

DOM DEVELOPMENT S.A.

**LONG-FORM AUDITORS' REPORT
ON THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014**

I. GENERAL NOTES

1. Background

DOM DEVELOPMENT S.A. (hereinafter 'the Company') was incorporated on the basis of a Notarial Deed dated 25 February 1999. The Company's registered office is located in Warsaw at Plac Piłsudskiego 3.

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

The Company was issued with tax identification number (NIP) 5251492233 and statistical number (REGON) 012212483.

The Company is the holding company of the Dom Development S.A. capital group. Details of transactions with affiliated entities and the list of companies in which the Company holds at least 20% of shares in the share capital or in the total number of votes in the company's governing body are included in Note 7.9 and 7.43 of the summary of significant accounting policies and other explanatory notes ("the additional notes and explanations") to the audited financial statements for the year ended 31 December 2014.

The principal activities of the Company are as follows:

- real estate construction, investments and sale of real estates,
- property management,
- bookkeeping and accounting services,
- advisory and broking services in relation to mortgages.

As at 31 December 2014, the Company's issued share capital amounted to 24 770 thousand zlotys. Equity as at that date amounted to 858 127 thousand zlotys.

Based on the information included in Director's Report as well as in the current reports published by Company, the ownership structure of the Company's issued share capital as at 31 December 2014 was as follows:

	Number of shares	Number of votes	Par value of 1 share	% of issued share capital
Dom Development B.V.	14 726 172	14 726 172	1.00	59.45%
Jarosław Szanajca	1 534 050	1 534 050	1.00	6.19%
Aviva Otwarty Fundusz Emerytalny Aviva BZ WBK	1 313 383	1 313 383	1.00	5.30%
Grzegorz Kielpsz	1 280 750	1 280 750	1.00	5.17%
Other shareholders	5 915 917	5 915 917	1.00	23.89%
Total	24 770 272	24 770 272	-	100.00%

According to information included in the National Court Register as at 23 February 2015, the share capital amounted to 24 771 thousand zlotys. In current financial year

and as the date of this opinion the following changes have taken place in the structure of the share capital of the Company:

On 21 January 2014 the Management Board of Dom Development S.A. adopted a resolution to increase the share capital by issuing 17 075 S series ordinary shares as a part of the authorised capital from the amount of 24 753 thousand zlotys up to 24 770 thousand zlotys, that is by 17 thousand zlotys. The S series shares were issued in private placement addressed to participants in Management Share Option Programme II. These shares were registered by the District Court for the capital city of Warsaw in Warsaw, 12th Commercial Division of the National Court Register on 20 March 2014.

On 18 November 2014 the Management Board of Dom Development S.A. adopted a resolution to increase the share capital by issuing 1 000 T series ordinary shares as a part of the authorised capital by issuing 1 thousand from the amount of 24 770 thousand zlotys up to 24 771 thousand zlotys, that is by 1 thousand zlotys. The T series shares were issued in private placement addressed to participants in Management Share Option Programme II. These shares were registered by the District Court for the capital city of Warsaw in Warsaw, 12th Commercial Division of the National Court Register on 14 January 2015.

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

	Number of shares	Par value of shares
Opening balance	24 753	24 753
Increase in share capital	17	17
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Closing balance	24 770	24 770
	=====	=====

As at 25 February 2015, the Company's Management Board was composed of:

Jarosław Szanajca	President of the Management Board
Janusz Zalewski	Vice-President of the Management Board
Małgorzata Kolarska	Vice-President of the Management Board
Janusz Stolarczyk	Member of the Management Board
Terry R. Roydon	Member of the Management Board

In current financial year and as the date of this opinion one following change has taken place in the Company's Management Board composition. Due to resignation of Mr Jerzy Ślusarski filed on 30 September 2014 from the post of Member of the Management Board and Vice-President of the Management Board of Dom Development S.A., on 23 September 2014 the Supervisory Board appointed Ms Małgorzata Kolarska as Member of the Management Board and Vice-President of the Management Board of Dom Development S.A. effective on 1 October 2014.

2. Financial Statements

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

2.1 Auditors' opinion and audit of financial statements

Ernst & Young Audyt Polska spółka z ograniczoną odpowiedzialnością sp. k. with its registered office in Warsaw, at Rondo ONZ 1, is registered on the list of entities authorised to audit financial statements under no. 130.

Ernst & Young Audyt Polska spółka z ograniczoną odpowiedzialnością sp. k. was appointed by the Supervisory Board on 24 March 2014 to audit the Company's financial statements.

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

Under the contract executed on 24 September 2012 with the Company's Management Board, we have audited the financial statements for the year ended 31 December 2014.

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

Based on our audit, we issued an auditors' unqualified opinion dated 25 February 2015, stating the following:

To the Supervisory Board of Dom Development S.A.

1. We have audited the attached financial statements for the year ended 31 December 2014 of Dom Development S.A. ('the Company') located in Warsaw at Plac Piłsudskiego 3, containing balance sheet as at 31 December 2014, the income statement, the statement of comprehensive income, the statement of cash flow, the statement of changes in equity for the period from 1 January 2014 to 31 December 2014 and other explanatory notes to the financial statements ('the attached financial statements').
2. The truth and fairness¹ of the attached financial statements, the preparation of the attached financial statements in accordance with the required applicable accounting policies and the proper maintenance of the accounting records are the responsibility of the Company's Management Board. In addition, the Company's Management Board and Members of the Supervisory Board are required to ensure that the attached financial statements and the Directors' Report meet the requirements of the Accounting Act dated 29 September 1994 (Journal of Laws 2013.330 with subsequent amendments – 'the Accounting Act'). Our responsibility was to audit the attached financial statements and to express an opinion on whether, based on our audit, these financial statements comply, in all material respects, with the required applicable accounting policies, whether they truly and fairly² reflect, in all material respects, the financial position and results of the operations of the Company and whether the accounting records that form the basis for their preparation are, in all material respects, properly maintained.

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

² Translation of the following expression in Polish: 'rzetelnie i jasno'

3. We conducted our audit of the attached financial statements in accordance with:
- chapter 7 of the Accounting Act;
 - National Auditing Standards issued by the National Council of Statutory Auditors;
- in order to obtain reasonable assurance whether these financial statements are free of material misstatement. In particular, the audit included examining, to a large extent on a test basis, documentation supporting the amounts and disclosures in the attached financial statements. The audit also included assessing the accounting principles adopted and used and significant estimates made by the Company's Management Board, as well as evaluating the overall presentation of the attached financial statements. We believe our audit has provided a reasonable basis to express our opinion on the attached financial statements treated as a whole.
4. In our opinion, the attached financial statements, in all material respects:
- present truly and fairly all information material for the assessment of the results of the Company's operations for the period from 1 January 2014 to 31 December 2014, as well as its financial position³ as at 31 December 2014;
 - have been prepared in accordance with International Financial Reporting Standards as adopted by the EU and based on properly maintained accounting records;
 - are in respect of the form and content, in accordance with legal regulations governing the preparation of financial statements and the Company's Articles of Association.
5. We have read the 'Directors' Report for the period from 1 January 2014 to 31 December 2014 and the rules of preparation of annual statements' ('the Directors' Report') and concluded that the information derived from the attached financial statements reconciles with these financial statements. The information included in the Directors' Report corresponds with the relevant regulations of art. 49 para 2 of the Accounting Act and the Decree of the Minister of Finance dated 19 February 2009 on current and periodic information published by issuers of securities and conditions for recognition as equivalent the information required by laws of non-EU member states (Journal of Laws 2014.133 with subsequent amendments).'

We conducted the audit of the Company's financial statements during the period from 17 November 2014 to 25 February 2015. We were present at the Company's head office from 17 November 2014 to 28 November 2014 and from 2 February 2015 to 20 February 2015.

2.2 Representations provided and data availability

The Management Board confirmed its responsibility for the truth and fairness⁴ of the financial statements and the preparation of the financial statements in accordance with the required applicable accounting policies, and stated that it had provided us with all financial information, accounting records and other required documents as well as all necessary explanations. The Management Board also provided a letter of representations dated 25 February 2015, confirming that:

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

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

⁴ Translation of the following expression in Polish: "rzetelność i jasność"

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

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

2.3 Financial statements for prior financial year

The Company's financial statements for the year ended 31 December 2013 were audited by Katarzyna Twarowska, key certified auditor no. 11738, acting on behalf of Ernst & Young Audyt Polska spółka z ograniczoną odpowiedzialnością sp. k., Rondo ONZ 1, Warsaw, the company entered on the list of entities authorized to audit financial statements conducted by the National Council of Statutory Auditors with the number 130. The key certified auditor issued an unqualified opinion on the financial statements for the year ended 31 December 2013. The Company's financial statements for the year ended 31 December 2013 were approved by the General Shareholders' Meeting on 22 May 2014, and the shareholders resolved to appropriate the 2013 net profit as follows in full as dividends for the shareholders.

The financial statements for the financial year ended 31 December 2013, together with the auditors' opinion, a copy of the resolution approving the financial statements, a copy of the resolution on the appropriation of profit and the Directors' Report, were filed on 3 June 2014 with the National Court Register.

The closing balances as at 31 December 2013 were correctly brought forward in the accounts as the opening balances at 1 January 2014.

3. Analytical Review

3.1 Basic data and financial ratios

Presented below are selected financial ratios indicating the economic or financial performance of the Company for the years 2012 - 2014. The ratios were calculated on the basis of financial information included in the financial statements for the years ended 31 December 2013 and 31 December 2014.

	2014	2013	2012
Total assets	1 604 565	1 725 809	1 757 196
Shareholders' equity	858 127	856 510	892 558
Net profit	55 822	54 352	91 207
Return on assets (%)	3.5%	3.1%	5.2%
<hr/> $\frac{\text{Net profit} \times 100\%}{\text{Total assets}}$ <hr/>			
Return on equity (%)	6.5%	6.1%	10.9%
<hr/> $\frac{\text{Net profit} \times 100\%}{\text{Shareholders' equity at the beginning of the period}}$ <hr/>			

*DOM DEVELOPMENT S.A.
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for the year ended 31 December 2014
(in thousand zlotys)*

	2014	2013	2012
Profit margin (%)	7.1%	8.0%	10.7%
$\frac{\text{Net profit} \times 100\%}{\text{Sales of finished goods, goods for resale and raw materials}}$			
Liquidity I	3.6	4.6	4.3
$\frac{\text{Current assets}}{\text{Short-term creditors}}$			
Liquidity III	0.8	0.9	0.4
$\frac{\text{Cash and cash equivalents}}{\text{Short-term creditors}}$			
Debtors days	2 days	13 days	10 days
$\frac{\text{Trade debtors} \times 365}{\text{Sales of finished goods, goods for resale and raw materials}}$			
Creditors days	64 days	77 days	59 days
$\frac{\text{Trade creditors} \times 365}{\text{Costs of finished goods, goods for resale and raw materials sold}}$			
Inventory days	711 days	945 days	736 days
$\frac{\text{Inventory} \times 365}{\text{Costs of finished goods, goods for resale and raw materials sold}}$			
Stability of financing (%)	73.8%	78.2%	76.8%
$\frac{(\text{Equity} + \text{long-term provisions and liabilities}) \times 100\%}{\text{Total liabilities, provisions and equity}}$			
Debt ratio (%)	46.5%	50.4%	49.2%
$\frac{(\text{Total liabilities and provisions}) \times 100\%}{\text{Total assets}}$			
Rate of inflation:			
Yearly average	0.0%	0.9%	3.7%
December to December	-1.0%	0.7%	2.4%

3.2 Comments

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

- return on asset ratio reached 3.5% in the year 2014 and was higher than in the year 2013 when it reached 3.1% and lower than in 2012 when it reached 5.2%,
- return on equity ratio reached 6.5% in the year 2014 and was higher than in the year 2013 when it reached 6.1% and lower than in 2012 when it reached 10.9%,
- profit margin ratio amounted to 7.1% in the year 2014 and was lower than in the year 2013 and 2012 when it reached 8.0% and 10.7% respectively,
- liquidity ratio I leveled at 3.6 in the year 2014, for comparison in the year 2013 and 2012 it leveled at 4.6 and 4.3 respectively,
- liquidity ratio III reached 0,8 in the year 2014 and was lower than in the year 2013 when it attained 0.9 and higher than in 2012 when it attained 0.4,
- debtors days ratio reached 2 days in the year 2014, for comparison in the year 2013 and 2012 it reached 13 days and 10 days respectively,
- creditors days ratio reached 64 days in the year 2014, for comparison in the year 2013 and 2012 it reached 77 days and 59 days respectively,
- inventory days ratio for the year 2014 leveled at 711 days and was lower than in the year 2013 and 2012 when it reached 945 days and 736 days respectively,
- stability of financing ratio amounted to 73.8% as at 31 December 2014 and was lower than in the year 2013 and 2012 when it amounted to 78.2% and 76.8% respectively,
- debt ratio for the year 2014 amounted to 46.5% and was lower than in the year 2013 and 2012 when it reached 50.4% and 49.2% respectively.

3.3 Going concern

Nothing came to our attention during the audit that caused us to believe that the Company is unable to continue as a going concern for at least twelve months subsequent to 31 December 2014 as a result of an intended or compulsory withdrawal from or a substantial limitation in its current operations.

In Note 7.2 of the additional notes and explanations to the audited financial statements for the year ended 31 December 2014, the Management Board has stated that the financial statements were prepared on the assumption that the Company will continue as a going concern for a period of at least twelve months subsequent to 31 December 2014 and that there are no circumstances that would indicate a threat to its continued activity.

II. DETAILED REPORT

1. Accounting System

The Company's accounts are kept using the SunSystems computer system at the Company's head office. The Company has up-to-date documentation, as required under Article 10 of the Accounting Act dated 29 September 1994 (Journal of Laws 2013.330 with subsequent amendments – 'the Accounting Act'), including a chart of accounts approved by the Company's Management Board.

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

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

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

Details of the Company's assets, liabilities and equity and profit and loss account are presented in the audited financial statements for the year ended 31 December 2014.

Verification of assets, liabilities and equity was performed in accordance with the Accounting Act. Any differences were adjusted in the books of account for the year 2014.

3. Additional Notes and Explanations to the Financial Statements

The additional notes and explanations to the financial statements for the year ended 31 December 2014 were prepared, in all material respects, in accordance with International Financial Reporting Standards as adopted by the EU.

4. Directors' Report

We have read the Directors' report on the Company's activities in the period from 1 January 2014 to 31 December 2014 and the basis for preparation of annual financial statements ('Directors' Report') and concluded that the information derived from the attached financial statements reconciles with the financial statements. The information included in the Directors' Report corresponds with the relevant provisions of art. 49 para 2 of the Accounting Act and the Decree of the Minister of Finance dated 19 February 2009 on current and periodic information published by issuers of securities and conditions for recognition as equivalent the information required by laws of non-EU member states (Journal of Laws 2014.133 with subsequent amendments).

5. Conformity with Law and Regulations

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

on behalf of
Ernst & Young Audyt Polska spółka
z ograniczoną odpowiedzialnością sp. k.
Rondo ONZ 1, 00-124 Warsaw
Reg. No 130

Key Certified Auditor

Katarzyna Twarowska
certified auditor
No. 11738

Warsaw, 25 February 2015