

CAPITAL GROUP DOM DEVELOPMENT S.A.

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

I. GENERAL NOTES

1. Background

The holding company of the Dom Development S.A. Group (hereinafter 'the Group' or 'the Capital Group') is Dom Development S.A. ('the holding company', 'the Company').

The holding company was incorporated on the basis of a Notarial Deed dated 25 February 1999. The Company's registered office is located in Warsaw at Plac Piłsudskiego 3.

The holding company is an issuer of securities as referred to in art. 4 of the Regulation (EC) No 1606/2002 of the European Parliament and of the Council of the European Union of 19 July 2002 on the application of international accounting standards (EC Official Journal L243 dated 11 September 2002, page 1, polish special edition chapter 13, title 29 page 609) and, based on the article 55.5 of the Accounting Act dated 29 September 1994 (Journal of Laws 2013.330 with subsequent amendments – 'the Accounting Act'), prepares consolidated financial statements of the Group in accordance with International Financial Reporting Standards as adopted by the EU.

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

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

The parent company of Dom Development S.A. is Dom Development B.V.

The principal activities of the holding company are as follows:

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

As at 31 December 2014, the Company's issued share capital amounted to 24 770 thousand zlotys. Equity as at that date amounted to 858 271 thousand zlotys.

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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%
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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. There share 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. There 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. Group Structure

As at 31 December 2014, the Dom Development S.A. Group consisted of the following subsidiaries (direct or indirect):

Entity name	Consolidation method	Type of opinion	Name of authorised entity that audited financial statements	Balance sheet date
Dom Development Morskie Oko Sp. z o.o. w likwidacji	Purchase accounting	Not audited until the date of the report		31 December 2014
Dom Development Grunty Sp. z o.o.	Purchase accounting	Not audited until the date of the report		31 December 2014

As at 31 December 2014 shares in the following associates (direct and indirect) were recognised in the Group's consolidated financial statements using the equity method:

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

There were no changes to the list of consolidated companies when compared to the prior year.

3. Consolidated Financial Statements

3.1 Auditors' opinion and audit of consolidated financial statements

Ernst & Young Audyt Polska spółka z ograniczoną odpowiedzialnością sp. k. 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 22 March 2013 to audit the Group's financial statements.

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

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

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

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

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

1. We have audited the attached consolidated financial statements of Dom Development S.A. Group ('the Group'), for which the holding company is Dom Development S.A. ('the Company') located in Warsaw at Plac Piłsudskiego 3, containing the consolidated balance sheet as at 31 December 2014, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of cash flow, the consolidated 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 consolidated financial statements').
2. The truth and fairness¹ of the attached consolidated financial statements, the preparation of the attached consolidated financial statements in accordance with the required applicable accounting policies and the proper maintenance of the consolidation documentation are the responsibility of the Company's Management Board. In addition, the Company's Management Board and Members of the Supervisory Board are required to ensure that the attached consolidated financial statements and the Directors' Report meet the requirements of the Accounting Act dated 29 September 1994 (Journal of Laws 2013.330 with subsequent amendments – 'the Accounting Act'). Our responsibility was to audit the attached consolidated financial statements and to express an opinion on whether, based on our audit, these financial statements comply, in all material respects, with the required applicable accounting policies and whether they truly and fairly² reflect, in all material respects, the financial position and results of the operations of the Group.
3. We conducted our audit of the attached consolidated financial statements in accordance with:
 - chapter 7 of the Accounting Act;
 - National Auditing Standards issued by the National Council of Statutory Auditors;

in order to obtain reasonable assurance whether these financial statements are free of material misstatement. In particular, the audit included examining, to a large extent on a test basis, documentation supporting the amounts and disclosures in the attached consolidated financial statements. The audit also included assessing the accounting principles adopted and used and significant estimates made by the Company's Management Board, as well as evaluating the

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

² Translation of the following expression in Polish: 'rzetelne i jasne'

overall presentation of the attached consolidated financial statements. We believe our audit has provided a reasonable basis to express our opinion on the attached consolidated financial statements treated as a whole.

4. In our opinion, the attached consolidated financial statements, in all material respects:
 - present truly and fairly all information material for the assessment of the results of the Group's operations for the period from 1 January 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;
 - are in respect of the form and content, in accordance with the legal regulations governing the preparation of financial statements.
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 consolidated 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 consolidated financial statements during the period from 17 November 2014 to 25 February 2015. We were present at the holding company's head office from 17 November 2014 to 28 November 2014 and from 2 February 2015 to 25 February 2015.

3.2 Representations provided and data availability

The Management Board of the holding company confirmed its responsibility for the truth and fairness⁴ of the consolidated financial statements and the preparation of the financial statements in accordance with the required applicable accounting policies, and the correctness of consolidation documentation. The Board stated that it provided us with all financial statements of the Group companies included in the consolidated financial statements, consolidation documentation and other required documents as well as all necessary explanations. We also obtained a written representation dated 25 February 2015, from the Management Board of the holding company confirming that:

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

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

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

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

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

3.3 Consolidated financial statements for prior financial year

The consolidated financial statements of the Group 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., 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 consolidated financial statements for the year ended 31 December 2013. The consolidated financial statements for the year ended 31 December 2013 were approved by the General Shareholders' Meeting on 22 May 2014.

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

4. Analytical Review

4.1 Basic data and financial ratios

Presented below are selected financial ratios indicating the economic or financial performance of the Company for the years 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	1 606 257	1 728 894	1 759 690
Shareholders' equity	858 271	856 541	892 401
Net profit/ loss	55 935	54 540	91 233
Return on assets (%)	3.5%	3.2%	5.2%
<hr/> Net profit x 100% Total assets			
Return on equity (%)	6.5%	6.1%	10.9%
<hr/> Net profit x 100% Shareholders' equity at the beginning of the period			
Profit margin (%)	7.1%	8.1%	10.7%
<hr/> Net profit x 100% Sales of finished goods, goods for resale and raw materials			
Liquidity I	3.8	4.6	4.3
<hr/> Current assets Short-term creditors			
Liquidity III	0.8	0.9	0.4
<hr/> Cash and cash equivalents Short-term creditors			

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	2014	2013	2012
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	65 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	946 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 (%)	46.6%	50.5%	49.3%
$\frac{(\text{Total liabilities and provisions}) \times 100\%}{\text{Total assets}}$			
Rate of inflation:			
Yearly average	0.0%	0.9%	3.7%
December to December	-1.0%	0.7%	2.4%

4.2 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 3.2% 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 8.1% and 10.7% respectively,
- liquidity ratio I leveled at 3.8 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 65 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 946 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 46.6% and was lower than in the year 2013 and 2012 when it reached 50.5% and 49.3% respectively.

4.3 Going concern

Nothing came to our attention during the audit that caused us to believe that the holding company is unable to continue as a going concern for at least twelve months subsequent to 31 December 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 consolidated financial statements for the year ended 31 December 2014, the Management Board of the holding company has stated that the financial statements of the Group entities included in the consolidated financial statements, excluding the entities currently in the process of liquidation, were prepared on the assumption that these entities will continue as a going concern for a period of at least twelve months subsequent to 31 December 2014 and that there are no circumstances that would indicate a threat to its continued activity.

II. DETAILED REPORT

1. Completeness and accuracy of consolidation documentation

During the audit no material irregularities were noted in the consolidation documentation which could have a material effect on the audited consolidated financial statements, and which were not subsequently adjusted. These would include matters related to the requirements applicable to the consolidation documentation (and in particular eliminations relating to consolidation adjustments).

2. Accounting policies for the valuation of assets and liabilities

The Group's accounting policies and rules for the presentation of data are detailed in note 7.4 of the additional notes and explanations to the Group's consolidated financial statements for the year ended 31 December 2014.

3. Structure of assets, liabilities and equity

The structure of the Group's assets and equity and liabilities is presented in the audited consolidated financial statements for the year ended 31 December 2014.

The data disclosed in the consolidated financial statements reconcile with the consolidation documentation.

3.1 Shareholders' funds including non-controlling interest

The amount of shareholders' funds is consistent with the amount stated in the consolidation documentation and appropriate legal documentation. Non-controlling interest amounted to 246 thousand zlotys as at 31 December 2014. It was correctly calculated and is consistent with the consolidation documentation.

Information on shareholders' funds has been presented in note 7.16 of the additional notes and explanations to the consolidated financial statements.

3.2 Financial year

The financial statements of all Group companies forming the basis for the preparation of the consolidated financial statements were prepared as at 31 December 2014 and include the financial data for the period from 1 January 2014 to 31 December 2014.

4. Consolidation adjustments

4.1 Elimination of inter-company balances (receivables and liabilities) and inter-company transactions (revenues and expenses) of consolidated entities.

All eliminations of inter-company balances (receivables and liabilities) and inter-company transactions (revenues and expenses) of the consolidated companies reconcile with the consolidation documentation.

4.2 Elimination of unrealised gains/losses of the consolidated companies, included in the value of assets, as well as relating to dividends

All eliminations of unrealised gains/losses of the consolidated companies, included in the value of assets, as well as relating to dividends reconcile with the consolidation documentation.

5. Disposal of all or part of shares in a subordinated entity

During the financial year the Group did not sell any shares in subordinated entities.

6. Items which have an impact on the Group's result for the year

Details of the items which have an impact on the Group's result for the year have been included in the audited consolidated financial statements for the year ended 31 December 2014.

7. The appropriateness of the departures from the consolidation methods and application of the equity accounting as defined in International Financial Reporting Standards as adopted by the EU

During the process of preparation of the consolidated financial statements there were no departures from the consolidation methods or application of the equity accounting that would have resulted in the modifications in the auditors' opinion.

8. Additional Notes and Explanations to the Consolidated Financial Statements

The additional notes and explanations to the consolidated 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.

9. Directors' Report

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 consolidated 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).

10. Conformity with Law and Regulations

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

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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