Report of the Management Board
on the activities
of Dom Development S.A. Capital Group

in 2007

Warsaw, 10 March 2008

INTRODUCTION

The holding company of Dom Development S.A. Capital Group (the „Group”) is the joint-stock company Dom Development S.A. („the Company” / „the holding company”). The Company has been entered into the National Court Register under number 0000031483, District Court for the capital city of Warsaw, 19th Commercial Division of the National Court Register. The Company's seat is in Warsaw (00-078 Warsaw, pl. Piłsudskiego 3).

Dom Development S.A. was established in 1995 by a group of international investors and in November 1996 Polish management staff joined it. Participation of the group of international investors guaranteed implementation of western experience and standards as regards home building in the Warsaw market.

As at 31 December 2007 the Company was controlled by Dom Development B.V. with its registered office in the Netherlands which holds 63.10% of the Company's shares. The minority shareholders are: Jarosław Szanajca – 7.06% and Grzegorz Kiełpsz – 5.66%.

1. Structure and activity of Dom Development S.A. Capital Group

The following table presents the Group's structure and the Company's stake in the entities comprising the Group as at 31 December 2007.

Entity name	Country of registration	% of share capital held by holding company	% of votes held by holding company	Consolidation method
Subsidiaries				
Dom Development na Dolnej Sp. z o.o.	Poland	100%	100%	full consolidation
Dom Development Morskie Oko Sp. z o.o.	Poland	100%	100%	full consolidation
Dom Development – Zarządzanie Nieruchomościami Sp. z o.o.	Poland	100%	100%	full consolidation
Joint-venture				
Fort Mokotów Sp. z o.o.	Poland	49%	49%	proportionate consolidation
Associated entities				
Towarzystwo Ubezpieczeń Wzajemnych „Bezpieczny Dom”	Poland	40.32%	40.32%	Equity method
Dom Development Grunty Sp z o.o.	Poland	46%	46%	Equity method
PTI Sp. z o.o.	Poland	48%	48%	Equity method

The main area of activity of the Companies within the Group is the construction and sale of residential real properties. Almost all development projects are conducted directly within the organizational framework of Dom Development S.A. In 2007 only one project of the Company, i.e. Marina Mokotów – was conducted by a joint venture Fort Mokotów sp. z o.o..

In the period of twelve months ended on 31 December 2007 the Group did not discontinue any of its operations.

2. Information on the main products of Dom Development S.A. Capital Group

The main aim of the Group has always been construction of affordable flats from the so-called popular segment. The Group's offer is supplemented with other market segment products.

Currently, the Group's product mix is as follows:

- *Multi-family buildings* (flats and apartments), which can be divided into the following market segments:
    - *Popular flats* – flats in residential buildings and housing estates usually located outside a strict city center, which normally house at least 200 flats at the average price of PLN 7,700 per square meter.
    - *Apartments* – apartments in residential buildings or small groups of buildings located in the Warsaw's city center and in popular residential districts (Żoliborz, Mokotów, Śródmieście, Ochota) housing 200 apartments at the average price of PLN 15,500 per square meter.

  Flats are offered in the unfinished standard and the buyers conducts the finishing work on their own. As an alternative, various "turn key" finishing options are offered, which cover the majority of finishing work.

    - *Luxury apartments* – apartments in residential buildings located in the Warsaw's strict city center or in old Mokotów, adjacent to attractive green areas and parks, housing 100 apartments at the price exceeding PLN 25,000 per m^2.
    - *Commercial area* – mainly shops constructed by the Company as part of residential buildings. The revenues from sales of such area account for an insignificant part of the total revenue, but they enable the Company to offer residents such facilities as shops which increase the attractiveness of a given project.
- Single-family houses (detached houses, semi-detached houses and row houses)

In addition, the Company's tasks include managing the housing estates constructed as part of the development projects conducted by the Group. The management will be performed only through a limited period of time, i.e. until the appropriate management company is chosen by the commonhold associations which take over the managerial duties from the Company.

In 2007 the Group's revenue from the sale of products and services related to real estate management were as follows:

STRUCTURE OF REVENUES	**01.01- -31.12.2007 thousand PLN**	**01.01- -31.12.2006 thousand PLN**	**Change 2007/2006**
Revenues from the sale of finished goods	840,505	701,348	19.8%
Revenues from the sale of services related to real estate management	19,839	19,689	0.8%
Revenues from other sales	18,409	8,781	109.6%
Total	**878,753**	**729,816**	**20.4%**

3. Basic economic and financial data disclosed in the annual financial statements of Dom Development S.A. Capital Group for 2007.

Consolidated balance sheet

Structure of the Group's assets as at 31 December 2007 and changes as compared to the state as at the end of 2006.

ASSETS	31.12.2007	Share in assets	31.12.2006	Change 2007/2006
	thousand PLN		thousand PLN	
Total fixed assets	**21,881**	**1.7%**	**17,046**	**28.4%**
Current assets				
Inventory	862,358	68.9%	594,865	45.0%
Trade and other receivables	65,915	5.3%	60,808	8.4%
Other current assets	26,425	2.1%	23,670	11.6%
Cash and cash equivalents	275,489	22.0%	227,535	21.1%
Total current assets	**1,230,186**	**98.3%**	**906,877**	**35.7%**
Total assets	**1,252,067**	**100.0%**	**923,923**	**35.5%**

Structure of the Group's liabilities as at 31 December 2007 and changes as compared to the state as at the end of 2006.

EQUITY AND LIABILITIES	31.12.2007	Share in liabilities	31.12.2006	Change 2007/2006
	thousand PLN		thousand PLN	
Shareholders' equity				
Share capital	24,560	2.0%	24,050	2.1%
Share premium less treasury shares	231,535	18.5%	230,371	0.5%
Reserve capital, supplementary capital and accumulated, unappropriated profit (loss)	440,043	35.1%	237,461	85.3%
Total shareholders' equity	**696,138**	**55.6%**	**491,882**	**41.5%**
Liabilities				
Long-term liabilities	330,419	26.4%	154,814	113.4%
Total short-term liabilities	225,510	18.0%	277,227	-18.7%
Total liabilities	**555,929**	**44.4%**	**432,041**	**28.7%**
Total equity and liabilities	**1,252,067**	**100.0%**	**923,923**	**35.5%**

Consolidated Income Statement

Consolidated income statement of the Group for the year ended on 31 December 2007 as compared to 2006

	01.01--31.12.2007	% of sales	01.01--31.12.2006	Change 2007/2006
	thousand PLN		thousand PLN	
Sales revenues	878,753	100.0%	729,816	20.4%
Cost of sales	545,666	62.1%	496,871	9.8%
Gross profit on sales	333,087	37.9%	232,945	43.0%
Operating profit	240,959	27.4%	164,958	46.1%
Profit before tax	250,363	28.5%	167,773	49.2%
Profit after tax	**200,644**	**22.8%**	**135,199**	**48.4%**
Earnings per share (PLN/share)	**PLN 8.17**	**N/A**	**PLN 6.06**	**34.8%**

Consolidated Cash Flow Statement

Cash as of the beginning of 2007 amounted to PLN 227,535 thousand and at the end of the year it amounted to PLN 275,489 thousand. It means that in the period 1 January - 31 December 2007 the balance of cash increased by the amount of PLN 47,954 thousand.

In 2007 the Group recorded the net cash disbursements in the amount of PLN 22,277 thousand from the operating activity. Such a result, similarly as in 2006, is the consequence of high financial result and significant income from sales of flats, which was accompanied by a very significant increase in the inventory, and mainly outlays for land desiganted for future investment projects.

In 2007 the Group recorded the net cash disbursements in the amount of PLN 3,621 thousand from investment activity.

In 2007 the Group recorded the net cash income in the amount of PLN 73,852 thousand from the financial activity. Such a significant surplus of cash revenue over the expenditure results primarily from the issue of new Company bonds along with the reduction of the loan debt.

4. Explanation of differences between the financial results disclosed in the annual financial statements and the forecasts for 2007 published earlier.

Both Dom Development S.A. Capital Group and Dom Development S.A., the holding company, did not publish financial forecasts for 2007.

It should also be noted that the financial results of the Company and the Group for the year 2007 which were disclosed earlier in the financial statements for the fourth quarter of 2007 are the same as the financial results disclosed in the annual financial statements of the Group.

5. Managing financial resources of the Capital Group.

Managing financial resources of Dom Development S.A. Capital Group in 2007 in connection with the conducted construction of residential buildings was focused on looking for sources of financing for the projects under construction and on maintaining safe liquidity ratios. The Management Board analyses the current and plans the future optimum financing structure on a regular basis in order to achieve the anticipated ratios and financial results, and, at the same time, ensure liquidity and broadly understood financial safety of the Group. In 2007 the Group's activity generated a positive result at each level of the income statement.

According to the Management Board, the asset situation and financial standing of Dom Development S.A. Capital Group at the end of 2007 confirm that the Group's financial standing is stable and the prospects for the near future are optimistic. It results from the fact that the Company has secured an established position in the housing market gaining appropriate experience and operating potential both in terms of execution of investment projects itself and the sale and financing these projects. Another reason for optimistic forecasts is the current economic boom, which directly affects the market of residential real estate in Poland. In particular, it concerns the Warsaw market, which, to a larger extent than other Polish cities, attracts both domestic and foreign investors.

Profitability ratios

The ratios showing the profitability of the business activities conducted by the Group in 2007 are significantly better than those relating to the previous year. This reflects the continuation of the fast growth trend which began in 2006. All of the ratios increased significantly which is a proof of the growth in all areas of the business activity of the Group. Moreover, these ratios show that the period of prosperity on the residential real property market which began in 2006 and continued almost throughout the whole of 2007 was properly taken advantage of.

The ROA and ROE ratios are also very favourable. This is particularly important, because the amount of shareholders' equity continues to grow (resulting from the retention of almost whole profit for 2006 by the Group) and so does the value of inventories (including primarily the land to be used in future investments).

PROFITABILITY RATIOS	2007	2006
Operating profit margin ratio *EBITDA / Net sales revenues*	27.7%	22.8%
Net profit margin ratio *Profit after tax / sales revenues*	22.8%	18.5%
Return on assets (ROA) *Profit after tax / total assets*	16.0%	14.6%
Return of equity (ROE) *Profit after tax / shareholders' equity*	28.8%	27.5%

Liquidity ratios

All the liquidity ratios remain at a very high level, even higher than in 2005. Such a state of affairs was mainly due to the good results of the Group and the sales margins achieved, as well as the Management Board's policy related to financing of the executed investment projects, including the appropriate use of the shares issued in 2006 (IPO on the WSE) and the new issue of bonds. The credibility of the Company on the market is constantly increasing which is visible in the diversified structure of banks financing the Company's business activities and the possibility of issuing unsecured bonds.

LIQUIDITY RATIOS	2007	2006
Current ratio *current assets / short-term liabilities*	5.46	3.27
Quick ratio *(current assets – inventory) / short-term liabilities*	1.63	1.13
Cash ratio cash / short-term liabilities	1.22	0.82

Debt ratios

Thanks to appropriate operating and financial policy (financing structure), the debt ratios improved further as compared to 2006. Changes can be seen in all presented ratios. Values of the presented ratios are on very safe level for the conducted business activity and confirm the Company's and the Group's creditworthiness on the financial market.

DEBT RATIOS	2007	2006
Equity to assets ratio *Shareholders' equity / Total assets*	55.6%	53.2%
Equity debt ratio *Total liabilities / Shareholders' equity*	79.9%	87.8%
General debt ratio *Total liabilities / Total assets*	44.4%	46.8%
Interest debt ratio *Interest liabilities / Shareholders' equity*	40.0%	40.9%

6. Assessment of the possibility to execute investment plans, including capital investments, compared to the resources held, with consideration given to possible changes in the financing structure of this activity.

As part of the Capital Group - Dom Development S.A. and the subsidiaries are fully capable of financing the currently executed investment projects. The Group, executing development projects, intends to finance them using the funds from the shareholders' equity, bank loans and issue of debt securities. The Management Board is trying to adapt the maturity structure of the bank loans it takes out and debt securities mainly to the execution period of individual development projects, with particular consideration given to regular filling in the land bank for future development projects.

Currently, almost all of the activities of the Capital Group Dom Development S.A. are conducted directly in Dom Development S.A. Nonetheless, the Company does not rule out the possibility of conducting business activities through the controlled entities or jointly-controlled entities with the financing for these activities (special-purpose loans) being provided directly by those companies or through Dom Development S.A.

7. Dividend for 2007

The Management Board of Dom Development S.A. intends to suggest the Shareholders' Meeting that the dividend should amount to 25% of the net profit generated by the Capital Group Dom Development S.A. in 2007.

8. Information on the markets, clients and sources of supply of materials for production

In 2007, as in the previous years, the whole activity of the Group (described in point 9) was located mainly in Warsaw and its vicinity. In 2007 there were continued the changes in the portfolio of housing products offered by the Group. i.e. a further increase in the share of popular flats in the sales structure and in the structure of the planned investment projects.

Moreover, pursuant to the strategy adopted by the Company according to which it is to begin conducting activities outside Warsaw, the Company purchased some plots of land for the construction of a housing estate in Wrocław.

The sales structure of the Capital Group Dom Development S.A.

NUMBER OF PRODUCTS SOLD BY SEGMENT	2007	2006	Change
Popular flats	1,404	1,227	14.4%
Apartments of higher standard..	296	459	(35.5)%
Luxury apartments...	-	40	-
Single-family houses..	4	29	(86.2)%
Total	**1,704**	**1,755**	**(2.9)%**

The Group is not dependent on any of its clients because the sale is split between a large, varied and ever-changing group of clients buying residential and commercial premises. The majority of the Group's clients are natural persons.

The main costs incurred by the Group in connection with the developer activity are the costs of construction services provided by external entities which are not connected with the Group as part of the general contracting system and the purchase costs of land for these investment projects.

As regards the land, despite individual transactions of significant values, the Group is not dependent on one supplier.

As regards the construction services, contractors are chosen in the process of internal tender procedures organized by the Group. The Group uses the services of various construction companies operating on the Warsaw market. The biggest contractors of the Group in 2007 in terms of the value of services purchased in this period were:

SUPPLIER	01.01- -31.12.2007 thousand PLN
UNIBEP S.A.	86,386
HENPOL Sp. z o.o.	59,878
KALTER Sp. z o.o.	54,448
HOCHTIEF POLSKA Sp. z o.o..	51,868
WARBUD S.A..	45,298
KARMAR S.A...	38,083
MOSTOSTAL WARSZAWA S.A..	34,418

The turnover shown above accounts for over 75% of the sum spent by the Group on construction and design services in 2007.

9. Group's operations during the year

In 2007 the following material changes in the portfolio of investments under construction took place:

Finished projects, i.e. projects for which use permits were issued:

Plan	Decision on the use permit	Segment	Number of apartments
Olimpia 2 phase 3	I Q 2007	Popular	116
Derby 7 phase 1/2	II Q 2007	Popular	127
Olimpia 2 phase 2..	III Q 2007	Popular	273
Patria phase 1..	III Q 2007	apartments of higher standard	129
Patria phase 2..	III Q 2007	apartments of higher standard	113
Gdański..	III Q 2007	apartments of higher standard	260
Olimpia 2 phase 4..	IV Q 2007	Popular	282
Derby 8	IV Q 2007	Popular	263
Derby 10..	IV Q 2007	Popular	359

Commenced projects, i.e. projects with commenced construction and sale phases:

Plan	Commencement of construction and sale	Segment	Number of apartments
Derby 15...	I Q 2007	Popular	277
Olbrachta phase 1..	II Q 2007	Popular	243
Olimpia 2 phase 5..	II Q 2007	Popular	63
Derby 17..	II Q 2007	Popular	185
Olbrachta phase 2..	III Q 2007	Popular	205
Regaty phase 1..	III Q 2007	Popular	148
Regaty phase 2..	IV Q 2007	Popular	242
Derby 13..	IV Q 2007	Popular	174

Significant agreements for the business activity of Dom Development S.A. Capital Group concluded in 2007.

Due to the nature of the business activity conducted by the Group the significant agreements whose value exceeded 10% of the shareholders' equity were:

Significant agreements related to the purchase of land in 2007

Project's working name	Type of real property purchase agreement	Date of agreement	Value of transaction PLN thousand
Górczewska (Warsaw)	Final agreement on the purchase of the right to a perpetual usufruct of the land	February 2007	60,000
Nyska (Wrocław)	Final agreement on the purchase of the right to a perpetual usufruct of the land	July 2007	45,754
Jugosłowiańska (Warsaw)	Conditional agreement on the purchase of a real property	August 2007	58,600
	Final agreement on the purchase of the right to a perpetual usufruct of the land	October 2007	58,600
Klasyków (Warsaw)	Conditional agreement on the purchase of a real property	October 2007	56,500
	Final agreement on the purchase of the right to a perpetual usufruct of the land (performance of the part of the conditional agreement)	October/November 2007	46,935

The following are the most significant suppliers with whom the Group concluded in the accounting year the agreements whose total amount exceeded 10% of the shareholders' equity of the Group:

Supplier	Date of the agreement	Name of the project
Hochtief Polska Sp. z o.o..................	11-04-2007	Olbrachta
Kalter S.A.	04-07-2007	Regaty 1 phase 1
Kalter S.A.	05-07-2007	Regaty 1 phase 2
Unibep S.A.	05-07-2007	Regaty – single-family houses
Unibep S.A.	21-12-2007	Róża Wiatrów
Henpol Sp. z o.o..............................	11-04-2007	Derby15 and Derby 18
Henpol Sp. z o.o..............................	17-12-2007	Derby 13

Agreements concluded between the shareholders

Dom Development S.A. Capital Group has no information on possible agreements concluded between the shareholders in 2007.

Insurance agreements

Subject of insurance	Insurer	Insurance amount thousand PLN
Insurance of property – housing estates under Company's management	PZU S.A. i TUiR S.A. WARTA	960,528
Third party liability insurance for the Management Board	TUiR S.A. WARTA	30,000
Insurance of property – the registered office of the Company and the sales office	TUiR S.A. WARTA	8,054
Third party liability insurance concerning the conducted business activities and the assets held	TUiR S.A. WARTA	4,200

Financial agreements

The following are the most significant financial agreements concluded by the Company in 2007:

- The agreement concerning the issue of bonds with the total value not exceeding PLN 400,000,000 which is described in point 12 of these financial statements.
- The agreement on the transfer of the management over the financial assets with the total value not exceeding PLN 50,000,000 conducted with ALLIANZ TFI. The agreement was both signed and terminated in 2007.

Cooperation agreement

In 2007, Dom Development S.A. Capital Group did not conclude any significant cooperation agreements with other entities.

10. Prospects for development of the business activity conducted by Dom Development S.A. and the Group.

The Management Board of Dom Development S.A. anticipates further dynamic growth of the Group. Such forecasts are based on the following factors:

- good prospects for the residential real estate market in Warsaw as well as increasingly better prospects and growing potential of other big Polish cities,
- the potential of the Group's managerial staff, which is continually strengthening, as well as the know-how gained while executing the development projects,
- the land bank owned by the Group (concerns both the projects under construction and the future projects).

During the next twelve months the most important changes in the Group's operations will be:

- further targeting of the operating activity on the popular flat sector of the market and maintaining activities in the remaining sectors which are included in the Group's offer,
- bigger concentration of all operations at the Group in Dom Development S.A., accompanied by the reduction of significance of other entities of the Group,
- launching the first real property development projects outside Warsaw, the first of which will be located in Wrocław,
- it is also assumed that the luxury apartments will be increasingly less common in the Group's offer.

Further growth of the Capital Group Dom Development S.A. is expected to be achieved through the increase of the sales volume on the Warsaw market and the increase in sales in other cities of Poland. To this end, more investments in the real property development projects located outside Warsaw are under analysis.

11. Description of significant risk factor and factors important for development of Dom Development S.A. Capital Group

Significant risk factors and threats to the business activity conducted by the Company and the Capital Group identified by the Management Board have been presented below.

Concentration of operations on the Warsaw market – the Company's and the Capital Group's present and planned activity is concentrated on the Warsaw market, which, to a large extent, makes the Company's results dependent on the situation on this market. However, it can be assumed that this is and will be the most dynamic residential real estate market in Poland, where the Company and the Group have an established position and the possibility to further develop their operations. The Group also analyses further expansion outside the Warsaw market.

Ability to purchase land for new projects – the source of the Company's and the Group's future success is the ability to continually and effectively acquire attractive land for new development projects at appropriate dates and competitive prices which will enable generating satisfying margins.

Administrative decisions – the nature of development projects forces the Company and the Group to obtain a number of licenses, permits and arrangements at every stage of the investment process. Despite significant caution used in the planned schedules of projects' execution, there is always a risk of delays in obtaining them, challenges of decisions which have already been made (also due to appeal remedies which have no consequences for the suing parties) or even failing to obtain them, which affects the ability to conduct and complete the executed and planned projects.

Foreign exchange risk – a significant part of flats and houses purchased by clients is financed with mortgage loans in foreign currencies, mainly in Swiss franks, American dollars and Euro. A significant percent of foreign exchange loans, despite the limitations in obtaining them which have been introduced in 2006, may lead to the situation in which, in the case PLN weakens compared to these currencies, flat buyers will not be able to service the loans taken out to finance them, which will increase the supply with the real properties foreclosed by banks, and this will be accompanied by a limited demand from buyers who will not be granted such loans.

Availability of mortgage loans – a significant increase in flat and house prices recorded recently resulted in the situation that a number of new potential flat buyers come up against the obstacle of creditworthiness. Further price increase, could lead to a reduction in the demand for new flats and houses. Nonetheless, the said negative trends which increase the costs of financing the purchases of new flats may be compensated to a large extend by the growth in salaries which was reported for the year 2007 and which is expected to continue.

Change in the VAT rate – In 2007 the government decided to keep the 7% VAT rate applicable to the residential construction business. The period in which this rate will be in force is currently vaguely defined but is expected to be rather limited and the VAT rate on the sale of flats and houses is bound to increase from 7% to 22%. However, a definition of the „social housing" was also set in 2007. This kind of construction business will still be subject to VAT at 7% rate. This is important for the Group due to the fact that almost all types of residential real properties offered by the Company are subject to the lower VAT rate. The Management Board is of the opinion that the influence of the said changes on the results of both the Company and the Group will be minimum.

The key activities adopted by the Company to reduce the exposure to the market risks consist of appropriate assessment of potential and control of current development projects on the basis of investment models and decisive procedures developed in the Company the adherence to which is particularly closely monitored by the Management Board of the Company.

There has been a formal risk management procedure („Risk Management") in operation within the holding company since 2000. The process of management under this procedure is conducted by means of identification and assessment of risks in relation to all areas of activities undertaken by the Company and the Group. At the same time the actions necessary to reduce or eliminate such risk are set (among other things through the procedures and internal audit system). The „Risk Management" procedure is periodically updated by the Management Board with the participation of key members of the management and supervision bodies as well as external consultants.

Additionally, pursuant to corporate governance rules adopted by the Management Board on 9 August 2006 and accepted by the Extraordinary Shareholders' Meeting, there is an Audit Committee in operation in the Company.

12. Description of transactions with related entities whose one-time or total value of transactions concluded by a given related entity within the period of 12 months is a PLN equivalent of EUR 500,000.

Counterparty	Transaction description	01.01--31.12.2007 thousand PLN	01.01--31.12.2006 thousand PLN
	Dom Development S.A. as a buyer of goods or services		
Woodsford Consulting Limited....................	Consulting services as per agreement dated 1 February 2000	1,903	2,094
	Dom Development S.A. buying land as part of an agency agreement		
Dom Development Grunty sp. z o.o.	Amounts transferred to Dom Development Grunty Sp. z o.o. for the purchase of land as part of specified work contracts	55,548	32,396
Dom Development Grunty sp. z o.o.	Value of land transferred to Dom Development S.A. as part of specified work contracts	12,422	23,191
Dom Development Grunty sp. z o.o.	Additional VAT payments to the invoices transferring the ownership of land to Dom Development S.A.	1,431	4,925
Fort Mokotów sp. z o.o.	Property management fees	5,586	1,484
	Dom Development S.A. providing services (seller) – the value of services invoiced during the period		
Fort Mokotów sp. z o.o.	General Project Execution agreement dated 15 April 2002	212	3,110
Fort Mokotów sp. z o.o.	The sales commission agreement and agreement for provision of advertising and marketing services dated 15 April 2002	1,064	6,245
Fort Mokotów sp. z o.o.	Property management fees	876	741
Fort Mokotów sp. z o.o.	Other	243	31
	Dom Development S.A. as a party receiving a dividend		
Fort Mokotów sp. z o.o.	Dividend (gross)	29,400	14,246
	Dom Development S.A. as a party paying a dividend		
Dom Development B.V.	Dividend (gross)	2,324	-

13. Information on the contracted loans, issued debt securities and borrowing agreements
Loans and borrowings

LOANS DUE WITHIN	31.12.2007 thousand PLN	31.12.2006 thousand PLN
1 year	37,005,453.52	98,915,383.99
More than 1 year less than 2 years	41,779,280.00	22,200,000.00
More than 2 years less than 5 years	-	-
More than 5 years	-	-
Total loans	**78,784,733.52**	**121,115,383.99**
including: long-term	41,779,280.00	22,200,000.00
short-term	37,005,453.52	98,915,383.99

As at 31 December 2007 and 31 December 2006 the Company did not have borrowing-related liabilities.

The detailed data concerning loans and borrowings have been described in Note 14 to the consolidated financial statements of the Group for the year ended on 31 December 2007.

Bonds

BONDS	**31.12.2007**	**31.12.2006**
	thousand PLN	thousand PLN
Nominal value of the issued bonds	**200,000**	**80,000**

On 5 November 2007 the Company and Bank BPH S.A. signed a Bond Issue Program Agreement. During the seven-year term of this program, Dom Development S.A. intends to issue mid-term bonds (with a maturity date exceeding 1 year, but not 7 years) with the total value of no more than PLN 400,000,000, which is to be construed as the nominal value of all issued and unredeemed bonds on any day of the term of the Program. The return on bonds shall depend on the market conditions on the sale date and calculated according to WIBOR 3M + margin. The proceeds from the bonds will be used for financing the development of the Company. The bonds shall be issued in series and offered to selected investors. The Company does not plan to introduce the bonds issued under the program to public trading. The terms of the Agreement with Bank BPH S.A. are typical for such types of programs.

On 28 November 2007, pursuant to the above-mentioned agreement, the Company issued 20,000 I series bonds with the nominal value of PLN 10,000 each and the total nominal value of **PLN 200,000,000** under the Bond Issue Program Agreement signed with Bank BPH S.A. on 5 November 2007. The maturity date of these bonds is 28 November 2012 and the interest at WIBOR 3M plus bank commission is payable every three months until the settlement date. The interest becomes due and payable in February, May, August and November during the term of the agreement. The proceeds from the issue of bonds will be used for financing the development of the Company. The bonds are an unsecured liability of the Company.

The detailed data concerning loans and borrowings have been described in Note 16 to the consolidated financial statements of the Group for the year ended on 31 December 2007.

14. Description of the manner in which Dom Development S.A. used revenue from the issue of securities in the period covered by the report

In 2007 the Company did not issue any new shares.

On 29 December 2006 the Extraordinary General Shareholders' Meeting adopted Resolution no. 8 concerning the amendment of Resolution no. 5, dated 2 August 2006 on the increase of the share capital from the amount of PLN 24,050,372 to the amount of PLN 24,560,222 by issuing 172,200 H series ordinary bearer shares, 92,700 I series ordinary bearer shares, 96,750 J series ordinary bearer shares and 148,200 L series ordinary bearer shares;

On 14 February 2007 the District Court for the capital city of Warsaw 12th Commercial Division of the National Court Register issued the ruling concerning the registration of an increase in the share capital to the amount of PLN 24,560,222 in connection with the issue of 172,200 H series ordinary, bearer shares, 92,700 I series ordinary bearer shares, 96,750 J series ordinary bearer shares and 148,200 L series ordinary bearer shares.

As at 31 December 2006 all of the above mentioned shares were covered and paid in full, i.e. in the total amount of PLN 1,673,793.94.

15. Changes in the basic management principles of the Company and its Capital Group

In 2007 there were no major changes in the basic principles of management. The development of the organization calls for improvement of the management procedures in force in Dom Development S.A. and in other entities of the Group.

16. The Management Board and the Supervisory Board of Dom Development S.A.

<u>The Management Board</u>

Composition of the Management Board as at 31 December 2007:

Jarosław Szanajca – President of the Management Board
Grzegorz Kiełpsz – Vice-President of the Management Board
Leszek Piotr Nałęcz – Vice-President of the Management Board
Terry Roydon – Member of the Management Board
Janusz Stolarczyk – Member of the Management Board
Jerzy Ślusarski – Member of the Management Board

Due to the resignation from the position of Vice President of the Company's Management Board tendered by Mr. Janusz Zalewski, Mr. Leszek Piotr Nałęcz took over the position on 3 October 2007. On 14 November 2007 the Supervisory Board adopted a resolution concerning the appointment of Mr. Jerzy Ślusarski as member of the Company's Management Board.

Compared to the composition of the Management Board in 2006, the new members are Mr. Leszek Piotr Nałęcz and Mr. Jerzy Ślusarski while Mr. Janusz Zalewski resigned from the position of Vice President of the Management Board.

The principles of appointing and removing the Members of the Management Board

The principles of appointing and removing the Members of the Management Board from office are governed by the provisions of the Code of Commercial Companies and Partnerships and the Articles of Association.

The shareholder holding at least 50.1% of the shares of the Company is entitled to appoint and remove half of the Members of the Management Board, including the President of the Management Board and the Vice-President who is responsible for the Company's finances under the Company Foundation Deed. If there is an uneven number of the Members of the Management Board, the shareholder holding at least 50.1% of the shares of the Company is entitled to appoint (respectively): 3 (if the Management Board consists of 5 Members) or 4 (if the Management Board consists of 7 Members) Members of the Management Board. The rest of the Members of the Management Board are appointed and removed by the Supervisory Board. The Members of the Management Board are appointed for a joint, three-year term of office.

Entitlements of the Management Board, particularly the right to adopt a resolution on the issue or redemption of shares.

The Code of Commercial Companies and Partnerships and the Articles of Association govern the rights of the members of management and supervisory bodies.

The Management Board is the executive body of the Company. It manages the current activities of the Company and represents it in outside contacts. The Management Board adopts resolutions with respect to all matters, which under the Law, these Articles of Association or a resolution of the General Shareholders' Meeting do not fall within the scope of competence of the General Shareholders' Meeting and the Supervisory Board. The Management Board represents the Company in and outside the court. Two Members of the Management Board or one Member and a proxy must act jointly in order to make declarations of will and sign documents on behalf of the Company.

The Management Board performs its activities according to the By-laws adopted by the Supervisory Board.

Resolutions on the issue and redemption of shares:

Resolutions on the issue and redemption of shares are adopted pursuant to the Code of Commercial Companies and Partnerships and the Articles of Association. After the Supervisory Board issues a positive opinion, the Management

Board is entitled to increase the share capital by means of the issue of new shares within the target capital up to the amount of PLN 1,726,000.

The said authorization expires on 5 September 2009.

Following the Supervisory Board's consent, the Management Board may deprive the shareholders in whole or in part of their preemptive right with respect to the shares issued within the target capital, unless otherwise stipulated by the Code of Commercial Companies and Partnerships and the Management Board decides about all matters connected with the increase of the share capital within the target capital.

The Supervisory Board must give its approval with respect to the resolutions of the Management Board concerning the issue price of the shares within the target capital or issue of shares in return for in-kind contributions. Moreover, the following activities require the approval by the Supervisory Board:

- concluding agreements for the investment underwriting or service underwriting or other agreement guaranteeing the success of an issue, as well as concluding agreements pursuant to which the depositary receipts for shares would be issued outside the territory of the Republic of Poland,
- under taking activities to dematerialize the shares and concluding agreements with Krajowy Depozyt Papierów Wartościowych S.A. (National Depositary for Securities joint-stock company) on the shares registration, taking activities to issue shares by means of public offering or applying for admitting shares for trading on the regulated market.

The Supervisory Board

Composition of the Supervisory Board of the Company as at 31 December 2007

Zygmunt Kostkiewicz – Chairman of the Supervisory Board
Richard Reginald Lewis – Vice-Chairman of the Supervisory Board
Stanisław Plakwicz – Member of the Supervisory Board
Michael Cronk – Member of the Supervisory Board
Markham Dumas - Member of the Supervisory Board
Włodzimierz Bogucki - Member of the Supervisory Board

There were no changes in the composition of the Supervisory Board in 2007.

Audit Committee and Remuneration Committee

There is an Audit Committee and a Remuneration Committee present in the Company which were created pursuant to the Code of Good Practices in the public companies of 2005 and the Articles of Association of the Company. The composition of these Committees in 2007 was as follows:

Audit Committee

Włodzimierz Bogucki – Chairman of the Audit Committee
Stanisław Plakwicza – Member of the Audit Committee
Richard Reginald Lewis – Member of the Audit Committee
Michael Cronk - Member of the Audit Committee

Remuneration Committee

- Stanisław Plakwicz – Chairman of the Remuneration Committee
- Richard Reginald Lewis – Member of the Remuneration Committee
- Markham Dumas – Member of the Remuneration Committee.

17. The amount of outstanding borrowings granted by the Company to the members of the management and supervisory bodies and their relatives as well as the amount of guarantees and sureties granted to the said people.

As at 31 December 2007 there were no outstanding borrowings, guarantees and sureties granted by the Company to the members of the management and supervisory bodies and their relatives.

18. The agreements concluded between the Company and the members of the management and supervisory bodies under which the compensation would be awarded in the event of their resignation or removal from the post.

The following Members of the Management Board of the Company: Jarosław Szanajca, Leszek Piotr Nałęcz, Grzegorz Kiełpsz, Janusz Stolarczyk and Jerzy Slusarski are employed in the Company on the basis of the employment contracts. Pursuant to the provisions of those employment agreements, the termination of employment relationship with a given Member of the Management Board entitles them to receive remuneration in the notice period.

With respect to one member of the Management Board the employment contract stipulates that in the event of removal from the Management Board before the end of term or in the event of non-appointment to the Management Board for the following term the gratuity due shall be equal to six month's base salary.

19. The amount of remuneration, bonuses and grants received by individual members of the management and supervisory bodies.

In 2007 the members of the management and supervisory bodies of Dom Development S.A. obtained remuneration from the Company and remuneration for holding the positions in the management and supervisory bodies of the subsidiaries, jointly-controlled and affiliated entities:

	In the Company thousand PLN	In other entities of the Group thousand PLN
1. The Management Board		
Remuneration		
Jarosław Szanajca	1,319	147
Grzegorz Kiełpsz	915	144
Janusz Zalewski	766	147
Leszek Piotr Nałęcz	175	-
Janusz Stolarczyk	752	-
Jerzy Ślusarski	695	-
Terry Roydon	72	-
Richard Lewis	-	-
In this remuneration from profit		
Jarosław Szanajca	-	-
Grzegorz Kiełpsz	-	-
Janusz Zalewski	-	-
Leszek Piotr Nałęcz	-	-
Janusz Stolarczyk	-	-
Jerzy Ślusarski	-	-
Terry Roydon	-	-
Richard Lewis	-	-
2. The Supervisory Board:		
Zygmunt Kostkiewicz	96	-
Richard Lewis	72	-
Markham Dumas	72	-
Włodzimierz Bogucki	72	-
Michael Cronk	72	-
Stanisław Plakwicz	72	-
Teresa Rogoźnicka	-	-
Terry Roydon	-	-

Additionally, on 6 December 2006 and on 7 December 2007 the allocation of the options for the Company's shares took place as part of the II Management Options Programme. The share options were allocated to the following Members of the Management Board:

	Date of allotting a share option	Number of shares	Option period	Purchase price per 1 share/PLN
The Management Board				
Terry Roydon	06.12.2006	50,000	from 06.12.2009 to 06.12.2013	114.48
Leszek Piotr Nałęcz	07.12.2007	40,000	from 07.12.2010 to 07.12.2014	114.48
Janusz Stolarczyk	06.12.2006	5,850	from 06.12.2009 to 06.12.2013	114.48
	07.12.2007	15,000	from 07.12.2010 to 07.12.2014	114.48
Jerzy Ślusarski	22.03.2006	16,000	from 22.03.2009 to 22.03.2013	6.10
	06.12.2006	5,850	from 06.12.2009 to 06.12.2013	114.48
	07.12.2007	15,000	from 07.12.2010 to 07.12.2014	114.48
Total Management Board		**147,700**		
Total Supervisory Board..........................	**-**	**-**	**-**	**-**
Total Members of the Management Board and the Supervisory Board:		**147.700**		

20. Total number and nominal value of all of the Company's shares and shares and stocks in the entities of the Group held by the members of the management and supervisory bodies of the Company.

The ownership structure of shares and options for the Company's shares among the Members of the Management Board and the Supervisory Board as at 31 December 2007 was as follows:

	Shares		Share options	Total
	Number	Nominal value PLN	number	number
The Management Board				
Jarosław Szanajca...	1,734,050	1,734,050	-	1,734,050
Grzegorz Kiełpsz...	1,390,750	1,390,750	-	1,390,750
Leszek Piotr Nałęcz	-	-	40,000	40,000
Jerzy Ślusarski	363	363	36,850	37,213
Janusz Stolarczyk	106,200	106,200	20,850	127,050
Terry Roydon	58,500	58,500	50,000	108,500
The Supervisory Board				
Zygmunt Kostkiewicz	39,376	39,376	-	39,376

The Members of the Management Board and the Supervisory Board of the Company did not hold any shares in other entities of the Group.

21. The shareholders of Dom Development S.A. who as at 31 December 2007 held, both directly and indirectly through the subsidiaries, at least 5% of the total number of votes at the General Shareholders Meeting.

As at 31 December 2007 the holding entity Dom Development S.A. was controlled by Dom Development B.V., which held 63.10% of the Company's shares. Other shareholders holding more than 5% of the Company's shares as at 31 December 2007 were Jarosław Szanajca - 7.06% of the shares and Grzegorz Kiełpsz - 5.66% of the Company's shares.

22. Data concerning the contracts known to the Company and concluded in the last accounting year which may result in future changes in the proportions of shares held by the previous shareholders

There are Management Options Programmes in the Company according to which the options for the Company's shares are allocated. The execution of those options will result in future changes in the proportions of shares held by the previous shareholders:

- IB Management Options Programme

  96,750 options for the Company's shares were allocated under this programme. As at 31 December 2007 all the shares resulting from options allocated under this programme were subscribed and entrusted with UniCredit CA IB Polska acting as a depositary in this programme. The shares were registered on 14 February 2007.

- II Management Options Programme

  Two tranches of options have been allocated under this programme. As at 31 December 2007 the following options were granted under this programme:

  The first tranche of 6 December 2006: there were 234,538 options for the Company's shares granted, of which 40.588 expired. The options granted under this programme may be exercised between 6 December 2009 and 6 December 2013.

  The second tranche of 7 December 2007: there were 242.000 options for the Company's shares granted. The options granted under this programme may be exercised between 7 December 2010 and 7 December 2014.

Aside from the foregoing share options allocated under the Management Options Programme, the Management Board of Dom Development S.A. is not aware of any other agreements resulting in the future changes in the proportions of shares held by the previous shareholders. Detailed description of Management Options Programmes has been presented in Note 37 to the consolidated financial statements of the Group.

23. Holders of any securities, which grant special controlling rights in relation to the issuer.

The shareholder holding at least 50.1 % of the Company's shares, i.e. Dom Development B.V., controls the issuer primarily thanks to possessing the majority of votes at the General Shareholders' Meeting of the issuer. Additionally, pursuant to the Articles of Association, Dom Development B.V., being the entity holding 50.1% or more of the Company's shares has the following personal rights with respect to appointing members of the Company's bodies:

- pursuant to point 6.2.2 of the Articles of Association – it is entitled to appoint and remove half of the Members of the Management Board, including the President of the Management Board and the Vice-President who is responsible for the Company's finances under the Company Foundation Deed. If there is an uneven number of the Members of the Management Board, the shareholder holding at least 50.1% of the shares of the Company is entitled to appoint (respectively): 3 (if the Management Board consists of 5 Members) or 4 (if the Management Board consists of 7 Members) Members of the Management Board.

- pursuant to point to 7.4 of the Articles of Association, it is entitled to appoint and remove half of the Members of the Supervisory Board, including the Vice-Chairman of the Supervisory Board. If there is an uneven number of the Members of the Supervisory Board, the shareholder holding at least 50.1% of the shares of the Company is entitled to appoint (respectively): 3 (if the Supervisory Board Consists of 5 Members) or 4 (if the Supervisory Board consists of 7 Members) or 5 (if the Supervisory Board consists of 9 Members) Members of the Supervisory Board.
- Pursuant to point 8.2.4 of the Articles of Association, the Supervisory Board or the shareholder holding at least 50.1% of the shares have the right to convene the Ordinary General Shareholders' Meeting, if the Management Board does not convene such a meeting within the deadline specified in these Articles of Association, and to convene the Extraordinary General Shareholders' Meeting should they deem such action necessary on condition that the Management Board fails to convene the General Shareholders' Meeting within two weeks from the day the Supervisory Board or the shareholder holding at least 50.1% of the Company's shares submits a relevant request.
- It is entitled to appoint the Chairman of the Supervisory Board if the Supervisory Board is elected on the basis of voting by separate groups as specified in Article 385 of the Code of Commercial Companies and Partnerships.

24. Notification on the control system of the employee options programme

The Management Options Programmes (the only share option plans in the Company), which are effective in the Company, are adopted by the Supervisory Board on the basis of authorization given as a part of the resolution issued by the General Shareholders' Meeting.

- IB Management Options Programme

  Pursuant to IB Management Options Programme, the Supervisory Board of the Company adopts a resolution naming the people entitled to acquire the options. It is also entitled to set the condition or conditions which must be met by the participants before they submit the statement stating their will to conclude the shares sale agreement. If the Supervisory Board comes to the conclusion that the condition or conditions have not been met or that the transfer of the shares will not be legal, it will adopt a resolution concerning such a situation. This resolution shall act as a basis for issuing a refusal to conclude the shares sale agreement under which the shares would be sold to the participant of IB Pogramme.

  As at 31 December 2007 all shares resulting from options allocated under this programme were subscribed to and entrusted to CDM PKO S.A., currently UniCredit CA IB Polska S.A., which is a depository in this programme.

- II Management Options Programme

  Pursuant to II Management Options Programme, the Supervisory Board of the Company adopts a resolution naming the people entitled to participate in the Pogramme. It is also entitled to set the condition or conditions, which must be met by the participants before they execute the subscription rights. On 10 August 2006 the Extraordinary General Shareholders' Meeting entitled the Management Board to increase the share capital of the Company and to issue warrants allowing for the execution of subscription rights by the participants of the II Programme. After the Supervisory Board gives its consent, the Management Board is entitled to adopt the resolution concerning the increase of the share capital

  II Management Options Programme covers 726,000 shares of Dom Development S.A., subject to a limit allowing for the allocation of maximum of 242,000 shares within any one period of 12 consecutive months.

  As at 31 December 2007 476,538 share options were allotted, of which 40,588 expired.

25. Restrictions concerning the transfer of ownership rights to the Company's securities and restrictions concerning the execution of voting rights attributed to the Company's shares

Contractual restrictions

There are no known contractual limitations concerning the transfer of ownership rights to the securities issued by the Company or limitations concerning the voting rights appurtenant to the shares of the Company.

Limitation resulting from the binding legal regulations:

Limitations resulting from legal regulations relate to the so-called "closed periods" specified in the Act on Trading in Financial Instruments.

26. Notification on the agreement on the audit and review of the financial statements and the consolidated financial statements concluded with the entity authorized to conduct audits

On 2 July 2007 Dom Development S.A. concluded an agreement on the audit and review of the standalone and consolidated financial statements with BDO Numerica Sp. z o.o. (entity authorized to conduct audits).

The agreement covers the audit of the financial statements submitted by the Company and the Group for the year ended on 31 December 2007 and review of mid-year financial statements submitted by the Company and the Group for the period of six months ended on 30 June 2007. The total amount of remuneration on account of the audit of the annual financial statements amounts to PLN 140 thousand. The total amount of remuneration on account of the audit of mid-year financial statements amounted to PLN 80 thousand.

The total amount of remuneration on account of the audit of the annual financial statements submitted for the comparative, previous year amounted to PLN 125 thousand and the total amount of remuneration on account of the audit of mid-year financial statements amounted to PLN 75 thousand.

Warsaw, 10 March 2008

Jarosław Szanajca
President of the Management Board

Grzegorz Kiełpsz
Vice-President of the Management Board

Leszek Piotr Nałęcz
Vice-President of the Management Board

Janusz Stolarczyk
Member of the Management Board

Terry R. Roydon
Member of the Management Board

Jerzy Ślusarski
Member of the Management Board