DOM DEVELOPMENT S.A.

CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED ON 31 DECEMBER 2008

PREPARED IN ACCORDANCE WITH

INTERNATIONAL FINANCIAL REPORTING STANDARDS

I. INTRODUCTION TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. General information about the holding company of Dom Development S.A. Capital Group

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”) with its registered office in Warsaw (00-078 Warsaw, Pl. Piłsudskiego 3) entered into the National Court Register under number 0000031483, District Court for the capital city of Warsaw, 12th Commercial Division of the National Court Register.

According to the Polish Classification of Business Activity the Company's scope of activity is construction projects concerning construction of buildings – PKD 4110Z. The Company conducts its activities mainly in Warsaw and its vicinity.

The Company is a majority-owned subsidiary of Dom Development B.V. with its registered office in the Netherlands. As at 31 December 2008 the holding company Dom Development S.A. was controlled by Dom Development B.V. which held 63.15% of the Company's shares.

2. General information about the Group

The following table presents the Group's structure and the holding company's stake in the entities comprising the Group as at 31 December 2008.

Entity name	Country of registration	% of share capital held by the holding company	% of votes held by the 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
Dom Development Grunty sp. z o.o.	Poland	46%	100%	full consolidation
Joint-venture				
Fort Mokotów sp. z o.o.	Poland	49%	49%	proportionate consolidation

The main area of activity of the companies comprising the Group is the construction and sale of residential real estate.

The main area of activity of the associated entity - Towarzystwo Ubezpieczeń Wzajemnych „Bezpieczny Dom” is financial risk insurance.

The main area of activity of the subsidiary entity – Dom Development Grunty sp. z o.o. is purchase of real estate for development activities of the Group.

Fort Mokotów sp. z o.o. was formed for the duration of the construction of the Marina Mokotów project, but for no longer than until 31 December 2011 (as per the company's Articles of Association).

All entities of the Group conduct business activities in the territory of Poland and in compliance with the Code of Commercial Companies and Partnerships, and have been formed for an unspecified time, with the exception of Fort Mokotów sp. z o. o.

In the period of 12 months ended on 31 December 2008 the Group did not discontinue any of its operations.

3. Basis for the preparation of the consolidated financial statements

The consolidated financial statements have been prepared based on historical acquisition cost, purchase price or production cost except for derivative financial instruments, which in accordance with International Financial Reporting

Standards („IFRS") were stated at fair values. The value of assets and liabilities being the subject of hedging transactions, which are usually valued at cost or in the amount due for payment, will be adjusted to reflect the profit or loss attributable to a hedging transaction concluded in relation to these assets and liabilities, and the value of this adjustment is accounted for in accordance with relevant IFRS standards.
The separate financial statements constituting the basis for the preparation of the consolidated financial statements were prepared based on the assumption that Capital Group would continue their business activities in the foreseeable future, with no threats to the continuation of these activities.

The methods used to value assets and liabilities and determine the financial result are applied consistently.

The consolidated financial statements are stated in Polish zloty („PLN"). Financial data included in the consolidated financial statements are expressed in thousands of PLN unless stated otherwise.

The assets, equity and liabilities valuation principles and financial result calculation methods presented in the notes to the consolidated financial statements are consistent with the accounting principles adopted by the holding entity.

Statement of unreserved conformity with International Financial Reporting Standards

Dom Development S.A. Capital Group has prepared its consolidated financial statements in accordance with the accounting standards issued by the International Accounting Standards Board as adopted by the European Union.

These standards, collectively referred to as International Financial Reporting Standards (IFRS), also include International Accounting Standards (IAS) and interpretations issued by the Standing Interpretation Committee (SIC) and the International Financial Reporting Interpretation Committee.

The Group has applied all standards and interpretations effective within the European Union as at 31 December 2008.

Basic information concerning the consolidation

The consolidated financial statements were prepared on the basis of the financial statements of the entities comprising the Group and presented as if the Group constituted a single entity. The consolidated financial statements comprise the financial statements of the holding entity (Dom Development S.A.) and the financial statements of the subsidiaries and jointly controlled entity, all of which were prepared for the 12-month period ended on 31 December 2008.

The revenues, expenses and settlements resulting from transactions between the Group entities were adjusted in the consolidated financial statements.

The consolidated cash flow statement for the 12-month period ended on 31 December 2008 contains the cash flow statements of the holding company, the subsidiaries and the jointly controlled entity, and include proper consolidation adjustments resulting from mutual transactions.

Fort Mokotów sp. z o.o., a jointly controlled entity, is consolidated by means of the proportionate consolidation method.

The Company controls Dom Land Sp z o.o within the meaning of control specified in the IAS. The consolidation of Dom Land Sp. z o.o. , which is related in the form other than by means of capital, has been abandoned. Dom Development S.A. has no shares in Dom Land Sp. z o.o. and the fact that this company has not been included in the consolidation has no influence on the financial result and shareholders' equity of Capital Group Dom Development S.A.

4. Summary of significant accounting policies

Interest in a jointly controlled entity

The Group has an interest in a joint-venture which is a jointly controlled entity. A joint-venture is a contractual arrangement whereby two or more parties undertake an economic activity that is a subject to joint control, and a jointly controlled entity is a joint-venture that involves the establishment of a separate entity in which each partner has an interest. The Group recognises its interest in the joint-venture using proportionate consolidation method. The Group combines its share in each of the assets, liabilities, income and expenses of the joint-venture with similar items, line by line, in its consolidated financial statements. The financial statements of the joint-venture are prepared for the same balance sheet date as the holding entity, using consistent accounting policies. Adjustments are made to bring into line any dissimilar accounting policies that may exist.

Investments in associated entities

The Group's investments in its associated entities are accounted for under the equity method of accounting. An associated entity is an entity in which the Group has significant influence and which is neither a subsidiary nor a joint-venture.

Under the equity method, the investment in the associated entities is disclosed in the balance sheet at cost plus post-acquisition changes in the Group's share of net assets of the associated entity. After application of the equity method the Group determines whether it is necessary to recognise any additional impairment loss with respect to the Group's net investment in the associate. The income statement reflects the share of the Group in the financial result of the associate.

Tangible fixed assets

All tangible fixed assets are stated at cost less accumulated depreciation (except for land), less accumulated value impairment. Replacement of existing parts of a tangible fixed asset can be capitalised, if material. Depreciation is calculated on straight-line basis over the useful life of the asset. Buildings and constructions are depreciated at the rates from 2.5% to 4.5% and plant and equipment from 10% to 30%. Low-value tangible fixed assets are fully expensed in the month they are taken over for use.

Inventories

Finished goods

Finished goods represent mainly housing units and parking spaces. They are stated at the lower of cost and net realizable value. The net realisable value represents the estimated selling price evaluated by the Management Board based on the information from the Company’s Sales Department.

Work in progress

Work in progress is valued in accordance with the principles described in the section „Long-term contract disclosure principles”.

Inventory impairment review

Pursuant to IAS 11, if a construction project is expected to generate a loss, this entails a revaluation write-down of work-in-progress value (including the value of land), which is immediately disclosed in the income statement.

For each development project there are budgets prepared, which cover both past and future cash flows for each undertaken project. These budgets are subject to revaluation at lease once every three months. For the purposes of impairment review, budgets of projects cover all past and projected net revenues less direct costs of land acquisition, design, construction and other costs related to the preparation of a project, show flats and sales offices on site. These budgets are also encumbered with related past and projected costs of external financing and projected claims from customers (if applicable).

The budgets of projects are prepared with the application of the prudence principle.

If a project contribution, calculated taking into account all revenues and the above-mentioned costs, is above zero, there is no need to make an inventory revaluation write-down. A negative contribution suggests that there is a potential problem of impairment, which, following a thorough analysis of cash flows for a given project, results in a recording of an impairment write-down in the amount of the estimated negative value of this contribution.

The revaluation write-down is disclosed in the income statement under "other operating costs". The reversal, if any, of such an impairment write-down for a given project is possible provided that the projected contribution amount for this project assumes a positive value.

If the project consists of several stages, the inventory impairment review is conducted in the following manner:

a) all future phases of the project are treated as a single project for the purposes of impairment review,

b) each phase of the project, in which sales and construction have already begun, is separated from the rest of the (construction) project and is considered separately for the purposes of impairment review.

Costs of external financing

Costs of external financing are disclosed as costs in the period in which they were incurred, except for capitalized costs, i.e. costs that may be assigned to costs of construction of qualifying assets (in the case of the Company: to work-in-progress) as a part of their construction costs.

The financial costs are capitalized into work-in-progress exclusively in the period during which the development project is active. The project is considered active if designing or construction work is underway for the acquired land and during the process of obtaining key administrative decisions necessary to run the project.

The financial costs cease to be capitalized when generally all activities which have to be undertaken in order to prepare flats to be handed-over to customers have been completed.

The capitalization of financial costs is suspended in the case of suspension of activities connected with the project-related investment activity, including work related to design, construction process and obtaining required permits and administrative decisions concerning the project.

Trade and other receivables

Trade receivables are recognised and disclosed at original invoice amounts less provision for bad debts. Revaluation write-off for bad debt is valued when the Group cannot collect the full amount of the receivable.

Cash and cash equivalents

Cash and short-term deposits are shown in the balance sheet at a nominal value and comprise cash at banks and in hand and short-term deposits with the original maturity of three months or less.

Revenue recognition

Revenue is recognised to the extent that it is probable that the Company will achieve the economic benefits from a given transaction and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

Sale of housing units

The revenue from the sale of housing units is recognised by reference to the stage of completion. Detailed description of the developers' project percentage of completion is provided in the section „Long-term contract disclosure principles".

The Company begins revenue recognition on construction contract after the preliminary sales agreement with the client has been signed. The revenue is recorded gradually in line with the progress of work done and the rate of sales until the construction is complete. The basis for such a procedure is that past experience shows that virtually all sales based on preliminary sales agreements reach the legal completion stage. At this point the notary deeds transfer the legal ownership to the buyer. At each balance sheet date, Management assesses the rate of conversion of preliminary sales agreements into notary deed transfers to verify whether this accounting treatment is still appropriate.

Sale of services

The revenues from the sale of services, including housing real estate administration fees income, are recognized at the fair value of the consideration received or receivable for the services provided in the normal course of business, less VAT.

Foreign currency translation

The consolidated financial statements are presented in PLN, which is the Company's and Group's functional and presentation currency. Transactions in foreign currencies are initially recorded at the exchange rate at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the exchange rate as at the balance sheet date, with any differences posted in the income statement under „ financial income/costs".

Taxes

Current tax

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are binding as at the balance sheet date.

Deferred tax

For financial reporting purposes, the deferred income tax is calculated by means of the method of the balance sheet liabilities in relation to the timing differences as at the balance sheet date between the tax value of assets and liabilities and their balance sheet value recognized in the financial statements.

Deferred income tax assets are recognised with regards to all negative timing differences, carry-forward of unused tax credits and unused tax losses to the extent that it is probable that the taxable profit will be available against which the deductible timing differences and the carry-forward of unused tax credits and unused tax losses, can be utilised.

The balance sheet value of a deferred income tax asset is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised. An unrecognised deferred income tax asset is reassessed at each balance sheet date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

The provision for a deferred income tax is created in the amount of the income tax that will be payable in future due to positive timing differences, i.e. the differences that will increase the taxable base in the future.

The assets and provisions for a deferred income tax are valued at the tax rates that are expected to be applicable to the year when the asset component is realised or the provision is released, assuming as the basis the tax rates (and tax regulations) that are legally or actually binding as at the balance sheet date.

The income tax relating to the items recognised directly in the shareholders' equity is recognised in equity and not in the income statement.

The assets and provisions for a deferred income tax are offset by the Group only if a legally enforceable right exists to set-off the current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Long-term contract disclosure and valuation principles

a. „Work in progress" is valued in accordance with IAS 11 „Construction contracts". Based on previous experience of the Management Board it was found that the method of income and cost recognition described in this standard is the most suitable for the Company's business. Construction of a single project exceeds 12 months and the sale of apartments in residential developments consists of concluding numerous single contracts for the construction of apartments.

If there is a probability that the total amount of costs of the developers' project shall exceed the total amount of the revenues anticipated for this project, the anticipated loss is then, according to the IAS 11, immediately disclosed as cost.

b. Work in progress is initially valued at the amount of expenses incurred.

c. Every month the value of „Work in progress" is adjusted in compliance with the „percentage of completion method" described below. Since the percentage of completion method is used to determine the result on the sale of apartments at housing developments during the construction period, invoiced prepayments do not constitute „Sales revenues" but increase „Deferred income" until the housing development obtains an occupation permit.

d. The apartments are formally transferred to the customers after the construction has been completed and the occupation permit is obtained, whilst invoices for the sale of apartments are issued in accordance with the payment schedule agreed in advance with the customer.

e. The percentage of completion method consists in recognizing the revenue based on the result of the formula referred to as „statistical revenue":

*Statistical revenue = cost indicator * revenue indicator * budgeted revenues*

f. The percentage of completion method consists in recognizing costs based on the result of the formula referred to as „statistical cost":

$$\text{statistical cost} = \text{statistical revenue} * \frac{\text{budgeted costs}}{\text{budgeted revenue}}$$

g. The cost indicator is a proportion of the actual costs incurred (less expenditures related to the purchase of land) to the budgeted costs (for the entire development less the cost of land).

$$\text{cost indicator} = \frac{\text{actual costs incurred}}{\text{budgeted costs}}$$

h. The revenue indicator is a proportion of the sum of revenues from concluded preliminary sales contracts to the budgeted revenues (total expected revenues from the entire development when fully sold).

$$\text{revenue indicator} = \frac{\text{contracted revenue}}{\text{budgeted revenue}}$$

i. By calculating the „statistical revenue", a proportion of revenue can be recognised in the income statement, relating to the combination of progress in construction and sales calculated by the product of the cost indicator and revenue indicator.

j. By calculating the „statistical cost", a proportion of cost can be recognised in the income statement to the same extent that revenues are recognised (in proportion to the recognition of sales).

k. Upon the issue of an occupancy permit the percentage of completion method is replaced. The actual sales invoices issued and the actual costs incurred (invoiced and accrued costs) are recognized in the income statement. Unsold apartments and parking spaces are transferred from work in progress to finished goods until such time as they are sold and recognized in the income statement as cost.

l. The invoiced sales and the uninvoiced portion of the contractual sales and corresponding costs are recognized as follows:

Debit: Deferred income
Credit: Sales revenues

Debit: Cost of finished goods sold
Credit: Work in progress

m. If „Deferred income" is negative (which might occur if the amount of the invoiced sales revenues is relatively low, compared to the value of the concluded contracts and work advancement), then it is „zeroed out" and „Deferred assets (part of „other current assets")" are increased, respectively.

Debit: Deferred assets (part of „other current assets")
Credit: Deferred income

Significant change in the accounting policies to be introduced by the Company from 1 January 2009

The International Financial Reporting Interpretation Committee (IFRIC) has completed a project reviewing the interpretation of revenue recognition from real estate sales under IAS 11 ("Construction contracts") and IAS 18 ("Revenue").

Prepared by IFRIC a draft interpretation (D-21 Real Estate Sales) was approved by International Accounting Standards Board (IASB) in June 2008 and subsequently published by IFRIC in the form of interpretation (IFRIC-15 Agreements for the Construction of Real Estate) on 2 July 2008.

This interpretation, application of which will be required to the Group's financial statements for the periods beginning from 1 January 2009, will introduce changes to the currently applied accounting policies in relation to the real estate sales.

At present the Group prepares its financial statements under IAS 11 using a percentage of completion method, described in the Group's last annual consolidated financial statements in chapter "Significant accounting principles". Application of the above interpretation will require the Group to account for its revenues differently, in accordance to IAS 18.

Description and effect of The changes resulting from the first application of the new interpretation (IFRIC-15) on the Group's consolidated financial statements is described in Note 44 in chapter „ Additional notes to the consolidated financial statements".

(in PLN; all amounts in thousands unless stated otherwise)

II. CONSOLIDATED BALANCE SHEETS

ASSETS	Note	31.12.2008	31.12.2007
Fixed assets			
Intangible fixed assets	1	1,360	707
Tangible fixed assets	2	6,781	6,548
Investments in associated entities	5	1,050	1,024
Deferred income tax assets	15	8,428	10,579
Long-term receivables	6	2,910	1,552
Long-term deferred costs		361	1,471
Total fixed assets		**20,890**	**21,881**
Current assets			
Inventory	7	1,152,331	862,358
Trade and other receivables	8	55,519	65,914
Other current assets	10	81,631	26,425
Cash and cash equivalents	9	223,697	275,489
Total current assets		**1,513,178**	**1,230,186**
Total assets		**1,534,068**	**1,252,067**

EQUITY AND LIABILITIES	Note	31.12.2008	31.12.2007
Equity			
Share capital	11	24,560	24,560
Share premium less treasury shares	12	231,535	231,535
Reserve capital from valuation of share options		13,908	7,128
Other capital (supplementary capital)		371,837	191,556
Reserve capital from reducing the share capital		510	510
Accumulated, unappropriated profit (loss)		147,570	240,849
Equity attributable to the equity holders of the holding company		**789,920**	**696,138**
Minority interest		(165)	-
Total equity		**789,755**	**696,138**
Long-term liabilities			
Long-term loans and borrowings	14	233,283	41,779
Deferred tax liability	15	55,067	87,876
Bonds	16	200,000	200,000
Other long-term liabilities		226	764
Total long-term liabilities		**488,576**	**330,419**
Short-term liabilities			
Trade payables and other liabilities	17	145,452	120,995
Short-term loans and borrowings	14	62,510	37,005
Short-term tax liabilities		7,222	6,088
Short-term provisions	19	13,725	12,444
Accrued liabilities and deferred income	20	26,828	48,978
Total short-term liabilities		**255,737**	**225,510**
Total liabilities		**744,313**	**555,929**
Total equity and liabilities		**1,534,068**	**1,252,067**

(in PLN; all amounts in thousands unless stated otherwise)

III. CONSOLIDATED INCOME STATEMENTS

		Period of twelve months ended on	
	Note	**31.12.2008**	**31.12.2007**
Sales revenues	**28**	698,162	878,753
Cost of sales	**29**	(429,030)	(545,666)
Gross profit on sales		**269,132**	**333,087**
Selling expenses	**29**	(30,002)	(22,368)
General administrative expenses	**29**	(61,914)	(57,699)
Other operating income	**31**	6,659	4,073
Other operating expenses	**32**	(18,168)	(16,134)
Operating profit		**165,707**	**240,959**
Financial income	**33**	12,103	11,635
Financial costs	**34**	(4,859)	(2,231)
Profit before tax		**172,951**	**250,363**
Income tax expense	**25**	(36,011)	(49,719)
Profit after tax		**136,940**	**200,644**
Profit attributable to:			
Equity holders of the holding company		136,948	200,644
Minority interests		(8)	-
Earnings per share:			
Basic (PLN)	**24**	**5.58**	**8.17**
Diluted (PLN)	**24**	**5.58**	**8.17**

(in PLN; all amounts in thousands unless stated otherwise)

IV. CONSOLIDATED CASH FLOW STATEMENTS

	Period of twelve months ended on	
	31.12.2008	**31.12.2007**
Cash flow from operating activities		
Profit before taxation	**172,951**	**250,363**
Adjustments:		
Depreciation	2,420	2,226
Profit/loss on foreign exchange differences	(64)	53
Profit/loss on investments	150	406
Interest paid and accrued	11,699	9,804
Cost of the management option scheme	6,780	5,622
Changes in the operating capital		
Changes in provisions	1,281	8,520
Changes in inventory	(277,010)	(264,879)
Changes in receivables	6,445	(13,661)
Changes in short term liabilities excluding loans and borrowings	25,053	(17,203)
Changes in prepayments	(75,278)	16,051
Other adjustments	38	1,437
Cash flow generated from operating activities	**(125,535)**	**(1,261)**
Interest paid	(25,392)	(12,628)
Income tax paid	(64,077)	(8,387)
Net cash flow from operating activities	**(215,004)**	**(22,276)**
Cash flow from investing activities		
Proceeds from the sale of intangible assets and tangible fixed assets	276	480
Acquisition of intangible and tangible fixed assets	(3,733)	(4,102)
Net cash flow from investing activities	**(3,457)**	**(3,622)**
Cash flows from financing activities		
Proceeds from contracted loans and borrowings	253,283	71,186
Issue of bonds	-	200,000
Repayment of loans and borrowings	(36,275)	(113,516)
Redemption of bonds	-	(80,000)
Dividend payments	(50,103)	(3,684)
Payment of financial leasing liabilities	(236)	(134)
Net cash flow from financing activities	**166,669**	**73,852**
Increase (decrease) in net cash and cash equivalents	**(51,792)**	**47,954**
Cash and cash equivalents – opening balance	**275,489**	**227,535**
Cash and cash equivalents – closing balance	**223,697**	**275,489**

(in PLN; all amounts in thousands unless stated otherwise)

V. STATEMENT OF CHANGES IN THE CONSOLIDATED SHAREHOLDERS' EQUITY

	Share capital	Share premium less treasury shares	Other capitals (supplementary capital)	Reserve capital from reduction of share capital	Reserve capital from the valuation of shares options	Accumulated unappropriated profit (loss)	Equity attributable to the equity holders of the holding company	Minority interests	Total equity
Balance as at 1 January 2008	**24,560**	**231,535**	**191,556**	**510**	**7,128**	**240,849**	**696,138**	**-**	**696,138**
Creation of reserve capital from the valuation of the share options	-	-	-	-	6,780	-	6,780	**-**	**6,780**
Transfer of retained profit attributable to minority interests	-	-	-	-	-	157	157	**(157)**	**-**
Tansfer of profit to supplementary capital ...	-	-	180,281	-	-	(180,281)	-	**-**	**-**
Dividend payment	-	-	-	-	-	(50,103)	(50,103)	**-**	**(50,103)**
Profit for twelve months ended on 31 December 2008	-	-	-	-	-	136,948	136,948	**(8)**	**136,940**
Balance as at 31 December 2008.....	**24,560**	**231,535**	**371,837**	**510**	**13,908**	**147,570**	**789,920**	**(165)**	**789,755**

	Share capital	Share premium less treasury shares	Other capitals (supplementary capital)	Reserve capital from reduction of share capital	Reserve capital from the valuation of shares options	Accumulated unappropriated profit (loss)	Equity attributable to the equity holders of the holding company	Minority interests	Total equity
Balance as at 1 January 2007	**24,050**	**230,371**	**79,301**	**510**	**1,506**	**156,144**	**491,882**	**-**	**491,882**
Creation of reserve capital from the valuation of the employee' options	-	-	-	-	5,622	-	5,622	-	**5,622**
Increase of the capital by the issue of shares....	510	1,164	-	-	-	-	1,674	-	**1,674**
Tansfer of profit to supplementary capital ...	-	-	112,255	-	-	(112,255)	-	-	**-**
Dividend payment	-	-	-	-	-	(3,684)	(3,684)	-	**(3,684)**
Profit for twelve months ended on 31 December 2007	-	-	-	-	-	200,644	200,644	-	**200,644**
Balance as at 31 December 2007.....	**24,560**	**231,535**	**191,556**	**510**	**7,128**	**240,849**	**696,138**	**-**	**696,138**

(in PLN; all amounts in thousands unless stated otherwise)

VI. ADDITIONAL NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Intangible fixed assets

	Other intangible fixed assets	Computer software	Total
GROSS VALUE			
Balance as at 1 January 2007	**953**	**1,331**	**2,284**
Additions	435	89	524
(Disposals)	(347)	(189)	(536)
Balance as at 31 December 2007	**1,041**	**1,231**	**2,272**
Additions	95	1,287	1,382
(Disposals)	-	-	-
Balance as at 31 December 2008	**1,136**	**2,518**	**3,654**
DEPRECIATION			
Balance as at 1 January 2007	**325**	**1,229**	**1,554**
Additions	459	88	547
(Disposals)	(347)	(189)	(536)
Balance as at 31 December 2007	**437**	**1,128**	**1,565**
Additions	481	248	729
(Disposals)	-	-	-
Balance as at 31 December 2008	**918**	**1,376**	**2,294**
BALANCE SHEET VALUE			
as at 31 December 2007	**604**	**103**	**707**
as at 31 December 2008	**218**	**1,142**	**1,360**

Intangible fixed assets are depreciated throughout their estimated economic useful lives, which for computer software is 2 years on the average. There are no intangible fixed assets with undefined useful lives.

As at 31 December 2008 there were no circumstances that would require the Group to write down its intangible fixed assets.

The costs of depreciating intangible fixed assets were charged in full to general administrative expenses.

No pledges have been established on intangible fixed assets.

Note 2. Tangible Fixed Assets

TANGIBLE FIXED ASSETS	31.12.2008	31.12.2007
a) tangible fixed assets, including:		
- land (including perpetual usufruct)	1,347	1,347
- buildings and constructions	-	106
- plant and equipment	645	745
- vehicles	3,161	3,524
- other tangible fixed assets	1,628	826
Total tangible fixed assets	**6,781**	**6,548**

(in PLN; all amounts in thousands unless stated otherwise)

	Land and buildings	Vehicles	Machinery and other tangible fixed assets	Total
GROSS VALUE				
Balance as at 1 January 2007	**1,904**	**3,761**	**4,143**	**9,808**
Additions	71	2,449	1,157	3,677
(Disposals)	(123)	(1,298)	(2,124)	(3,545)
Balance as at 31 December 2007	**1,852**	**4,912**	**3,176**	**9,940**
Additions	1,194	1,073	1,311	3,578
(Disposals)	(1,691)	(889)	(164)	(2,744)
Balance as at 31 December 2008	**1,355**	**5,096**	**4,323**	**10,774**
ACCUMULATED DEPRECIATION				
Balance as at 1 January 2007	**324**	**1,562**	**2,387**	**4,273**
Additions	75	825	780	1,680
(Disposals)	-	(999)	(1,562)	(2,561)
Balance as at 31 December 2007	**399**	**1,388**	**1,605**	**3,392**
Additions	74	1,024	592	1,691
(Disposals)	(465)	(477)	(147)	(1,090)
Balance as at 31 December 2008	**8**	**1,935**	**2,050**	**3,993**
BALANCE SHEET VALUE				
as at 31 December 2007	**1,453**	**3,524**	**1,571**	**6,548**
as at 31 December 2008	**1,347**	**3,161**	**2,273**	**6,781**

The additions to tangible fixed assets are the result of tangible fixed asset purchased or tangible fixed assets produced by the Group.

The table below presents the net values of tangible fixed assets produced by the Group.

	31.12.2008	31.12.2007
Buildings (individual commercial space)	-	77
Constructions	-	29
Total net tangible fixed assets produced on the Group's own account	**-**	**106**

The cost of depreciating tangible fixed assets were charged in full to General administrative expenses.

No collaterals have been established on the fixed assets.

BALANCE SHEET TANGIBLE FIXED ASSETS (OWNERSHIP STRUCTURE)	**31.12.2008**	**31.12.2007**
owned	3,470	3,004
used on the basis of rent, tenancy or similar agreements, including lease agreements, in this:	3,311	3,544
- leasing	3,311	3,544
Total balance sheet fixed assets	**6,781**	**6,548**

OFF-BALANCE SHEET TANGIBLE FIXED ASSETS	**31.12.2008**	**31.12.2007**
used on the basis of rent, tenancy or similar agreements, including lease agreements, in this:	383	261
- value of assets under operating lease	383	261

(in PLN; all amounts in thousands unless stated otherwise)

Note 3. Assets available for sale

	31.12.2008	31.12.2007
Gross assets available for sale	1,347	1,347
Write-off revaluating assets available for sale	-	-
Net assets available for sale	**1,347**	**1,347**

The tangible fixed assets for sale consist of building lots designated for sale.

Note 4. Leasing

The Group is a party (as a lessee) to lease agreements relating to the fixed assets which are recorded in the books of account as financial leases. The lease agreements are as a rule concluded for a period of 3 years and as such all liabilities are also due within 3 years. The subjects of the leases are mainly cars. The agreements contain a clause about the possibility of purchasing the fixed assets after the expiration of the lease agreement.

LEASING	31.12.2008	31.12.2007
Gross fixed assets	4,501	4,724
Depreciation	(1,190)	(1,180)
Balance sheet value of tangible fixed assets	**3,311**	**3,544**
Leased assets as a % of total fixed assets	48.83%	54,13%
Leasing liabilities	**2,258**	**2,559**
Depreciation of leased assets recognised as operating costs	946	797
Interest on lease agreements recognised as financial costs	236	134

The fair value of the Group's leasing liabilities corresponds to their book value.

The Group's leasing liabilities are secured on the fixed assets that are the subject of the lease agreements.

The minimum value of lease payments and their current value do not differ significantly from the value of the lease liabilities listed under long and short term liabilities on the balance sheet.

Note 5. Investments in associated entities and jointly controlled entities

The Group - trough the Company - holds 40.32% of the share capital and has a 0% participation in the management of Towarzystwo Ubezpieczeń Wzajemnych „Bezpieczny Dom" ("Towarzystwo"). Furthermore, the co-subsidiary Fort Mokotów sp. z o.o. holds 4.03% shares in the Towarzystwo. The nominal value of the shares of the company owned by the Group was PLN 1,049,000.00. As at the balance sheet date the net value of the shares was equal to the historic cost at which they were purchased.

Information about associated entity

Towarzystwo Ubezpieczeń Wzajemnych „Bezpieczny Dom"		
Balance sheet date	31.12.2008	31.12.2007
Financial data:		
Total assets	5,664	5,333
Shareholders' equity	3,447	2,831
Net profit (loss)	616	512
Shares in the nominal value	1,049	1,049
% stake *)	42.30%	42,30%

***)** The stake of the Company has been calculated with consideration given to the shares held by Fort Mokotów sp. z o.o.

(in PLN; all amounts in thousands unless stated otherwise)

Information about jointly controlled entity

Fort Mokotów sp. z o.o.		
Balance sheet date	**31.12.2008**	**31.12.2007**
Financial data:		
Current assets	35,960	46,362
Fixed assets	342	284
Shareholders' equity	25,645	36,512
Short-term liabilities	432	3,002
Long-term liabilities	462	1,559
Operating revenues	3,445	15,473
Operating costs	8,619	16,093
Net profit/(loss)	(10,867)	847
% stake	49.00%	49,00%

For the purposes of the consolidated financial statements, Fort Mokotów sp. z o.o. is consolidated by means of the proportional consolidation method and treated as a joint venture. The balance sheet and the income statement were restated in accordance with the holding company's accounting policies.

The table below presents the effect of the revaluation of the shares of the associated entities in the income statement in the consolidated financial statements:

	01.01- -31.12.2008	**01.01- -31.12.2007**
Revaluation of the shares of associated entities	-	206

The Group values shares in the associated companies by means of the equity method in the consolidated income statement in the items „Other operating revenues" and „Other operating costs".

Note 6. Long-term receivables

As at 31 December 2008 and 31 December 2007 the Group shows long-term receivables in the amount of PLN 2,910 thousands and PLN 1,552 thousands respectively. As at 31 December 2008 the long-term receivables include refundable deposits in the amount of related to PLN 1,622 thousands, long term trade receivables amounting to PLN 1,200 thousands and other receivables amounting to PLN 88 thousands. As at 31 December 2007 the long-term receivables include refundable deposits in the amount of related to PLN 1,552 thousands.

All these receivables are denominated in PLN. There is no need to write down the value of long-term receivables.

Note 7. Inventory

INVENTORY	**31.12.2008**	**31.12.2007**
Advances on deliveries	22,422	150,853
in this at purchase prices/production costs	22,491	150,853
in this revaluation write down	(69)	-
Semi-finished goods and work in progress	1,043,045	611,763
in this at purchase prices/production costs	1,055,089	619,270
in this revaluation write down	(12,044)	(7,507)
Finished goods	86,864	99,742
in this at purchase prices/production costs	87,298	100,698
in this revaluation write down	(434)	(956)
Total	**1,152,331**	**862,358**

(in PLN; all amounts in thousands unless stated otherwise)

WRITE-OFFS REVALUATING THE INVENTORIES	01.01- -31.12.2008	01.01- -31.12.2007
Balance at the beginning of the period	**8,463**	**4,764**
Increase	7,736	3,894
Release	(3,652)	(195)
Balance at the end of the period	**12,547**	**8,463**

In view of the market situation in the property market in which the Group operates, at the end of 2008 the Group took a particularly rigorous approach to the inventory review with regard to impairment. As a result of impairment analyses and reviews, the Group made revaluation write-downs for projects under construction and land for future projects in the total amount of PLN 7,429 thousand.

A description of the methodology of inventory impairment reviews can be found in the introduction to the financial statements, chapter "Summary of significant accounting principles".

Balance sheet value of inventories used to secure the payment of liabilities

SECURITY ON INVENTORIES - MORTGAGE	31.12.2008	31.12.2007
Balance sheet value of inventory used to secure liabilities	340,167	170,369
Value of mortgages used to secure the loans	514,177	250,846

Preparatory work

If there is no certainty as to the possibility of purchasing a plot of land for a potential project, the costs of preparatory work associated with the project are disclosed as costs in the consolidated income statement of the Group during the period in which they occur. Remaining preparatory work is capitalised under work in progress.

The below table presents preparatory work recognised in the income statement.

	01.01- -31.12.2008	01.01- -31.12.2007
Preparatory work	1,715	812

Construction contracts

Revenues, costs and the resulting work in progress are accounted for by means of a percentage of completion method, described in the section entitled „Introduction to the consolidated financial statements".

SETTLEMENT OF WORK IN PROGRESS	31.12.2008	31.12.2007
Planned revenues relating to current contracts	1,315,426	1,151,304
Planned costs related to current contracts	1,054,387	749,017
Planned margin relating to current contracts	261,039	402,287
Cumulative revenues recognised in income statement	155,246	460,212
Cumulative costs recognised in income statement	126,130	290,386
Cumulative margin recognised in income statement	29,116	169,826
Remaining margin to be recognised in future periods	231,923	232,461
Percentage of remaining margin to be recognised in future periods	88.85%	57,78%

(in PLN; all amounts in thousands unless stated otherwise)

The table below presents the value of liabilities on account of guarantee deposits withheld in relation to the execution of investments under construction projects.

	31.12.2008	31.12.2007
Withheld guarantee deposits	42,381	33,808

Note 8. Trade and other receivables

As at the balance sheet date the trade receivables and other receivables amounted to PLN 55,519 thousand as at 31 December 2008 and PLN 65,914 thousand as at 31 December 2007.

The Group created provisions revaluating the receivables which have been disclosed under „Other operating costs".

The revaluation write-offs have been created based on the Group's best knowledge and experience.

AGING STRUCTURE OF TRADE RECEIVABLES	31.12.2008	31.12.2007
up to 3 months	14,850	24,598
from 3 to 6 months	19,533	2,576
from 6 months to 1 year	1,767	991
Above 1 year	3,079	3,119
Gross trade receivables	**39,229**	**31,284**
Write-offs revaluating the receivables	(1,628)	(2,247)
Net trade receivables	**37,601**	**29,037**

TRADE AND OTHER RECEIVABLES	31.12.2008	31.12.2007
Trade receivables	37,601	29,037
Receivables from the related entities	5	8
Tax receivables	17,911	36,860
Other receivables	2	9
Total	**55,519**	**65,914**

CHANGE IN THE WRITE-OFFS REVALUATING TRADE AND OTHER RECEIVABLES	01.01- -31.12.2008	01.01- -31.12.2007
Opening balance	**2,547**	**5,895**
a) Additions	506	1,488
b) Disposals	(1,125)	(4,836)
Closing balance	**1,928**	**2,547**

As of the balance sheet dates there were no trade or other receivables in foreign currencies.

The costs and revenues associated with creating or reversing provisions are recognised under other operating expenses or other operating income respectively.

Note 9. Cash and cash equivalents

Cash and cash equivalents are represented by cash at bank, cash on hand and short-term bank deposits which will mature within 3 months. The book value of these assets corresponds to their fair value.

CASH AND CASH EQUIVALENTS	31.12.2008	31.12.2007
Cash on hand and at bank	5,629	15,048
Short-term deposits and treasury bills	285,841	259,848
Overdraft	(67,820)	-
Other	47	593
Total	**223,697**	**275,489**

(in PLN; all amounts in thousands unless stated otherwise)

The Company presents overdrafts as a decrease in cash and cash equivalents due to holding deposits in the same banks exciding the level of the overdrafts (see note 14). Repayment of these overdrafts took place with PLN 29,980 thousand repaid on 2 January 2009 and PLN 37,840 thousand by 9 January 2009 in correspondence with the closing of the deposit accounts.

Note 10. Other current assets

	31.12.2008	31.12.2007
OTHER CURRENT ASSETS..	**81,631**	**26,425**
Including:		
Future receivables from completed developments	75,600	22,835
Deferred costs..	4,028	3,590
Accrued financial income on deposits	2,003	-

All uninvoiced amounts related to sold units at the developments with occupation permits (completed developments) are posted to the balance sheet as „other current assets".

Note 11. Share capital

SHARE CAPITAL (STRUCTURE) AS AT 31 December 2008

Series/ issue	Type of shares	Type of preference	Limitation of right to shares	Number of shares	Nominal value of series/issue (PLN)	Capital covered with	Registration date	Right to dividend (since)
A	bearer	-	-	21,344,490	21,344,490	cash	12.09.2006	12.09.2006
F	bearer	-	-	2,705,882	2,705,882	cash	31.10.2006	31.10.2006
H	bearer	-	-	172,200	172,200	cash	14.02.2007	14.02.2007
I	bearer	-	-	92,700	92,700	cash	14.02.2007	14.02.2007
J	bearer	-	-	96,750	96,750	cash	14.02.2007	14.02.2007
L	bearer	-	-	148,200	148,200	cash	14.02.2007	14.02.2007
Total number of shares				**24,560,222**				
Total share capital (PLN)					**24,560,222**			
Nominal value per share = PLN 1								

SHARE CAPITAL (STRUCTURE) AS AT 31 December 2007

Series/ issue	Type of shares	Type of preference	Limitation of right to shares	Number of shares	Nominal value of series/issue (PLN)	Capital covered with	Registration date	Right to dividend (since)
A	bearer	-	-	21,344,490	21,344,490	cash	12.09.2006	12.09.2006
F	bearer	-	-	2,705,882	2,705,882	cash	31.10.2006	31.10.2006
H	bearer	-	-	172,200	172,200	cash	14.02.2007	14.02.2007
I	bearer	-	-	92,700	92,700	cash	14.02.2007	14.02.2007
J	bearer	-	-	96,750	96,750	cash	14.02.2007	14.02.2007
L	bearer	-	-	148,200	148,200	cash	14.02.2007	14.02.2007
Total number of shares				**24,560,222**				
Total share capital (PLN)					**24,560,222**			
Nominal value per share = PLN 1								

On 27 October 2006 the agreement with CDM PEKAO S.A. was concluded regarding taking up 96,750 J series shares in the increased share capital of Dom Development S.A. (the afore-mentioned shares concern the Management Share Option Programme IB in which CDM PEKAO S.A, pursuant to depositary agreement dated 26 October 2006 CDM PEKAO S.A. is a depository in this programme).

(in PLN; all amounts in thousands unless stated otherwise)

On 28 January 2008 all rights and obligations arising from the above trust agreement signed with CDM on 26 October 2006 were assumed by UniCredit CA IB Polska S.A.

Description of changes in the share capital of the holding company in the period from 1 January 2008 to the date of preparing the financial statements.

In the period from 1 January 2008 by the date of preparation of these financial statements there have been no changes to the shareholders capital.

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.

List of shareholders who have, directly or indirectly through subsidiaries, at least 5% of the overall number of votes at the General Shareholders Meeting as at 31 December 2008

	Shares	% of capital	Number of votes at the Shareholders Meeting	% of votes at the Shareholders Meeting
Dom Development B.V.	15,509,386	63.15	15,509,386	63.15
Jarosław Szanajca	1,734,050	7.06	1,734,050	7.06
Grzegorz Kiełpsz..................................	1,390,750	5.66	1,390,750	5.66
ING TFI S. A. *	1,270,552	5.17	1,270,552	5.17

* As at 17 October 2008

In accordance with the notice received as at 17 October 2008 investment funds managed by ING Towarzystwo Funduszy Inwestycyjnych S.A. had a total of 1,270,552 shares in Dom Development S.A., which constituted 5.17% of the share capital of the Company. Prior to the change in shareholding the investment funds managed by ING Towarzystwo Funduszy Inwestycyjnych S.A. had a total of 1,199,392 shares in Dom Development S.A. which constituted 4.88% of the share capital of that company.

The shares of Dom Development S.A. or rights thereto (options) owned by the persons performing management and supervisory functions at Dom Development SA as at 31 December 2008

	Shares	Share Options	Total
Management Board			
Jarosław Szanajca	1,734,050	-	1,734,050
Janusz Zalewski*..	436,000	-	436,000
Jerzy Ślusarski	5,363	67,850	73,213
Janusz Stolarczyk	107,200	35,850	143,050
Terry Roydon	58,500	50,000	108,500
Supervisory Board			
Zygmunt Kostkiewicz	29,500	-	29,500
Grzegorz Kiełpsz...	1,390,750	-	1,390,750

*) Due to the resignation of Mr. Leszek Piotr Nałęcz from his position as Member and Vice-President of the Management Board responsible for the Company's Finances effective from 30 December 2008, Mr. Janusz Zalewski was appointed to this position. As at 31 December 2008 Mr. Janusz Zalewski held 436,000 shares in the Company. On 16 31,000 share options allotted under the third tranche of the Management Options Programme II related to the shares of Dom Development SA, entitling subscription to 31,000 ordinary shares of Dom Development SA.

(in PLN; all amounts in thousands unless stated otherwise)

Note 12. Share premium less treasury shares

SHARE PREMIUM LESS TREASURY SHARES	01.01- -31.12.2008	01.01- -31.12.2007
Opening balance	231,535	230,371
Decrease/increase on account of share issue and purchase/sale of treasury shares	-	1,164
Increase on account of public issue of new shares	-	-
Closing balance	**231,535**	**231,535**

In the 12-month period ended on 31 December 2007, the value of the item "Share premium less treasury shares" increased by PLN 1,163,943.94 as a result of registration of 509,850 bearer shares (H, I, J and L series shares).

In the period of twelve months ended 31 December 2008 the amount of „Share premium less treasury shares" did not change.

Treasury shares

In the 12-month period ended on 31 December 2007 and 12-month period ended on 31 December 2008 the Company did not hold any treasury shares.

Note 13. Additional information on shareholders' equity

As at 31 December 2008 and 31 December 2007 the Company's shares were not owned by any of its subsidiaries.

There are minority interests in the subsidiaries which are consolidated in full, as the Company does not own 100% of their share capital.

Note 14. Loans and borrowings

Borrowings

As at 31 December 2008 and 31 December 2007 the Group did not have any outstanding borrowings.

Loans

LOANS DUE WITHIN	31.12.2008	31.12.2007
1 year	62,510	37,005
More than 1 year less then 2 years	71,663	41,779
More than 2 years less then 5 years	161,620	-
More than 5 years	-	-
Total loans	**295,793**	**78,784**
including: long-term	233,283	41,779
short-term	62,510	37,005

As at 31 December 2008 and 31 December 2007 all the Group's loans were expressed in Polish Zloty.

(in PLN; all amounts in thousands unless stated otherwise)

Loan liabilities as at 31 December 2008

BANK LOANS SHOWN IN LIABILITIES AS AT 31 DECEMBER 2008

Bank	Registered office	Amount of loan – as per agreement	Currency	Outstanding loan amount (less accrued interest)	Currency	Due date
ING BANK ŚLĄSKI	Warsaw	39,613	PLN	39,613	PLN	30.09.2009
PKO BP	Warsaw	7,241	PLN	2,897	PLN	01.04.2009
BOŚ	Warsaw	100,000	PLN	53,283	PLN	30.06.2011
PKO BP	Warsaw	200,000	PLN	200,000	PLN	31.12.2012
Total bank loans shown in liabilities		**346,854**	PLN	**295,793**	PLN	

As at 31 December 2008 the Group held two overdrafts which are presented as a decrease in cash and cash equivalents in these consolidated financial statements (see note 3). This presentation is due to holding deposit accounts in the same crediting banks in excess of the overdrafts with deposit accounts payment terms preceding repayment of the overdrafts.

BANK LOANS REDUCING ASSETS AS AT 31.12.2008

Bank	Registered office	Amount of loan – as per agreement	Currency	Outstanding loan amount (less accrued interest)	Currency	Due date
BOŚ	Warsaw	40,000	PLN	29,980	PLN	23.04.2010
PKO BP	Warsaw	40,000	PLN	37,840	PLN	16.03.2010
Total overdrafts		**80,000**	**PLN**	**67,820**	**PLN**	

The Company's Management Board estimates that the fair value of the loans and borrowings contracted by the Company is almost equal to their net book value.

(in PLN; all amounts in thousands unless stated otherwise)

Note 15. Liability and assets for a deferred income tax

LIABILITY AND ASSET FOR A DEFERRED INCOME TAX – effect on consolidated balance sheet

	31.12.2008	31.12.2007
Deferred income tax liability		
Foreign exchange differences	41	31
Interest accrued	380	97
Profit on the settlement of contracts calculated using percentage of completion method	5,532	24,932
Result on the sale of facilities – without legal ownership transfer agreements	33,920	58,057
Provision for contractual penalties	-	375
Provision for sales revenues	11,532	4,204
Capitalised financial costs	3,535	-
Other	127	180
Total deferred income tax liability	**55,067**	**87,876**
Accounted for in the financial result	55,067	87,876
Accounted for in the shareholders' equity	-	-
Deferred income tax assets		
Provision for the housing estates costs	2,391	4,420
Inventory revaluation	2,154	1,436
Provision for receivables and other provisions	1,159	1,882
Provision for employee benefits	1,115	837
Provision for other costs	1,202	933
Provisions at Fort Mokotów	61	241
Consolidation exclusions	-	821
Financial costs	340	-
Other	6	9
Total deferred income tax assets	**8,428**	**10,579**
Accounted for in the financial result	8,428	10,579
Accounted for in the shareholders' equity	-	-

DEFERRED TAX – effect on the consolidated income statement

	01.01-31.12.2008	01.01-31.12.2007
Deferred income tax liability		
Foreign exchange differences	9	(6)
Interest accrued	284	44
Profit on the settlement of contracts calculated using the percentage of completion method	(19,400)	1,360
Result on the sale of flats – without legal ownership transfer agreements	(24,147)	30,428
Provision for sales revenues	7,327	3,663
Provision for receivables	(375)	375
Capitalised financial costs	3,535	-
Other	(52)	8
Total change in deferred income tax liability	**(32,819)**	**35,872**
Deferred income tax assets		
Provision for the housing estates costs	(2,028)	3,329
Inventory revaluation	718	558
Revaluation of the fixed assets	-	(36)
Write-offs revaluating the receivables and other reserves	(723)	1,031
Provision for employee benefits	278	45
Provision for costs	269	(517)
Tax loss for the years 2002-2004 for settlement by Fort Mokotów	-	(1,545)
Other provisions (Fort Mokotów)	(180)	179
Consolidation exclusions	(821)	51
Financial costs	340	-
Other	(3)	(34)
Total change in deferred income tax assets	**(2,150)**	**3,061**
Net change in provision/asset for a deferred income tax – effect on the income statement	**(30,669)**	**32,811**

(in PLN; all amounts in thousands unless stated otherwise)

Note 16. Bonds

BONDS	31.12.2008	31.12.2007
Nominal value of the issued bonds	**200,000**	**200,000**
Interest due for payment as at balance sheet date disclosed in the item - Accrued liabilities and deferred income	1,460	1,251

As at 31 December 2008 one issue of bonds by the Company took place:

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.

Note 17. Trade payables and other liabilities

TRADE AND OTHER LIABILITIES	31.12.2008	31.12.2007
Trade payables	145,162	120,625
Financial liabilities	-	13
Earmarked funds	260	231
Other liabilities	30	126
Total	**145,452**	**120,995**

Note 18. Short-term tax liabilities

Short-term tax liabilities include mainly social insurance, corporate income tax and personal income tax liabilities.

Note 19. Short-term provisions

SHORT-TERM PROVISIONS	31.12.2008	31.12.2007
Opening balance	**12,444**	3,664
Provisions created in the financial year	8,247	9,648
Use of provisions in the financial year	(6,966)	(868)
Closing balance	**13,725**	**12,444**

(in PLN; all amounts in thousands unless stated otherwise)

Note 20. Accrued liabilities and deferred income

SHORT-TERM ACCRUED LIABILITIES AND DEFERRED INCOME	31.12.2008	31.12.2007
Accrued liabilities, in this:	**26,828**	**48,405**
Provision for uninvoiced costs of work in progress	3,789	11,916
Provision for the costs of housing estates given over for use	10,388	23,511
Provision for employee benefits	5,753	4,638
Provision for the costs of property management	1,534	3,260
Provision for the costs of interest on loans and bonds	2,965	1,251
Provision for rent costs	1,181	1,586
Other	1,218	2,243
Deferred income, in this:	**-**	**573**
Deferred income related to the payments received from customers, not settled to the income statement	-	573
Other	-	-
Total	**26,828**	**48,978**

Note 21. Benefits after employment

The Group does not have an employee special benefits program after employment is ended.

Note 22. Financial assets and liabilities

<u>Categories of financial assets and liabilities and maximum credit risk exposure</u>

FINANCIAL ASSETS AND LIABILITIES	31.12.2008	31.12.2007
FINANCIAL ASSETS		
Long-term receivables	2,910	1,552
Trade receivables	37,601	29,037
Receivables from related entities	5	8
Total borrowings and receivables	**40,516**	**30,597**
Treasury bills and bonds	-	-
Other	47	593
Financial assets valued at their fair value through the income statement (designated for trading)	**47**	**593**
Cash in hand and at bank	5,629	15,048
Bank overdrafts	(67,820)	-
Short term deposits	285,841	259,848
Maximum credit risk exposure	**264,213**	**306,086**
FINANCIAL LIABILITIES		
Loans	295,793	78,785
Bonds issued	200,000	200,000
Trade liabilities	145,162	120,638
Financial liabilities valued at the depreciated cost	**640,955**	**399,423**

(in PLN; all amounts in thousands unless stated otherwise)

Note 23. Managing the Financial Risk

The Group is exposed to the following types of the financial risk

- Market Risk (interest rate risk)
- Credit Risk
- Liquidity Risk

Market Risk

The market risk is a type of risk which reflects the influence of changes in such market prices as currency exchange rates, interest rates or prices of capital instruments on the Group's revenues or on the value of financial instruments held.

The market risk mainly includes such risks as:

- currency risk
- interest rate risk

Currency risk

If there are significant foreign currency items, the Group applies foreign currency derivative instruments (forward and swap) to hedge its significant F/X transactions.

As at 31 December 2007 and 31 December 2008 the Group did not have any significant assets, liabilities and future payments in foreign currencies, therefore there was no need to conclude hedging currency derivatives.

Interest rate risk

The fixed interest rate bank loans expose the Group to the risk of the interest rate fair value. The variable interest rate loans and borrowings result in the cash flow risk.

According to the current financing structure the Group does not have fixed rate loans. Currently, the Group has only short- and medium-term variable interest rate loans and bonds, which result in the exposure to the cash flow risk.

Furthermore, the Company has short-term bank deposits, treasury bills, and long-term treasury bonds which bear variable interest, the profit from which depends on the change of benchmark interest rates and partially offsets the risk of the cash flow risk on account of financing.

As at the balance sheet date the Group/Company did not have variable interest rate long-term financial instruments.

The structure of variable interest rate financial instruments as at the balance sheet date is as follows:

	31.12.2008	31.12.2007
VARIABLE INTEREST RATE INSTRUMENTS		
Financial assets *)	285,841	259,848
Financial liabilities *)	563,613	278,785
Total, net	**(277,772)**	**(18,937)**

*) the financial liabilities includes bank overdrafts disclosed in the financial statements as a decrease of assets.

Interest bearing financial assets, i.e. bank deposits, treasury bills and bonds, are disclosed as financial assets. Interest bearing financial liabilities, i.e. loans, own bonds and financial leasing liabilities, are disclosed as financial liabilities.

(in PLN; all amounts in thousands unless stated otherwise)

Analysis of cash flow sensitivity to interest rate changes.

A 100-basis point (bp) change in the interest rate of instruments as at the balance sheet date would increase (decrease) the net assets and income statement by the amounts listed in the table below. The analysis prepared for 12-month periods ended 31 December 2008 and 31 December 2007 assumes that all other variables remain unchanged.

	Income statement		Net assets	
	Increase by 100 bp	Decrease by 100 bp	Increase by 100 bp	Decrease by 100 bp
31 December 2008	PLN thousand	PLN thousand	PLN thousand	PLN thousand
Variable interest rate assets	2,315	(2,315)	2,315	(2,315)
Variable interest rate liabilities*	(1,522)	1,522	(1,522)	1,522
Net sensitivity	**793**	**(793)**	**793**	**(793)**
31 December 2007	PLN thousand	PLN thousand	PLN thousand	PLN thousand
Variable interest rate assets	2,105	(2,105)	2,105	(2,105)
Variable interest rate liabilities *	(753)	753	(753)	753
Net sensitivity	**1,352**	**(1,352)**	**1,352**	**(1,352)**

* The financial costs which are related to loans and bonds are capitalized by the Group to work-in-progress. Such costs are gradually moved to the income statement together with the manufacturing costs of the inventories sold. It has been assumed in the above analysis that one third of the financial costs calculated and capitalized in a given period is disclosed in the income statement together with the manufacturing costs of the sold inventories of a given period and the remaining part of the costs remains in the inventories and will be disclosed in the income statement in the following accounting periods.

Credit risk

Cash at bank, cash on hand, trade receivables, other receivables and investments constitute the Group's main financial assets, and represent its highest exposure to credit risk in relation to financial assets.

The Group’s credit risk is mostly related to trade receivables. The amounts presented in the balance sheet are net amounts and include write-offs revaluating bad debts valued by the Group’s Management on the basis of previous experiences and analysis of the current economic environment.

Credit risk relating to the liquid funds and derivative financial instruments is limited since the transactions were concluded with reputable banks, which have been awarded with good credit ratings by international rating agencies.

The Group has no significant concentration of credit risk. The risk is spread over a large number of partners and customers. Furthermore, it has to be pointed out that the receivables from the main activity of the Group, i.e. the sale of apartments and detached houses, are fully secured because release of the sold product takes place after the purchasers have paid the full price as set out in the preliminary sales agreement.

The aging structure of sales receivables has been presented in note 8 “Trade receivable and other receivables”.

(in PLN; all amounts in thousands unless stated otherwise)

Liquidity risk

The liquidity risk is the risk that the Group will not be able to pay its financial liabilities when they become due. The Group's objective is to ensure, to the highest possible extent, that its liquidity will always be maintained at the level which enables paying the financial liabilities when they become due, without incurring unacceptable losses or facing the risk of jeopardizing the Group's reputation.

The table below presents the Group's financial liabilities as divided into the maturity dates set out in the contracts:

	Balance-sheet value	0 - 6 months	6-12 months	1 – 2 years	2 – 5 years
31 December 2008	PLN thousand	PLN thousand	PLN thousand	PLN thousand	PLN thousand
Liabilities on account of loans..............	295,793	22,897	39,613	71,663	161,620
Own bonds issued	200,000	-	-	-	200,000
Trade liabilities...................................	142,904	105,962	9,905	13,190	13,847
Financial leasing liabilities	2,258	565	565	753	375
Total..	**640,955**	**129,424**	**50,083**	**85,606**	**375,842**
31 December 2007	PLN thousand	PLN thousand	PLN thousand	PLN thousand	PLN thousand
Liabilities on account of loans..............	78,785	22,656	14,350	41,779	-
Own bonds issued	200,000	-	-	-	200,000
Trade liabilities...................................	118,079	75,073	17,997	3,268	21,741
Financial leasing liabilities	2,559	640	640	853	426
Total	**399,423**	**98,369**	**32,987**	**45,900**	**222,167**

The Group's liquidity management is mainly exercised by:

- short-, medium- and long-term planning of cash flow; detailed short-term plans are updated at least on a monthly basis,
- selection of appropriate sources of financing on the basis of analysis of the Group needs and market analysis,
- day-to-day monitoring of ratios resulting from agreements with banks,
- diversification of sources of financing of the conducted developer activity.
- co-operation with reputable financial institutions.

Managing the capital

The policy of the Management Board assumes maintaining a strong capital basis in order to secure the trust of investors, creditors and the market as well as to ensure further growth of the Group.

For the years ended 31 December 2008 and 2007 the return on equity (calculated as net profit to the annual average value of shareholders' equity) amounted to 18% and 34%, respectively. In that period the average weighted cost of interest on the Company's debt amounted to 7.25% in 2008 and 6.88% in 2007.

The Group does not have a defined plan of buy-out of the treasury shares.

Neither the Company nor its subsidiaries is subject to any external capital requirements.

(in PLN; all amounts in thousands unless stated otherwise)

Note 24. Earnings per share

CALCULATION OF BASIC AND DILUTED EARNINGS PER SHARE	01.01-31.12.2008	01.01-31.12.2007
Basic earnings per share		
Profit attributable to the equity holders of the holding company	136,948	200,644
The weighted average number of common shares of the Company for the calculation of the basic earnings per share	24,560,222	24,560,222
Basic earnings per share	**5.58**	**8.17**
Diluted earnings per share		
Theoretical profit for the calculation of diluted earnings per share	136,948	200,644
Potential diluting shares related to Management Share Options Programme II*)	-	-
The weighted average number of common shares of the Company for the calculation of the basic earnings per share	24,560,222	24,560,222
Diluted earnings per share	**5.58**	**8.17**

*) Options for the shares issued as part of IB program do not result in dilution of earnings per share since they are issued and recognized in the share capital. The shares are deposited with Unicredit CA IB Polska S.A., which is a trustee in this program (see note 11).

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

Note 25. Income tax

INCOME TAX	01.01--31.12.2008	01.01--31.12.2007
Current income tax	66,680	16,908
Deferred income tax	(30,669)	32,811
Total	**36,011**	**49,719**

The table below presents the difference between the income tax calculated as the product of the gross profit before taxation and taxation at the statutory tax rate and the actual income tax expense accounted for in the income statement of the Group.

RECONCILIATION	01.01--31.12.2008	01.01--31.12.2007
Gross profit before taxation	172,951	250,363
Income tax rate of 19%	32,861	47,569
Permanent differences not subject to the current and deferred tax in the consolidated financial statements	1,862	1,082
Share Options valuation charge being a permanent differences for tax calculation	1,288	1,068
Actual income tax expense	**36,011**	**49,719**
Effective tax rate	**20.82%**	**19.86%**

Because of frequent changes in the tax system, the legal regulations relating to VAT, corporate income tax, personal income tax and social insurance premiums are subject to regular modifications. Binding regulations are unclear, resulting in differences of interpretation between various tax authorities, as well as between tax authorities and tax payers.

(in PLN; all amounts in thousands unless stated otherwise)

The tax and other settlements (such as customs duty or transactions with foreign entities) may be the subject of inspections by the tax authorities or other authorities authorised to impose significant fines. All tax arrears uncovered in the course of inspections are subject to high interest charges. Tax settlements may be inspected at any time within 5 years from the end of the accounting period to which they pertain. Under these conditions the tax risk in Poland is considerably higher than in other countries with stable tax systems.

Note 26. Key assumptions and estimate bases

Calculation of the revenues from the sales of the finished goods and the cost of the sold finished goods (see the section „long-term contract disclosure principles"), is based on detailed budgets of individual development projects prepared based on the Group's best knowledge and experience. During construction, each development project budget is updated at least once every three months.

Note 27. Segment reporting

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

Note 28. Operating income

SALES REVENUES BY KIND	01.01- -31.12.2008	01.01- -31.12.2007
Sales of finished goods	677,733	840,505
Sales of services	19,158	29,642
Sales of goods for resale (land)	1,271	8,606
Total	**698,162**	**878,753**

Note 29. Operating costs

OPERATING COSTS	01.01- -31.12.2008	01.01- -31.12.2007
Cost of sales		
Cost of finished goods sold	(411,531)	(515,147)
Cost of services sold	(16,463)	(21,917)
Cost of land sold	(1,036)	(8,602)
Total cost of sales	**(429,030)**	**(545,666)**
Selling costs and general administrative expenses		
Selling costs	(30,002)	(22,368)
General administrative expenses	(61,914)	(57,699)
Total selling costs and general administrative expenses	**(91,916)**	**(80,067)**
Selling costs and general administrative expenses by kind		
Depreciation	(2,420)	(2,226)
Cost of materials and energy	(8,430)	(6,317)
External services	(26,674)	(24,234)
Taxes and charges	(883)	(472)
Wages and salaries	(38,568)	(34,392)
Social security and other benefits	(4,843)	(3,582)
Management Options Programme	(6,780)	(5,622)
Other costs by kind	(3,318)	(3,222)
Total selling costs and general administrative expenses by kind	**(91,916)**	**(80,067)**

(in PLN; all amounts in thousands unless stated otherwise)

Note 30. Payroll costs

AVERAGE MONTHLY EMPLOYMENT (including management staff)	01.01--31.12.2008	01.01--31.12.2007
Individual personnel categories (number of staff)	**188**	**177**
White-collar workers	188	177
Blue-collar workers	-	-
General remuneration elements (PLN):	**43,411**	**37,974**
Wages and salaries	38,568	34,392
Social security and other benefits	4,843	3,582

Note 31. Other operating income

OTHER OPERATING INCOME	01.01--31.12.2008	01.01--31.12.2007
Revenues from contractual penalties, arrangements and compensations	3,082	3,576
Release of provisions for costs	3,187	18
Release of provision for receivables	-	96
Revaluation of fixed assets	-	190
Other	390	193
Total	**6,659**	**4,073**

Note 32. Other operating expenses

OTHER OPERATING EXPENSES	01.01--31.12.2008	01.01--31.12.2007
Provision for penalties and arrangements with clients	-	2,259
Donations	160	169
Receivables written off	1,069	445
Provision for remuneration	306	943
Provision for disputes	293	4,779
Provision for other costs	1,635	1,315
Inventory write-off	7,145	3,700
Revaluation of fixed assets	-	492
Cost of repairs (including provision)	4,791	-
Cost of research and abandoned projects	2,126	-
Perpetual usufruct	-	1,293
Other	643	739
Total	**18,168**	**16,134**

Note 33. Financial income

FINANCIAL INCOME	01.01--31.12.2008	01.01--31.12.2007
Interest received	12,019	11,404
Other	84	231
Total	**12,103**	**11,635**

(in PLN; all amounts in thousands unless stated otherwise)

Note 34. Financial costs

FINANCIAL COSTS	01.01- -31.12.2008	01.01- -31.12.2007
Interest on loans and bonds (not capitalised portion)	3,744	-
Other interest	177	944
Foreign exchange differences	20	75
Mortgage loans insurance	25	112
Commissions and fees	596	636
Other	297	464
Total	**4,859**	**2,231**

Note 35. Costs relating to interest

COSTS RELATING TO INTEREST	01.01- -31.12.2008	01.01- -31.12.2007
Financial costs (interest) capitalised under work in progress *	20,729	11,362
Value of financial costs (interest) accounted for in the income statement	3,744	-
Total value of the financial costs incurred on account of interest	**24,473**	**11,362**

* The financial costs incurred as a result of the financing of investment projects are generally capitalised in line with work in progress and relate to the costs of interest on bonds and loans taken out for the execution of investment projects.

Note 36. Transactions with related entities

In the twelve-month periods ended 31 December 2008 and 2007 the Company was a party to the transactions with related entities, as listed below. Descriptions of transactions have been presented in the form of tables. In exceptional cases, descriptions of particular agreements or explanations have also been provided in a descriptive form. Due to the Company's turnover, it has been assumed that in the event in which transactions with a given related entity did not exceed in any of the presented periods PLN 100 thousand, the transactions have been omitted in the summary.

Dom Development S.A. as a buyer of goods or services

Counterparty	Transaction description	01.01- -31.12.2008	01.01- -31.12.2007
Woodsford Consulting Limited	Consulting services as per agreement dated 1 February 2000, with further amendments	1,773	1,903
Hansom Property Company Limited	Consulting services as per agreement dated 31 March 1999	212	193
Towarzystwo Ubezpieczeń Wzajemnych Bezpieczny Dom"	Insurance of financial losses risk	475	1,225
Dom Development Grunty	Services as per Annex to agreement dated 12 April 2007	85	128
Fort Mokotów sp. z o.o.	Real estate management	-	5,586
Fort Mokotów sp. z o.o.	Other	145	175

Dom Development S.A. buying land as part of an agency agreement

Counterparty	Transaction description	01.01- -31.12.2008	01.01- -31.12.2007
Dom Development Grunty sp. z o.o.	Amounts of advances transferred to Dom Development Grunty Sp. z o.o. for the purchase of land as part of mandate contracts	10,267	55,548
Dom Development Grunty sp. z o.o.	Value of land transferred to Dom Development S.A. as part of mandate contracts	47,381	13,853

(in PLN; all amounts in thousands unless stated otherwise)

Dom Development S.A. providing services (seller) – the value of services invoiced during the period

Counterparty	Transaction description	01.01- -31.12.2008	01.01- -31.12.2007
Fort Mokotów sp. z o.o.	General Project Execution agreement dated 15 April 2002	-	212
Fort Mokotów sp. z o.o.	The sales commission agreement and agreement for provision of advertising and marketing services dated 15 April 2002	650	1,964
Fort Mokotów sp. z o.o.	Repair services based on agreement dated 22 July 2005	156	120
Fort Mokotów sp. z o.o.	Real estate management services	10	876
Fort Mokotów sp. z o.o.	Other	115	123

Dom Development S.A. as a party paying a dividend

Counterparty	Transaction description	01.01- -31.12.2008	01.01- -31.12.2007
Dom Development BV	Dividend (gross)	31,613	2,324

Dom Development S.A. as a party receiving a dividend

Counterparty	Transaction description	01.01- -31.12.2008	01.01- -31.12.2007
Fort Mokotów sp. z o.o.	Dividend (gross)	-	29,400

Dom Development S.A. as the payer of additional contribution to the capital

Counterparty	Transaction description	01.01- -31.12.2008	01.01- -31.12.2007
Dom Development Na Dolnej Sp. z o.o.	Payment to cover the loss /additional payment to capital	31	-
PTI Sp. z o.o.	Payment to cover the loss /additional payment to capital	-	12

Balances with related entities

Balances as in the books of the Company

	Receivables from related entities		Liabilities to related entities	
Entity	**31.12.2008**	**31.12.2007**	**31.12.2008**	**31.12.2007**
Total balance..	**56,833**	**87,604**	**3**	**1,530**
Balances below PLN 100,000..	9	28	3	11
Balances over PLN 100,000...	56,824	87,576	-	1,519
Subsidiaries	**56,727**	**87,576**	**-**	**-**
Dom Development Morskie Oko sp. z o.o. additional contributions to capital	1,147	1,147	-	-
Dom Development Grunty sp. z o.o.	55,580	86,429	-	-
Associated entities	**97**	**-**	**-**	**1,268**
Fort Mokotów sp. z o.o.	97	-	-	1,268
Other entities	**-**	**-**	**-**	**251**
Woodsford Consulting Limited	-	-	-	251

(in PLN; all amounts in thousands unless stated otherwise)

Promissory agreements and sale agreements relating to the sale of apartments by the Company to management personnel and their relatives

Related person	Date	Description	Value (PLN)	Cumulative payments made as at 31 December 2008 (PLN)
Jakub Domalik - Plakwicz	31.01.2007	Promissory sale agreement concerning residential facilities with the area of 59.40 sq. m together with parking space	797,472.20	797,472.20
Janusz Stolarczyk and Danuta Stolarczyk	22.03.2007	Annex no.1 regarding purchase of additional parking space in addition to promissory sale agreement concerning residential facilities with the area of 89.1 sq. m together with two utility rooms and two parking spaces	9,000.00	9,000.00
Janusz Stolarczyk and Danuta Stolarczyk	18.04.2007	Annex no.1 regarding purchase of additional parking space in addition to promissory sale agreement concerning residential facilities with the area of 122.93 sq. m together with two parking spaces	36,000.00	36,000.00
Wojciech Sadowski	29.05.2007	Promissory sale agreement concerning residential facilities with the area of 48.10 sq. m together with utility room and parking space	455,053.60	409,620.40
Jerzy Ślusarski and Ewa Ślusarska	04.07.2007	Annex no.1 regarding customer requested changes to promissory sale agreement concerning residential facilities with the area of 58.20 sq. m together with parking space	5,350.00	5,350.00
Paweł i Marta Plakwicz	17.04.2008	Agreement of the liability sale to the third party – session concerning residential facilities with the area of 104,58 sq. m, together with a parking space,	1,710,074.00	85,503.70
Jerzy i Ewa Ślusarscy	28.07.2008	Promissory sale agreement concerning shop of the area of 76.40 sq. m together with parking space	641,154.00	641,154.00

Other information concerning the related entities

Dom Land Sp. z o.o. as a company related in the form other than by means of capital participates as a shareholder of Dom Development Grunty Sp. z o.o in the purchase of land which later becomes a part of projects developed by Dom Development S.A. The transactions between the related entities are conducted according to the arm's length principle.

Note 37. Incentive plan – Management Options Programme

As at 31 December 2008 there were three Management Option Programmes adopted as part of the Incentive Scheme for the Management staff of the Company. They are as follows:

Name of the Programme	Share options in the programme (number of shares)	Allocated options (number of shares)	Exercised options (number of shares)	Share options in the programme (number of shares)	Allocated options (number of shares)	Exercised options (number of shares)
	31.12.2008			31.12.2007		
Programme I	413,100	413,100	413,100	413,100	413,100	413,100
Programme I B	92,500	92,500	-	96,750	96,750	-
Programme II	726,000	565,475	-	726,000	435,950	-

In 2008 the number of share options allotted under Programme II increased due to allotment of 242,000 share options under the third tranche of this programme (increase of allotted share options) and simultaneous decrease of 116,725 share options due to the termination of employment contracts with a several employees who were under Programme II (112,475 share options) and Programme I B (4,250 share options).

Programme I B

On 22 March 2006 the Supervisory Board of Dom Development S.A. adopted the provisions of Management Options Programme I A related to E series shares of Dom Development S.A. („Programme I A"). According to the provisions of Programme I A, the eligible persons to whom Programme I A was directed and who entered into the preliminary agreement for the sale of shares have the right to demand that the Company enter with such an eligible person into the agreement for the sale of shares during the option period, i.e. at the date indicated by the eligible person, which, however, cannot be earlier than 22 March 2009 and later than 22 March 2013, under terms and conditions set forth in the agreement with such an eligible person and in Programme I A. The Programme covers 96,750 shares of the Company. All the shares were offered to the members of the management staff of the Company in May 2006.

On 9 August 2006 the General Shareholders' Meeting adopted a resolution on authorizing the Company's Supervisory Board to change the provisions and introduce the changed provisions of the Management Share Options Programme IA concerning 96,750 E series shares of Dom Development and on authorizing the Management Board and the Supervisory Board to execute the above-mentioned Programme. The only changes were related to the introduction of the institution of a depositary. This function was entrusted to CDM PEKAO S.A. (see note 11 „Share capital"). The Company's intention is to continue Programme IA as the Management Share Options Programme IB concerning 96,750 J series shares of Dom Development S.A.

The changes concerning the shares covered by Programme IA have been described in note 11 „Share capital".

The value of the share options as at the date of allotting them, calculated on the basis of the Black-Scholes-Merton amounted to PLN 4,555 thousand. This value is proportionately carried to the income statement for the period of three years.

Programme II

On 20 April 2006 the Extraordinary General Shareholders Meeting of Dom Development S.A. accepted Management Share Options Programme II concerning 120,150 shares of the Company authorized the Management Board and the Supervisory Board to execute it. On 9 August 2006 the General Shareholders Meeting of Dom Development S.A. adopted a resolution on authorizing the Company's Supervisory Board to change the provisions and introduce the changed provisions of the Management Share Options Programme II in such a way that they will be substituted by 726,000 shares of Dom Development S.A. („Programme II") subject to the fact that allocating the options will be limited to 242,000 shares in any period of 12 consecutive months. Moreover the General Shareholders Meeting authorized the Management Board and the Supervisory Board to execute the above-mentioned Programme II.

Under Programme II it has been planned to offer one or a number of issues of shares with the nominal value of PLN 1.00 each („Tranche"). The allocation of options is conducted by the Supervisory Board in the form of a resolution. The day of adopting the resolution on allocating the options by the Supervisory Board shall be the day of allocating the options („Allocation Date"). A resolution of the Supervisory Board shall determine the persons eligible to participate in Programme II together with the number and the issue price of shares for each of these persons.The price at which the shares may be purchased when the option granted under the Programme is exercised amounts to PLN 114.48. The Company shall confirm the allocation of options for taking up a given number of shares at a given price and at a given date („Option") to those who have accepted participation in Programme II. The Supervisory Board may determine additional terms and conditions to be fulfilled in order to exercise the options. The option cannot be exercised earlier than after the lapse of 3 years from its allocation and later than after the lapse of 7 years from its allocation. In order to execute Programme II, on 10 August 2006 the General Meeting authorized the Management Board to increase the Company's share capital as part of the authorized capital and to issue the subscription warrants which enable the execution of the right to subscribe for the Company's shares in the period of 3 years from the date on which the change of the Articles of Association. According to Programme II, after the Allocation Date for a given Tranche, should the need arise, the Management Board will propose the General Meeting to adopt the resolution in respect of changing the Articles of Association and renewing the authorization of the Management Board, for the period of 3 years since the date of registration of the change in the Articles of Association, to increase the share capital by a maximum of 726,000 shares less the shares which have already been issued pursuant to Programme II and covered by the target capital, to exclude the pre-emptive right of current shareholders upon receiving the consent of the Supervisory Board and to issue subscription warrants.

(in PLN; all amounts in thousands unless stated otherwise)

On 10 July 2008, the Supervisory Board of Dom Development S.A. approved the amended rules of the Dom Development S.A. 726,000 Executive Share Option Scheme II.The amendment refers to the changing the price at which shares may be acquired, defined in point IV.2 of Scheme II as PLN 114.48, into a price set as not less than 90% of the arithmetical average of the closing prices of the Company's shares on the public market over the 30 days prior to the adoption of the Supervisory Board resolutions defining the persons entitled to participate in the Scheme, the number of shares, and a share price for each person, with the condition that the price shall not be more than PLN 114.48.

On 6 December 2006 the Supervisory Board of Dom Development S.A. adopted a resolution with respect to naming the persons authorized to participate in the Management Share Options Programme II concerning 726,000 shares of Dom Development S.A. as well as the number and the price of the said shares for each of those persons. Pursuant to the foregoing resolution 234,538 options for the Company's shares were allocated.

The value of the options as at the day when they were allocated was calculated on the basis of the Black-Scholes-Merton model and amounted to PLN 14,273 thousand. Such value is evenly accounted for in the income statement within the period of three years.

On 7 December 2007 the Management Board of Dom Development S.A. adopted a resolution in respect of naming the persons authorized to participate in the second tranche of Management Share Options Programme II concerning 726,000 shares of Dom Development S.A. as well as the number and the price of the said shares for each of those persons. Pursuant to the foregoing resolution another 242,000 options for the Company's shares were allocated.

The value of the options as at the day when they were allocated was calculated on the basis of the Black-Scholes-Merton model and amounted to PLN 9,970 thousand. Such value is evenly accounted for in the income statement within the period of three years.

On 8 December 2008 the Management Board of Dom Development S.A. adopted a resolution in respect of naming the persons authorized to participate in the third tranche of Management Share Options Programme II concerning 726,000 shares of Dom Development S.A. as well as the number and the price of the said shares for each of those persons. Pursuant to the foregoing resolution another 242,000 options for the Company's shares were allocated.

The fair value of the allocated options which may be changed into shares was estimated as at the day of allocating the options by means of a model based on the Black-Scholes-Merton, taking into account the conditions existing at the date of allocating the options. The following are preliminary assumptions to the model for the valuation of the options allocated under the second tranche of Programme II:

Dividend rate (%)	1.30
Anticipated volatility rate (%)	52.75
Risk-free interest rate (%)	4.36
Anticipated period of option exercise (in years)	3.00
Share exercise price (PLN)	14.91
Current share price (PLN)	18.86

The value of the options as at the day when they were allocated was calculated on the basis of the foregoing model and assumptions and amounted to PLN 2,047 thousand. Such value is evenly accounted for in the income statement within the period of three years.

Within the twelve month periods which ended on 31 December 2008 and 2007 the following amounts were accounted for in the income statement: PLN 6,780 thousand and PLN 5,622 thousand respectively.

(in PLN; all amounts in thousands unless stated otherwise)

Share options allocated and possible to be exercised as at respective balance sheet dates and changes in the presented periods.

SHARE OPTIONS		01.01--31.12.2008	01.01--31.12.2007
Options unexercised at the beginning of the period	**Amount**	**532,700**	**331,288**
	Total exercise price	**50,498**	**27,440**
Options allocated in a given period	Amount	242,000	242,000
	Total option execution value	3,608	27,704
Options expired in a given period	Amount	116,725	40,588
	Total option execution value	9,816	4,646
Options exercised in a given period	Amount	-	-
	Total option execution value	-	-
	Weighted average exercised price per one share	-	-
Options unexercised at the end of the period	**Amount**	**657,975**	**532,700**
	Total exercise price	**44,290**	**50,498**
Options possible to exercise at the beginning of the period	Amount	-	-
	Total exercise price	-	-
Options possible to be exercised at the end of the period	Amount	-	-
	Total exercise price	-	-

Note 38. Remuneration of members of the holding entity's management and supervisory governing bodies

Remuneration	01.01--31.12.2008	01.01--31.12.2007
1. The Management Board		
Remuneration	5,999	5,132
In this: payment out of profit	-	-
2. The Supervisory Board:		
Remuneration	622	456

The composition of the Management Board and the Supervisory Board as at 31 December 2008 has been presented in note 41.

Service agreements between members of the management and supervisory bodies and the Company or its subsidiaries defining the benefits to be paid upon termination of the employment contracts

Members of the Company's Management Board: Jarosław Szanajca, Janusz Zalewski, Janusz Stolarczyk and Jerzy Ślusarski are employed by the Company on the basis of employment contracts.

(in PLN; all amounts in thousands unless stated otherwise)

Under the provisions of employment contracts, the employment relationship with individual members of the Management Board may be terminated pursuant to the following conditions:

Executive Name	Period of notice of termination contract (months)		Note	
	Company to Employee	Employee to Company		
Szanajca Jarosław	8		First payment of 50% of 8-times monthly remuneration to be paid after giving a termination notice	The balance of 50% to be paid in 5 equal monthly payments
Ślusarski Jerzy	6		No special clauses in the contract	
Janusz Zalewski	6		No special clauses in the contract	
Stolarczyk Janusz	9	3	First payment of 50% of 9-times monthly remuneration to be paid after giving a termination notice	The balance of 50% to be paid in 8 equal monthly payments

Note 39. Contingent liabilities

CONTINGENT LIABILITIES	31.12.2008	31.12.2007
Guarantees	9,904	9,800
Sureties	1,109	1,214
Total	**11,013**	**11,014**

Additionally some of the Group's liabilities are secured with bills of exchange:

CONTINGENT LIABILITIES	31.12.2008	31.12.2007
Bills of exchange, including:		
– bills of exchange constituting an additional guarantee for BOŚ bank in respect of claims arising from the granted loan	140,000	70,000
– bills of exchange constituting an additional guarantee for PKO BP bank in respect of claims arising from the granted loan	47,241	40,000
– bills of exchange constituting an additional guarantee for BOŚ bank in respect of claims arising from the trilateral contract on insurance of loan guarantees of the Company's clients	2,000	2,000
– bills of exchange constituting other guarantees	1,452	-
Total	**190,693**	**112,000**

(in PLN; all amounts in thousands unless stated otherwise)

Note 40. Material court cases as at 31 December 2008

As at 31 December 2008 the entities in the Group are not parties to any judicial proceedings.

Note 41. Changes of the composition of the Management Board and the Supervisory Board of the Company

Composition of the Management Board

As at 31 December 2008 the Management Board was composed of 5 members:

Jarosław Szanajca	– President of the Management Board
Janusz Zalewski	– Vice-President of the Management Board
Jerzy Ślusarski	– Vice-President of the Management Board
Janusz Stolarczyk	– Member of the Management Board
Terry Roydon	– Member of the Management Board

In connection with the resignation of Mr. Grzegorz Kiełpsz from the function of Vice President of the Management Board, the Supervisory Board of Dom Development S.A, at a meeting held on April 3, 2008, appointed Mr. Jerzy Ślusarski as Vice President of the Management Board, effective from September 17, 2008, who until then had served as Member of the Management Board. Moreover, in connection with the resignation of Mr. Leszek Piotr Nałęcz from the function of Vice President of the Management Board of Dom Development S.A., this position was assumed by Mr. Janusz Zalewski on December 31, 2008.

Composition of the Supervisory Board

As at 31 December 2008 the Supervisory Board was composed of 7 members:

Grzegorz Kiełpsz	– Chairman of the Supervisory Board
Zygmunt Kostkiewicz	– Vice-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

On September 17, 2008, a shareholder holding over 50.1% of the company's shares, i.e. Dom Development B.V. with its registered office in the Netherlands, appointed Mr. Grzegorz Kiełpsz as Member of the Supervisory Board. On the same day the Supervisory Board of Dom Development S.A. appointed Mr. Grzegorz Kiełpsz as Chairman of the Supervisory Board. At the same time, the former chairman of the Supervisory Board, Mr. Zygmunt Kostkiewicz, was appointed Deputy Chairman of the Supervisory Board.

(in PLN; all amounts in thousands unless stated otherwise)

Note 42. Additional information on the operating activity of the Group

In the period of twelve months ended 31 December 2008 the following material changes in the portfolio of the Company's investments under construction took place:

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

Project	Decision on the use permit	Segment	Number of apartments
Zawiszy phase 1	II Q 2008	Apartments of higher standard	194
Bruna	II Q 2008	Apartments of higher standard	247
Zawiszy phase 2	III Q 2008	Apartments of higher standard	161
Derby 15	III Q 2008	Popular	277
Derby 17	III Q 2008	Popular	185
Olimpia 2 phase 5	IV Q 2008	Popular	63
Olbrachta phase 1	IV Q 2008	Popular	243
Olbrachta phase 2	IV Q 2008	Popular	205

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

Project	Commencement of construction and sale	Segment	Number of apartments
Derby 18	I Q 2008	Popular	82
Róża Wiatrów	I Q 2008	Popular	184
Grzybowska	I Q 2008	Apartments of higher standard	287
Derby 16	I Q 2008	Popular	276
Laguna II.....................................	II Q 2008	Single family	26
Regaty I phase 3	II Q 2008	Popular	166
Regaty II phase 9..........................	II Q 2008	Single family	88
Akacje 11.....................................	II Q 2008	Popular	77

Note 43. Material post-balance sheet events

There were no material post-balance sheet events in the period between the balance sheet day and the day on which these financial statements for the twelve month period ended on 31 December 2008 were prepared.

Note 44. Changes in accounting policies – description and impact of the change that will be introduced by the Company from 1 January 2009.

The International Financial Reporting Interpretation Committee (IFRIC) has completed a project reviewing the interpretation of **revenue recognition** from real estate sales under IAS 11 ("Constructions contracts") and IAS 18 ("Revenue").

(in PLN; all amounts in thousands unless stated otherwise)

Prepared by IFRIC a draft interpretation (D-21 Real Estate Sales) was approved by International Accounting Standards Board (IASB) in June 2008 and subsequently published by IFRIC in the form of interpretation (IFRIC-15 Agreements for the Construction of Real Estate) on 2 July 2008.

This interpretation, application of which will be required to the Group's consolidated financial statements for the periods beginning from 1 January 2009, will introduce changes to the currently applied Group's accounting policies in relation to the real estate sales.

Up to 31 December 2008 the Group recognized sales revenue based on IAS11 using "percentage of completion" method described in chapter "Significant accounting policies". Using IAS11, the Group recognized sales revenue in proportion to the state of progress of sales and construction for specific investment projects.

Use of the IFRIC-15 interpretation will require the Group to recognize sales revenue differently, that is to say in accordance with IAS18. From 1 January 2009 real estate sales revenue will be recognized only at the moment it is released to the buyer based on handover protocol signed by both parties ("recognition on completion" method).

The main result of the above change is that sales revenue and cost of sales (and as a result – sales contribution) will be recognized considerably later than it has been previously. From 1 January 2009 sales revenue for an individual real estate project will not be recognized until after the completion of the construction process of that particular project.

The Company estimated the impact of the above described change in the accounting policy on the Group's consolidated financial statements for the period in which the accounting policy would be applied for the first time, i.e. for the period beginning on 1 January 2009. These changes will cause adjustment to the consolidated shareholders' equity as at 1 January 2009 resulting from:

a/ Adjustment to the consolidated shareholders' equity opening balance as at 1 January 2008 by PLN 193,796 thousand.

This adjustment will eliminate the portion of profit from past periods, i.e. The net profit recognized using "percentage of completion" method cumulatively till 31 December 2007, which would not be recognized if the "recognition on completion" method was applied. This applies to the profit calculated using "percentage of completion" method on the products for which preliminary sales agreements had been signed but the products were not released to the buyers by the 31 December 2007.

b/ Adjustment to the consolidated net profit for the year ended 31 December 2008.

This adjustment will represent the difference between net profit recognized using "percentage of completion" method (shown in these financial statements) and the net profit that would be recognized if the "recognition on completion" method was used.

The impact of the above adjustments on the consolidated shareholders' equity opening balance as at 1 January 2009 is presented in the table below:

CONSOLIDATED SHAREHOLDERS' EQUITY		
Consolidated shareholders' equity as at 31 December 2008 (using IAS 11) ...		**789,755**
a/ Adjustment to the oppening balance as at 1 January 2008		(193,796)
b/ Adjustment to the consolidated net profit for the year ended 31 December 2008, consisting of:		
- elimination of the consolidated net profit for the year 2008 recognised under IAS 11 (i.e. before the change of accounting policy)	(136,940)	
- consolidated net profit for the year 2008 recognised under IAS 18 (i.e. after the change in accounting policy	224,269	
Adjustment to the consolidated net profit for the year ended 31 December 2008		87,329
Consolidated shareholders' equity as at 1 January 2009 (using IAS 18)		**683,288**

The above change in accounting principles will not impact the profitability of the real estate development projects but it will influence the allocation of revenues and cost of sales to individual accounting periods.

(in PLN; all amounts in thousands unless stated otherwise)

Note 45. Forecasts

The Management Board of Dom Development S.A. does not publish any financial forecasts in relation to the holding company nor the Group.

Note 44. Selected consolidated financial data translated into EURO

In compliance with the reporting requirements the following financial data of the Group have been translated into EURO:

SELECTED DATA FROM THE CONSOLIDATED BALANCE SHEET	31.12.2008	31.12.2007
	thousand EURO	thousand EURO
Total current assets	362,664	343,436
Total assets	367,670	349,544
Total shareholders' equity	189,280	194,343
Long-term liabilities	117,097	92,245
Short-term liabilities	61,293	62,956
Total liabilities	178,390	155,201
PLN/EURO exchange rate as at the balance sheet date	*4.1724*	*3.5820*

SELECTED DATA FROM THE CONSOLIDATED INCOME STATEMENT	01.01- -31.12.2008	01.01- -31.12.2007
	thousand EURO	thousand EURO
Sales revenue	197,662	232,671
Gross profit on sales	76,196	88,193
Operating profit	46,913	63,800
Profit before tax	48,964	66,290
Profit after tax	38,769	53,126
Average PLN/EURO exchange rate for the reporting period	*3.5321*	*3.7768*

Warsaw, 12 March 2009

Jarosław Szanajca
President of the Management Board

Jerzy Ślusarski
Vice-President of the Management Board

Janusz Zalewski
Vice-President of the Management Board

Janusz Stolarczyk
Member of the Management Board

Terry R. Roydon
Member of the Management Board