Dear shareholders,

The development sector greeted the year 2008 with great optimism, carried on the wave of the economic boom we experienced in the years 2006 and 2007. For Dom Development Capital Group, last year also promised to be a continuation of the positive market trend. Results for the first months of 2008 confirmed the forecasts of growth. In the middle of the year, however, we witnessed a significant drop in market dynamics, and in the last quarter of the year, an outright collapse. The economy started to exhibit early symptoms of the global economic crisis, which nowadays impacts Poland more and more severely, and the worsening microeconomic conditions inevitably also affected the finances of private households. Banks reacted to these circumstances with a rapid tightening of their credit policy, which at first resulted in an unprecedented decrease in the number of mortgages granted, and subsequently in a crash on the credit market, which in turn deprived almost all potential customers of the means to finance their property purchases. In consequence, the number of apartments sold by developers dropped dramatically and the real estate market was subject to strong pressure for price reductions. An additional factor that further exacerbated the collapse was the huge supply of new residential real estate on the secondary market which had been purchased at much lower prices in the preceding years.

Those negative developments considerably affected the results of Dom Development Capital Group as compared with the preceding year. The Group's earnings for the year 2008 amounted to PLN 698.2 million, as compared with PLN 878.8 million in 2007; net profit amounted to PLN 136.9 million (in 2007 – PLN 200.6 million) and earnings per share were at the level of PLN 5.60 (as compared with PLN 8.20 in 2007). In 2008 the Group sold 994 apartments, which accounted for 58% of all residential premises sold in 2007 (i.e. 1,704). We considerably increased the number of apartments handed over, delivering 1,815, i.e. 26% more than in 2007 (1,442 apartments).

In the second half of 2008, in the face of a deepening collapse on the real estate market, we took a series of steps aimed at adapting the company's structure and the scale of its operation to the worsening market and macroeconomic conditions. Our chief priority was to retain high financial liquidity and reduce expenses, including suspending purchases of any new plots of land. In the second half of 2008 we did not initiate any new development project, and in that half-year we incurred only 20% of our projected annual expenditures. In Q4 2008 we not only pursued the policy of fixed costs reduction, but also cut employment in the company by 23%, thus adapting the number of staff to the reduced scope of the company's operation.

We also took systematic actions aimed at energising sales, which in 2008 – in accordance with our assumptions – focused on apartments in the popular regions of Warsaw, i.e. in the most liquid segment of the market. Thanks to a flexible pricing policy combined with marketing activities tailored to the requirements of the current market situation and based on sales support schemes developed in cooperation with selected banks, we managed to achieve in 2008 a level of sales which independent have assessed the highest on the Warsaw market.

Thanks to our carefully planned and coordinated actions, as of the end of 2008 the situation of Dom Development Capital Group was safe and stable. At the end of the year we had net debt to the amount of PLN 272.1 million, and our net debt to equity ratio was 34.5%. We also managed to achieve a very favourable structure of debt maturity – the cash that the company has at its disposal is sufficient to cover all credits that will become due and payable within the next three years.

Our main priorities for 2009 will still consist of maintaining high liquidity, executing the strategy of cost and expenditure control in a consistent manner and keeping overheads at an appropriate level.

It is to be expected that the situation on the residential market in 2009 will remain challenging. However, we are deeply convinced that the solid foundations of the company; its good financial standing, huge areas of accumulated land and a highly experienced management team, whose members have extensive experience in managing conditions of crisis in previous years, all let us look ahead with optimism and give us the firm conviction that Dom Development Capital Group will be able to return to its former scope of operation, which will once again give the company the opportunity to live up to its potential.

Jarosław Szanajca

President of the Management Board of Dom Development S.A.