal value. The interest rate is set at WIBOR 6M plus margin.

BONDS ISSUED AS AT 31.12.2011				
Series	**Issue date**	**Amount**	**Currency**	**Contractual maturity date**
I	28.11.2007	170 000	PLN	28.11.2012
II	30.06.2010	85 000	PLN	30.06.2015
II	15.07.2010	15 000	PLN	30.06.2015
	Total:	**270 000**	**PLN**	

7.25. Accrued interest on loans and bonds

ACCRUED INTEREST ON LOANS AND BONDS	31.12.2011	31.12.2010
Accrued interest on bonds	1 093	963
Accrued interest on loans	1 127	674
Total accrued interest on loans and bonds	**2 220**	**1 637**

(all amounts in thousands PLN unless stated otherwise)

7.26. Trade payables, tax and other liabilities

TRADE PAYABLES, TAX AND OTHER LIABILITIES	31.12.2011	31.12.2010
Trade payables	171 731	95 629
Tax liabilities	2 170	24 169
Accrued costs	22 238	12 447
Company Social Benefits Fund	414	376
Other	87	89
Total liabilities	**196 640**	**132 710**
Accrued costs structure	**22 238**	**12 447**
- estate construction costs	11 700	5 747
- employee costs	8 048	5 559
- other	2 490	1 141

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.

	31.12.2011	31.12.2010
Guarantee retentions, short-term portion	19 729	9 433
Guarantee retentions, long-term portion	17 603	19 018
Total guarantee retentions	**37 332**	**28 451**

7.27. Short-term provisions

SHORT-TERM PROVISIONS	31.12.2011	31.12.2010
Provision for repair costs, short-term portion	4 264	3 872
Provision for disputes	534	582
Provision for retirement benefits	-	-
Other	137	191
Total	**4 935**	**4 645**

SHORT-TERM PROVISIONS – CHANGES	01.01- -31.12.2011	01.01- -31.12.2010
Opening balance	**4 645**	**4 264**
Provisions created in the financial year	4 426	1 647
Provisions used in the financial year	(4 136)	(1 266)
Closing balance	**4 935**	**4 645**

7.28. Deferred income

DEFERRED INCOME	31.12.2011	31.12.2010
Deferred income related to the payments received from customers for the purchase of products, not settled as income in the income statement	327 315	195 113
Other	-	-
Total	**327 315**	**195 113**

(all amounts in thousands PLN unless stated otherwise)

7.29. Benefits after employment

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

7.30. Financial assets and liabilities

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

FINANCIAL ASSETS AND LIABILITIES	31.12.2011	31.12.2010
FINANCIAL ASSETS		
Long-term receivables	1 588	15 791
Trade and other receivables	44 608	39 911
Receivables from related entities	-	6
Total borrowings and receivables	**46 196**	**55 708**
Other	51	32
Financial assets valued at their fair value through the income statement (designated for trading)	**51**	**32**
Cash in hand and at bank	6 309	1 947
Short-term deposits	373 887	432 712
Maximum credit risk exposure	**426 443**	**490 399**
FINANCIAL LIABILITIES		
Loans	218 261	208 536
Own bonds issued	271 093	270 963
Trade payables, accrued and other liabilities	229 105	127 183
Financial liabilities valued at amortised cost	**718 459**	**606 682**

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

7.31. 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 2011 and 31 December 2010 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.

(all amounts in thousands PLN unless stated otherwise)

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 Group 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:

	31.12.2011	31.12.2010
VARIABLE INTEREST RATE INSTRUMENTS		
Financial assets	380 196	434 659
Financial liabilities	489 354	479 499
Total, net	**(109 158)**	**(44 840)**

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.

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 2011 and 31 December 2010 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 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**
31 December 2010				
Variable interest rate assets	1 174	(1 174)	1 174	(1 174)
Variable interest rate liabilities*	(1 295)	1 295	(1 295)	1 295
Net sensitivity	**(121)**	**121**	**(121)**	**121**

* 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.

(all amounts in thousands PLN unless stated otherwise)

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".

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 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 and other 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**
31 December 2010					
Loans	208 536	99 632	-	108 904	-
Own bonds issued	270 963	963	-	170 000	100 000
Trade payables	130 925	105 860	2 050	6 182	16 833
Financial lease liabilities	516	282	152	78	4
Total	**610 940**	**206 737**	**2 202**	**285 164**	**116 837**

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 2011 and 2010 the return on equity (calculated as net profit to the annual average value of shareholders' equity) amounted to 5.3% and 11.2%, respectively. In that period, the average weighted cost of interest on the Group's debt amounted to 6.0% in 2011 and 6.3% in 2010.

(all amounts in thousands PLN unless stated otherwise)

As at 31 December 2011 and 2010 the net financial leverage ratio (calculated as the loans and bonds payable less cash and cash equivalents divided by equity) amounted to 13% and 6% 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 a subject to any external capital requirements, except for the legal regulations of the Commercial Companies Code.

7.32. Earnings per share

CALCULATION OF BASIC AND DILUTED EARNINGS PER SHARE	01.01-31.12.2011	01.01-31.12.2010
Basic earnings per share		
Profit for calculation of the basic earnings per share	82 659	40 415
The weighted average number of ordinary shares of the Company for the calculation of basic earnings per share	24 560 222	24 560 222
Basic earnings per share (PLN)	**3.37**	**1.65**
Diluted earnings per share		
Theoretical profit for calculation of the diluted earnings per share	82 659	40 415
Potential diluting shares related to the Management Share Option Programme II	132 308	136 199
The weighted average number of ordinary shares of the Company for the calculation of diluted earnings per share	24 692 530	24 696 421
Diluted earnings per share (PLN)	**3.35**	**1.64**

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

7.33. Income tax

INCOME TAX	01.01--31.12.2011	01.01--31.12.2010
Current income tax	14 883	17 773
Deferred tax	5 806	(7 164)
Total	**20 689**	**10 609**

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--31.12.2011	01.01--31.12.2010
Gross profit before tax	102 812	51 089
Income tax rate: 19%	19 534	9 707
Permanent differences not subject to the current and deferred tax in the financial statements (except for cost of the management options and dividend received)	977	164
Tax effect of management options permanently not being a tax deductible cost	317	738
Dividends received	(139)	-
Actual income tax expense	20 689	10 609
Effective tax rate:	**20.12%**	**20.76%**

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.

(all amounts in thousands PLN unless stated otherwise)

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.

7.34. Segment reporting

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

7.35. Operating income

REVENUE BREAKDOWN	01.01-31.12.2011	01.01-31.12.2010
Sales of finished goods	568 082	501 633
Sales of services	16 184	12 005
Sales of goods (land)	-	41
Total	**584 266**	**513 679**

7.36. Operating costs

OPERATING COSTS	01.01-31.12.2011	01.01-31.12.2010
Cost of sales		
Cost of finished goods sold	(372 653)	(370 504)
Cost of services sold	(16 914)	(14 102)
Cost of goods sold	-	(42)
Inventory write down to the net realisable value	(4 260)	503
Total cost of sales	**(393 827)**	**(384 145)**
Selling costs, and general administrative expenses		
Selling costs	(35 308)	(26 316)
General administrative expenses	(44 134)	(43 144)
Total selling costs, and general administrative expenses	**(79 442)**	**(69 460)**
Selling costs, and general administrative expenses by kind		
Depreciation	(2 450)	(2 380)
Cost of materials and energy	(12 595)	(9 057)
External services	(20 587)	(18 110)
Taxes and charges	(213)	(277)
Remuneration	(34 260)	(29 562)
Social security and other benefits	(4 082)	(3 755)
Management Option Programme	(1 670)	(3 884)
Other prime costs	(3 585)	(2 435)
Total selling costs, and general administrative expenses by kind	**(79 442)**	**(69 460)**

(all amounts in thousands PLN unless stated otherwise)

7.37. Payroll costs

PAYROLL COST AND AVERAGE EMPLOYMENT (including the management)	01.01-31.12.2011	01.01-31.12.2010
Individual personnel categories (number of staff)	**134**	**123**
White-collar workers	134	123
Blue-collar workers	-	-
General remuneration elements, including:	**38 342**	**33 317**
Remuneration	34 260	29 562
Social security and other benefits	4 082	3 755

7.38. Other operating income

OTHER OPERATING INCOME	01.01-31.12.2011	01.01-31.12.2010
Revenues from contractual penalties, arrangements and compensations	425	812
Reversal of provision for costs	421	3 619
Reversal of provision for receivables	-	107
Other	3 213	825
Total	**4 059**	**5 363**

7.39. Other operating expenses

OTHER OPERATING EXPENSES	01.01-31.12.2011	01.01-31.12.2010
Provision for penalties and arrangements with customers	433	175
Donations	91	197
Provision for other costs	2 414	-
Cost of repairs and defects (including change in provision)	6 255	5 493
Cost of research and abandoned projects	2 500	-
Other	182	522
Total	**11 875**	**6 387**

7.40. Financial income

FINANCIAL INCOME	01.01-31.12.2011	01.01-31.12.2010
Dividends	78	-
Interest on deposits and other interest	6 214	4 299
Other	220	817
Total	**6 512**	**5 116**

7.41. Financial costs

FINANCIAL COSTS	01.01-31.12.2011	01.01-31.12.2010
Interest on loans and bonds (non-capitalized part of interest)	6 283	11 578
Other interest	168	44
Foreign exchange differences	59	27
Commissions and fees	279	1 120
Other	92	308
Total	**6 881**	**13 077**

(all amounts in thousands PLN unless stated otherwise)

7.42. Interest cost

INTEREST COST	01.01-31.12.2011	01.01-31.12.2010
Financial costs (interest) capitalised under work in progress*)	10 128	12 832
Financial costs (interest) disclosed in the income statement	6 283	11 578
Total interest costs	**16 411**	**24 410**

*) 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.

7.43. Transactions with related entities

In the twelve-month periods ended 31 December 2011 and 2010, 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**	**01.01-31.12.2011**	**01.01-31.12.2010**
Woodsford Consulting Limited	Consulting services as per the agreement dated 27 June 2007	1 471	1 383
Hansom Property Company Limited	Consulting services as per the agreement dated 31 March 1999	238	223
Holland Park Advisory Limited	Consulting services as per the agreement dated 5 January 2010	384	370
Towarzystwo Ubezpieczeń Wzajemnych Bezpieczny Dom” under liquidation	Insurance of financial loss risk	-	(121)
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 LAND BUYER UNDER AN AGENCY AGREEMENT			
Counterparty	**Transaction description**	**01.01-31.12.2011**	**01.01-31.12.2010**
Dom Development Grunty sp. z o.o.	Value of land transferred to Dom Development Grunty sp. z o.o. in the performance of mandate contracts	-	54 796
Dom Development Grunty sp. z o.o.	Additional payments to invoices for land ownership transfer to Dom Development S.A.	-	967

DOM DEVELOPMENT S.A. AS A SERVICE PROVIDER (SELLER)			
Counterparty	**Transaction description**	**01.01-31.12.2011**	**01.01-31.12.2010**
Fort Mokotów sp. z o.o.	Repair services as per the agreement dated 22 July 2005	336	144
Fort Mokotów sp. z o.o., under liquidation	Other	41	67
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	51

(all amounts in thousands PLN unless stated otherwise)

DOM DEVELOPMENT S.A. AS A RECIPIENT OF A VALUE OF CONTRIBUTED SHARES			
Counterparty	**Transaction description**	**01.01-31.12.2011**	**01.01-31.12.2010**
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**	**01.01-31.12.2011**	**01.01-31.12.2010**
Dom Development Grunty sp. z o.o.	Borrowing provided	-	1 300
Dom Development Grunty sp. z o.o.	Interest accrued on the borrowing	78	-
Dom Development Grunty sp. z o.o.	Interest paid on the borrowing	-	26

DOM DEVELOPMENT S.A. AS A DIVIDEND PAYER			
Counterparty	**Transaction description**	**01.01-31.12.2011**	**01.01-31.12.2010**
Dom Development B.V.	Dividends	13 686	12 397

BALANCES WITH RELATED ENTITIES – balances as in the books of the Company				
Entity	**Receivables from related entities**		**Liabilities to related entities**	
	31.12.2011	**31.12.2010**	**31.12.2011**	**31.12.2010**
Total balance	**2 646**	**2 546**	**224**	**220**
Subsidiaries	**2 525**	**2 463**	**-**	**-**
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.	-	16	-	-
Dom Development Grunty sp. z o.o.	1 378	1 300	-	-
Joint-ventures	**121**	**83**	**-**	**-**
Fort Mokotów sp. z o.o., under liquidation	121	83	-	-
Other entities	**-**	**-**	**224**	**220**
Woodsford Consulting Limited	-	-	120	130
Holland Park Advisory Limited	-	-	104	90

In 2011 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.

7.44. Incentive Plan – Management Option Programmes

As at 31 December 2011 there were two active Management Option Programmes adopted as part of the Incentive Scheme for the Management staff of the Company.

(all amounts in thousands PLN unless stated otherwise)

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)
	31.12.2011			31.12.2010		
Programme II	726 000	726 000	-	726 000	726 000	-
Programme III	360 000	120 000	-	360 000	-*)	-

*) the above table as of 31 December 2010 does not include 120 000 share options granted conditionally under Programme III.

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. In order to execute Programme II, on 10 August 2006 the General Meeting authorized the Management Board to increase the Company's share capital as part of the authorized capital and to issue the subscription warrants which enable the execution of the right to subscribe for the Company's shares in the period of 3 years from the date of registration of amendments to the Articles of Association. It is provided for in Programme II that after the Grant Date for a given Tranche, should the need arise, the Management Board will propose that the General Meeting adopts the resolution on amending the Articles of Association and renewing, for the period of 3 years from the date of registration of the amendments to the Articles of Association, Management Board's authority to increase the share capital by a maximum of 726 000 shares, less the shares which have already been issued pursuant to Programme II and covered by the authorised capital, to exclude the pre-emptive right of current shareholders upon the Supervisory Board's consent and to issue subscription warrants.

The Supervisory Board of Dom Development S.A. granted all the above mentioned options in the years 2006-2011. 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.

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 13 December 2010 the Management Board adopted a conditional resolution in respect of naming the persons eligible to participate in the first tranche of Programme III and the number of shares to be subscribed by such persons, for each of those persons. This resolution is conditional upon the Company's General Shareholders Meeting's decision that the above mentioned persons are eligible to cover the shares under terms and conditions defined in Programme III and in the resolutions of the Supervisory Board of Dom Development S.A. regarding Programme III. The first tranche concerns 120 000 share options of the Company. 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 the shares under terms and conditions specified in the resolution by the Supervisory Board.

In the twelve-month period ended 31 December 2011 the number of share options eligible to participate in Management Option Programme II was reduced by 6 000 options as a result of termination of employment contracts with the persons eligible to participate in the Programme.

(all amounts in thousands PLN unless stated otherwise)

On 12 July 2011 the Supervisory Board of Dom Development S.A. adopted the resolution concerning determination of persons eligible to participate in the third tranche of Management Option Programme II for 726 000 shares in Dom Development S.A., and share number and price for each of these persons. Pursuant to the resolution 6 000 share options in the Company were granted.

The fair value of the options convertible into shares granted under this tranche was estimated as on the grant date based on the Black-Scholes-Merton model, taking into account the conditions existing on the grant date. The preliminary assumptions taken in the model for the valuation of these options under the third tranche of Programme II are as follows:

Grant date	12 July 2011
Exercise start date	12 July 2011
Maturity date	12 July 2017
Dividend rate (%)	2.09
Anticipated volatility rate (%)	26.72
Risk-free interest rate (%)	4.00
Anticipated period for exercising option (years)	4.50
Exercise price per option (PLN)	44.16
Current share price (PLN)	47.00

The value of the options calculated based on the above model and assumptions on the grant date was PLN 73 thousand. This value is evenly accounted for in the income statement through the period of three years.

Cost of Management Option Programmes accounted for in the income statement

In the twelve-month period ended 31 December 2011 and 31 December 2010 the amounts of PLN 1 670 thousand and PLN 3 884 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		**01.01-31.12.2011**	**01.01-31.12.2010**
Unexercised options at the beginning of the period	**Number of options**	**726 000**	**735 750**
	Total exercise price	**46 930**	**46 990**
Options granted in the period*)	Number of options	126 000	-
	Total option exercise value	385	-
Options expired in the period	Number of options	6 000	-
	Total option exercise value	388	-
Options exercised in the period	Number of options	-	9 750
	Total option exercise value	-	60
	Weighted average exercise price per share	-	-
Unexercised options at the end of the period	**Number of options**	**846 000**	**726 000**
	Total exercise price	**46 927**	**46 930**
Exercisable options at the beginning of the period	Number of options	310 800	159 150
	Total exercise price	35 580	17 163
Exercisable options at the end of the period	Number of options	490 975	310 800
	Total exercise price	37 968	35 580

*) the above table for the 12-month period ended 31 December 2010 does not include 120 000 share options granted conditionally under Programme III.

(all amounts in thousands PLN unless stated otherwise)

Structure of share options granted and not exercised as at 31 December 2011:

Programme	Grant date	Number of options	Exercise price per option (PLN)
Programme II	6.12.2006	149 400	114.48
Programme II	7.12.2007	158 400	114.48
Programme II	10.12.2008	183 175	14.91
Programme II	15.01.2009	31 000	16.97
Programme II	10.12.2009	198 025	40.64
Programme II	12.07.2011	6 000	44.16
Programme III	13.12.2010	120 000	1.00
Total		**846 000**	

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

Remuneration for key executives	01.01-31.12.2011	01.01-31.12.2010
1. The Management Board		
Remuneration	4 651	4 784
including payments from profit	-	-
2. The Supervisory Board		
Remuneration	1 032	852

The composition of the Management Board and the Supervisory Board as at 31 December 2011 has been presented in note 7.48.

On 13 December 2010 the Supervisory Board adopted the conditional resolution regarding the number of share options granted under the first tranche of Programme III (described in note 7.44). Numbers of shares, to which the Management Board members listed below will have the subscription rights, are specified in the conditional resolution.

	Number of share options granted to the Management Board members under Programme III
Janusz Zalewski	23 534
Jerzy Ślusarski	23 534
Janusz Stolarczyk	11 767
Terry Roydon	11 767

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 the shares under terms and conditions specified in the resolution by the Supervisory Board.

The conditional grant of options to members of the Management Board was also described in the financial statements of the Company for the year ended 31 December 2010.

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:

(all amounts in thousands PLN unless stated otherwise)

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

7.46. Contingent liabilities

CONTINGENT LIABILITIES	31.12.2011	31.12.2010
Guarantees	2 110	2 103
Sureties	727	804
Total	**2 837**	**2 907**

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

COLLATERALS FOR LIABILITIES	31.12.2011	31.12.2010
Promissory notes, including:		
– – promissory notes as an additional guarantee for BOŚ bank in respect of claims arising from the granted loan	5 000	134 320
– – promissory notes as an additional guarantee for PKO BP bank in respect of claims arising from the granted loan	175 000	65 000
– promissory notes as other guarantees	1 889	1 889
Total	**181 889**	**201 209**

7.47. Material court cases

As at 31 December 2011 the Company is not a party to any material court cases.

7.48. 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 2011.

As at 31 December 2011 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

(all amounts in thousands PLN unless stated otherwise)

The Supervisory Board

On 19 May 2011 the following members were dismissed from the Supervisory Board:

Zygmunt Kostkiewicz, Vice Chairman of the Supervisory Board
Stanisław Plakwicz, Member of the Supervisory Board

On 19 May 2011 the following persons were appointed to the Supervisory Board:

Marek Moczulski, Member of the Supervisory Board
Krzysztof Grzyliński, Member of the Supervisory Board

As at 31 December 2011 the Supervisory Board was composed of 7 members:

Grzegorz Kiełpsz, Chairman of the Supervisory Board
Richard Lewis, Vice Chairman 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
Marek Moczulski, Member of the Supervisory Board
Krzysztof Grzyliński, Member of the Supervisory Board

Mr. Richard Lewis resigned from the position of a Member and 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 is his retirement effective on 31 March 2012.

7.49. Additional information on the operating activity of the Company

In the twelve-month period ended 31 December 2011 the following material changes in the portfolio of the Company's investments under construction took place:

Projects commenced in the period from 1 January until 31 December 2011:

Project	Standard	Number of apartments
Akropol	Popular	366
Wilno, phase 2 (stage 2A)	Popular	117
Wilno, phase 3	Popular	132
Derby 14, phase 1	Popular	174
Adria, phase 2	Popular	230
Oaza, phase 1	Popular	116
Oaza, phase 2	Popular	130
Saska I, phase 2/2	Popular	144
Saska I, phase 2/3	Popular	105
Regaty, phase 6	Popular	160
Opera B	Luxury apartments	11

(all amounts in thousands PLN unless stated otherwise)

Projects ended (completed) in the period from 1 January until 31 December 2011:

Project	Standard	Number of apartments
Derby 9	Popular	258
Derby 11	Popular	87
Derby 20	Popular	90
Adria, phase 1	Popular	256
Klasyków, phase 1	Popular	135
Regaty, phase 4	Popular	202
Saska I, phase 1/1	Popular	325
Saska I, phase 1/2	Popular	145

7.50. Material post-balance sheet events

Redemption and issue of bonds

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 120 000 000. 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 77 520 000, and 700 bonds with the nominal value of PLN 8 500 each and the aggregate nominal value of PLN 5 950 000 respectively. The maturity date for these bonds is 28 November 2012. The purchase price equals their nominal value.

Share capital increase

On 20 January 2012 the Management Board of Dom Development S.A. adopted a resolution to increase the share capital by issuing Ł series shares as a part of the authorised capital and to fully deprive the current shareholders of their pre-emptive rights. The Company's Management Board acting in accordance with the authorisation defined in point 3.2.8 of the Company's articles of association increased the Company's share capital from the amount of PLN 24 560 222.00 to PLN 24 670 397.00, i.e. by the amount of PLN 110 175.00 by issuing 110 175 series "Ł" ordinary bearer shares with PLN 1.00 nominal each, numbered 1 to 110 175. The "Ł" series shares were issued in a private placement procedure. The Management Board waived the current shareholders' pre-emptive subscription rights to the aforementioned 110 175 series "Ł" ordinary bearer shares. The purpose of the series "Ł" shares issue was to enable the Company to fulfil its obligations arising from the Management Options Programme II related to 726 000 shares in Dom Development S.A. The Management Board set the issuing price for the new series "Ł" shares at PLN 14.91 per share. The shares will be paid for in cash. As at 29 February 2012 all of the 110 175 shares were subscribed. The shares have not yet been registered by the court of registration.

7.51. Approval of the financial statements and the distribution of profit

On 19 May 2011 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 2010, the Management Board's report activities of Dom Development S.A. in 2010 and the consolidated financial statements of Dom Development S.A. Capital Group for the year ended on 31 December 2010 and the Management Board's report of activities of Dom Development S.A. Capital Group in 2010, as presented by the Management Board. The Ordinary General Shareholders Meeting gave a vote of approval for the Management Board for the year 2010.

On 19 May 2011 the Ordinary General Meeting of the Shareholders of the Company resolved to assign PLN 22 104 thousand from the Company's profit for 2010 to dividends. This implies the payment of PLN 0.90 per share. The dividend day was set at 7 June 2011 and the dividend payment day was set at 22 June 2011.

(all amounts in thousands PLN unless stated otherwise)

The dividend was paid out on the agreed date.

7.52. Forecasts

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

7.53. 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 2011 and 31 December 2010 broken up by services, is presented in the table below:

SERVICES	**01.01- -31.12.2011**	**01.01- -31.12.2010**
– Obligatory audit of annual and review of semi-annual financial statements	280	290
– Other attestation services	-	-
– Other services	4	5
Total	**284**	**295**

7.54. 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	**31.12.2011 thousand EURO**	**31.12.2010 thousand EURO**
Total current assets	432 122	404 219
Total assets	433 821	410 007
Total shareholders' equity	189 067	195 283
Long-term liabilities	72 585	104 832
Short-term liabilities	172 169	109 891
Total liabilities	244 754	214 723
PLN/EURO exchange rate as at the balance sheet date	***4.4168***	***3.9603***

SELECTED DATA FROM THE INCOME STATEMENT	**01.01- -31.12.2011 thousand EURO**	**01.01- -31.12.2010 thousand EURO**
Sales revenue	141 124	128 279
Gross profit on sales	45 999	32 348
Operating profit	24 923	14 746
Profit before tax	24 834	12 758
Net profit	19 836	10 109
Average PLN/EURO exchange rate for the reporting period	***4.1401***	***4.0044***