

CAPITAL GROUP
LC Corp S.A.

LONG-FORM AUDITORS' REPORT
ON THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED
31 DECEMBER 2011

I. GENERAL NOTES

1. Background

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

The holding company was incorporated on the basis of a Notarial Deed dated 3 March 2006. The Company's registered office is located in Wrocław at 2-4 Powstańców Śląskich Street.

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 (2009 Journal of Laws No. 152 item 1223 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 0000253077 on 15 March 2006.

The Company was issued with tax identification number (NIP) 899-25-62-750 on 27 March 2006 and statistical number (REGON) 020246398 on 17 March 2006.

The principal activities of the Capital Group's entities are as follows:

- development and selling of real estate,
- buying and reselling of real estate,
- renting out of properties,
- conducting construction works connected with building properties

As at 31 December 2011, the Company's issued share capital amounted to 447,558 thousand zlotys. Equity as at that date amounted to 1,033,430 thousand zlotys.

In accordance with information received from the Company as at 31 December 2011, the ownership structure of the Company's issued share capital was as follows:

	Number of shares	Number of votes	Par value of shares	% of issued share capital
Leszek Czarnecki directly and indirectly	229,126,674	229,126,674	229,126	51.19%*
Aviva OFE	36,800,000	36,800,000	36,800	8.22%
ING OFE	32,684,371	32,684,371	32,684	7.30%
Other shareholders	148,947,266	148,947,266	148,948	33.29%
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Total	447,558,311	447,558,311	447,558	100%
	=====	=====	=====	=====

*- including: LC Corp B.V. 47.97%, which is 214,701,110 shares (214,701,110 votes)

According to information included in the holding company's Share Register as at 19 March 2012, the following changes took place in the ownership structure of the holding company's issued share capital during the financial year and between the balance sheet date and the date of the opinion:

- Aviva OFE decreased the number of its shares from 55,000,000 to 36,800,000.
- PZU „Złota Jesień” OFE increased the number of its shares to 24,084,546, exceeding the threshold of 5% (actual number is 5.38%).

There were no movements in the share capital in the reporting period.

As at 19 March 2012, the holding company's Management Board was composed of:

Dariusz Niedośpiał	- President
Joanna Jaskólska	- Vice-President
Mirosław Kujawski	- Member
Tomasz Wróbel	- Member

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

2. Group Structure

As at 31 December 2011, the LC Corp Capital 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 (*)
Arkady Wrocławskie S.A.	Full consolidation	unqualified	Ernst & Young Audit sp. z o.o.	31 December 2011
Warszawa Przyokopowa Sp. z o.o.	Full consolidation	unqualified	„ELIKS” Audytorska Sp. z o.o.	31 December 2011
Kraków Zielony Złocień Sp. z o.o.	Full consolidation	unqualified	„ELIKS” Audytorska Sp. z o.o.	31 December 2011
LC Corp Invest I Sp. z o.o.	Full consolidation	audit not required	audit not required	31 December 2011
LC Corp Invest II Sp. z o.o.	Full consolidation	audit in progress	„ELIKS” Audytorska Sp. z o.o.	31 December 2011
LC Corp Invest III Sp. z o.o.	Full consolidation	unqualified	„ELIKS” Audytorska Sp. z o.o.	31 December 2011
LC Corp Invest VII Sp. z o.o.	Full consolidation	audit in progress	„ELIKS” Audytorska Sp. z o.o.	31 December 2011
LC Corp Invest VIII Sp. z o.o.	Full consolidation	audit in progress	„ELIKS” Audytorska Sp. z o.o.	31 December 2011
LC Corp Invest IX Sp. z o.o.	Full consolidation	unqualified	„ELIKS” Audytorska Sp. z o.o.	31 December 2011

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<i>LC Corp Invest X Sp. z o.o.</i>	Full consolidation	unqualified	„ELIKS” Audytorska Sp. z o.o.	31 December 2011
<i>LC Corp Invest XI Sp. z o.o.</i>	Full consolidation	audit in progress	„ELIKS” Audytorska Sp. z o.o.	31 December 2011
<i>LC Corp Invest XII Sp. z o.o.</i>	Full consolidation	audit in progress	„ELIKS” Audytorska Sp. z o.o.	31 December 2011
<i>LC Corp Invest XIV Sp. z o.o.</i>	Full consolidation	unqualified	„ELIKS” Audytorska Sp. z o.o.	31 December 2011
<i>LC Corp Invest XV Sp. z o.o.</i>	Full consolidation	audit not required	audit not required	31 December 2011
<i>LC Corp Invest XV Sp. z o.o. Projekt 1 Sp. k.</i>	Full consolidation	audit not required	audit not required	31 December 2011
<i>LC Corp Invest XV Sp. z o.o. Projekt 2 Sp. k.</i>	Full consolidation	audit not required	audit not required	31 December 2011
<i>LC Corp Invest XV Sp. z o.o. Projekt 3 Sp. k.</i>	Full consolidation	audit not required	audit not required	31 December 2011
<i>LC Corp Invest XV Sp. z o.o. Projekt 4 Sp. k.</i>	Full consolidation	audit not required	audit not required	31 December 2011
<i>LC Corp Invest XV Sp. z o.o. Projekt 5 Sp. k.</i>	Full consolidation	audit not required	audit not required	31 December 2011
<i>LC Corp Invest XV Sp. z o.o. Projekt 6 Sp. k.</i>	Full consolidation	audit not required	audit not required	31 December 2011
<i>LC Corp Invest XV Sp. z o.o. Projekt 7 Sp. k.</i>	Full consolidation	audit not required	audit not required	31 December 2011
<i>LC Corp Invest XVI Sp. z o.o.</i>	Full consolidation	audit not required	audit not required	31 December 2011

(*) balance sheet date of financial statements used for preparation of consolidated financial statements.

Details of the type and impact of changes in entities included in the consolidation as compared to the prior year may be found in Note 2 of the summary of significant accounting policies and other explanatory notes (“the additional notes and explanations”) to the consolidated financial statements of the Group for the year ended 31 December 2011.

3. Consolidated Financial Statements

3.1 Auditors’ opinion and audit of consolidated financial statements

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

Ernst & Young Audit sp. z o.o. was appointed by the Supervisory Board on 5 December 2011 to audit the Group’s financial statements.

Ernst & Young Audit sp. z o.o. 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 28 November 2011 with the holding company's Management Board, we have audited the consolidated financial statements for the year ended 31 December 2011.

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 19 March 2012, stating the following:

“To the General Shareholders' Meeting and Supervisory Board of LC Corp S.A.

1. We have audited the attached consolidated financial statements of LC Corp Capital Group ('the Group'), for which the holding company is LC Corp S.A. ('the Company') located in Wrocław at 2-4 Powstańców Śląskich Street, for the year ended 31 December 2011 containing the consolidated statement of financial position as at 31 December 2011, the consolidated statement of comprehensive income, the consolidated statement of changes in equity, the consolidated cash flow statement for the period from 1 January 2011 to 31 December 2011 and the summary of significant accounting policies and other explanatory notes ('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 (2009 Journal of Laws No. 152 item 1223 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,

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

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

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 Management Board, as well as evaluating the 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 2011 to 31 December 2011, as well as its financial position³ as at 31 December 2011;
 - 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 2011 to 31 December 2011 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 the Decree of the Minister of Finance dated 19 February 2009 on current and periodic information published by issuers of securities and conditions for recognition as equivalent the information required by laws of non-EU member states (Journal of Laws No. 33, item 259 with subsequent amendments)."

We conducted the audit of the consolidated financial statements during the period from 28 November 2011 to 19 March 2012. We were present at the holding company's head office from 28 November 2011 to 2 December 2011 and from 13 February 2012 to 24 February 2012.

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 19 March 2012, from the Management Board of the holding company confirming that:

- the information included in the consolidation documentation was complete,

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

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

- 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.

3.3 Consolidated financial statements for prior financial year

The consolidated financial statements of the Group for the year ended 31 December 2010 were audited by Marek Musiał, key certified auditor no. 90036, acting on behalf of Ernst & Young Audit sp. z o.o. with its registered office in Warsaw, at Rondo ONZ 1. The key certified auditor issued an unqualified opinion on the consolidated financial statements for the year ended 31 December 2010. The consolidated financial statements for the year ended 31 December 2010 were approved by the General Shareholders' Meeting on 23 May 2011.

The consolidated financial statements of the Group for the financial year ended 31 December 2010, together with the auditors' opinion, a copy of the resolution approving the consolidated financial statements and the Directors' Report, were filed on 1 August 2011 with the National Court Register.

The consolidated statement of financial position as at 31 December 2010, the consolidated statement of comprehensive income, the statement of changes in consolidated equity and the consolidated cash flow statement for the year ended 31 December 2010, together with the auditors' opinion and a copy of the resolution approving the financial statements were published in Monitor Polski B No. 1565 on 12 September 2011.

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 2009 – 2011. The ratios were calculated on the basis of financial information included in the financial statements for the years ended 31 December 2010 and 31 December 2011.

	2011	2010	2009
Total assets	1,467,371	1,278,942	1,301,785
Shareholders' equity	1,033,430	971,421	920,873
Net profit/ loss	62,009	50,548	-43,814
Return on assets (%)	4.2%	4.0%	-3.4%
$\frac{\text{Net profit} \times 100}{\text{Total assets}}$			

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	2011	2010	2009
Return on equity (%)	6.4%	5.5%	-4.5%
$\frac{\text{Net profit} \times 100}{\text{Shareholders' equity at the beginning of the period}}$			
Profit margin (%)	42.3%	32.4%	-38.5%
$\frac{\text{Net profit} \times 100}{\text{Sales of finished goods, goods for resale and raw materials}}$			
Liquidity I	10.2	10.4	6.1
$\frac{\text{Current assets}}{\text{Short-term creditors}}$			
Liquidity III	2.0	1.7	0.3
$\frac{\text{Cash and cash equivalents}}{\text{Short-term creditors}}$			
Debtors days	12 days	9 days	13 days
$\frac{\text{Trade debtors} \times 365}{\text{Sales of finished goods, goods for resale and raw materials}}$			
Creditors days	96 days	33 days	45 days
$\frac{\text{Trade creditors} \times 365}{\text{Costs of finished goods, goods for resale and raw materials sold}}$			
Stability of financing (%)	94.5%	93.9%	89.1%
$\frac{(\text{Equity} + \text{long-term provisions and liabilities}) \times 100}{\text{Total liabilities, provisions and equity}}$			
Debt ratio (%)	29.6%	24.0%	29.3%
$\frac{(\text{Total liabilities and provisions}) \times 100}{\text{Total assets}}$			

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

	2011	2010	2009
Rate of inflation:			
Yearly average	4.3%	2.6%	3.5%
December to December	4.6%	3.1%	3.5%

4.2 Comments

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

- return on assets for the year ended 2011 amounted to 4.2%, and it was higher than in 2010 and 2009, when it was respectively 4.0% and -3,4%,
- return on equity for the year ended 2011 amounted to 6.4%, compared with 5.5% in 2010 and -4.5% in 2009
- profit margin increased from -38.5% in 2009 and 32.4% in 2010 to 42.3% in 2011
- liquidity ratio I amounted to 10.2 in 2011, compared with 10.4 in 2010 and 6.1 in 2009; liquidity ratio III amounted to 2.0 in 2011, compared with 1.7 in 2010 and 0.3 in 2009,
- debtors days ratio amounted to 12 days in 2011, compared with 9 days in 2010 and 13 days in 2009,
- creditors days ratio amounted to 96 days in 2011, compared with 33 days in 2010 and 45 days in 2009,
- stability of financing ratio amounted to 94.5% in 2011, compared with 93.9% in 2010 and 89.1% in 2009,
- debt ratio increased to 29.6% in 2011, compared with 24.0% in 2010 and 29.3% in 2009.

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 2011 as a result of an intended or compulsory withdrawal from or a substantial limitation in its current operations.

In Note 6 of the additional notes and explanations to the audited consolidated financial statements for the year ended 31 December 2011, the Management Board of the holding company has stated that the financial statements of the Group entities included in the consolidated financial statements 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 2011 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 9 of the additional notes and explanations to the Group's consolidated financial statements for the year ended 31 December 2011.

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 2011.

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

3.1 Goodwill on consolidation and amortisation

The method of determining goodwill on consolidation, the method on determining impairment of goodwill, the impairment charged in the financial year and up to the balance sheet date were presented in note 9.6 of the additional notes and explanations to the consolidated financial statements.

3.2 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 28,142 thousand zlotys as at 31 December 2011. It was correctly calculated and is consistent with the consolidation documentation.

Information on shareholders' funds has been presented in note 26 of the additional notes and explanations to the consolidated financial statements.

3.3 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 2011 and include the financial data for the period from 1 January 2011 to 31 December 2011.

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 2011.

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.

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 2011 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 2011 to 31 December 2011 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 the Decree of the Minister of Finance dated 19 February 2009 on current and periodic information published by issuers of securities and conditions for recognition as equivalent the information required by laws of non-EU member states (Journal of Laws No. 33, item 259 with subsequent amendments).

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.

on behalf of
Ernst & Young Audit sp. z o.o.
Rondo ONZ 1, 00-124 Warsaw
Reg. No 130

Key Certified Auditor

Marek Musiał
certified auditor
no. 90036

Wrocław, 19 March 2012