Report of the Management Board
on the activities of
Dom Development S.A. Capital Group
in 2008

Warsaw, 12 March 2009

INTRODUCTION

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

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

As at 31 December 2008 the Company was controlled by Dom Development B.V. with its registered office in the Netherlands which holds 63.15% of the Company’s shares.

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

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

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

The main area of activity of the entities comprising the Group is the construction and sale of residential real estate. All development projects Dom Development S.A. are conducted directly within the Group.

In the period of twelve months ended on 31 December 2008:

- the Group did not discontinue any of its operations,
- the Group did not make any material equity investments within the framework of the capital group. All free cash resources were invested by the Company in short term bank deposits,
- no material changes were made to the structure of Dom Development S.A. Capital Group.

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

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

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

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

  Flats are offered in two standards: with "turn-key" finishing and unfinished. In the unfinished flats the buyers conduct the finishing work on their own. In case of flats sold with finishing, various "turn key" finishing options are offered, which cover the majority of finishing work.

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

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

In 2008 the Group's revenue from the sale of products and services related to real estate management were as follows:

STRUCTURE OF REVENUES	01.01- -31.12.2008 thousand PLN	01.01- -31.12.2007 thousand PLN	Change 2008/2007
Revenues from the sale of finished goods	677,733	840,505	(19.4)%
Revenues from the sale of services related to real estate management........	10,222	19,839	(48.5)%
Revenues from other sales	10,207	18,409	(44.6)%
Total	**698,162**	**878,753**	**(20.6)%**

3. Basic economic and financial data disclosed in the annual consolidated financial statements of Dom Development S.A. Capital Group for 2008.

Consolidated Balance Sheet

Structure of the Group's assets as at 31 December 2008 and changes as compared to the state as at the end of 2007

ASSETS	31.12.2008	Share in assets	31.12.2007	Change 2008/2007
	thousand PLN		thousand PLN	
Total fixed assets	**20,890**	1.4%	**21,881**	(4.5)%
Current assets				
Inventory	1,152,331	75.1%	862,358	33.6%
Trade and other receivables	55,519	3.6%	65,915	(15.8)%
Other current assets	81,631	5.3%	26,425	208.9%
Cash and cash equivalents	223,697	14.6%	275,489	(18.8)%
Total current assets	**1,513,178**	**98.6%**	**1,230,186**	**23.0%**
Total assets	**1,534,068**	**100.0%**	**1,252,067**	**22.5%**

Structure of the Group's liabilities as at 31 December 2008 and changes as compared to the state as at the end of 2007

EQUITY AND LIABILITIES	31.12.2008	Share in liability	31.12.2007	Change 2008/2007
	thousand PLN		thousand PLN	
Shareholders' equity				
Share capital	24,560	1.6%	24,560	0.0%
Share premium less treasury shares	231,535	15.1%	231,535	0.0%
Reserve capital, supplementary capital and accumulated, unappropriated profit (loss)	533,825	34.8%	440,043	21.31%
Minority interest	(165)	0.0%	-	n/a
Total shareholders' equity	**789,755**	**51.5%**	**696,138**	**13.4%**
Liabilities				
Long-term liabilities	488,576	31.8%	330,419	47.9%
Total short-term liabilities	255,737	16.7%	225,510	13.4%
Total liabilities	**744,313**	**48.5%**	**555,929**	**33.9%**
Total equity and liabilities	**1,534,068**	**100.0%**	**1,252,067**	**22.5%**

Consolidated Income Statement

Consolidated income statement of the Group for the year ended on 31 December 2008 as compared to 2007

	01.01--31.12.2008	% of sales	01.01--31.12.2007	Change 2008/2007
	thousand PLN		thousand PLN	
Sales revenues	698,162	100.0%	878,753	(20.6)%
Cost of sales	429,030	61.5%	545,666	(21.4)%
Gross profit on sales	269,132	38.5%	333,087	(19.2)%
Operating profit	165,707	23.7%	240,959	(31.2)%
Profit before tax	172,951	24.8%	250,363	(30.9)%
Profit after tax	136,940	19.6%	200,644	(31.7)%
Earnings per share (PLN/share)	**5.58**	**n/a**	**8.17**	**(31.7)%**

Consolidated Cash Flow Statement

Cash as of the beginning of 2008 amounted to PLN 275,489 thousand and at the end of the year it amounted to PLN 233,697 thousand. It means that in the period 1 January - 31 December 2008 the balance of cash decreased by the amount of PLN 51,792 thousand.

In 2008 the Group recorded the net cash disbursement in the amount of PLN 215,004 thousand from the operating activity. Such a result is the consequence of significant increase in the inventory (mainly outlays for land designated for future investment projects) and corporate income tax paid in 2008.

In 2008 the Group recorded the net cash disbursement in the amount of PLN 3,457 thousand from investment activity.

In 2008 the Group recorded the net cash income in the amount of PLN 166,669 thousand from the financial activity. Such a significant surplus of cash revenue over the expenditure results primarily from the new loans obtained by the Company. In 2008 the Company paid out dividend in the amount of PLN 50,103 thousand.

4. Explanation of differences between the financial results disclosed in the annual consolidated financial statements and the forecasts for 2008 published earlier

Both Dom Development S.A. and the Group did not publish financial forecasts for 2008.

It should also be noted that the financial results of the Group for the year 2008 which were disclosed earlier in the consolidated financial statements for the fourth quarter of 2008 are the same as the financial results disclosed in the annual consolidated financial statements of the Group.

5. Managing financial resources of the Group.

Managing financial resources of Dom Development S.A. Capital Group in 2008 in connection with the conducted construction of residential buildings was focused on looking for sources of financing for the projects under construction and on maintaining safe liquidity ratios. The Management Board analyses the current and plans the future optimum financing structure on a regular basis in order to achieve the anticipated ratios and financial results, and, at the same time, ensure liquidity and broadly understood financial safety of the Group. In 2008 the Group's activity generated a positive result at each level of the income statement.

According to the Management Board, the asset situation and financial standing of Dom Development S.A. Capital Group at the end of 2008 confirm that the Group's financial standing is stable. It results from the fact that the Group has secured an established position in the housing market gaining appropriate experience and operating potential both in terms of execution of investment projects itself and the sale and financing these projects. The asset situation and financial standing of the Group is characterized below using selected liquidity and debt ratios.

Taking into account the situation of the real estate market in Poland in 2008, the financial and operational results achieved by the Group can be considered positive, even though they are lower than the results for the Company's best in 2007 what is well illustrated by the profitability ratios presented below.

Due to the deepening crisis on the real estate market, which may not be a short term phenomenon, the main priority for the management – also from the perspective of management of the Group's financial resources - is to prepare the Group for the new, related challenges. The primary steps taken in this respect in 2008 are described in point 9.

Profitability ratios

The ratios showing profitability of the business activity pursued by the Group in 2008 substantially deteriorated compared to the previous year. It is a result of the impact of recession in the property market, particularly visible in the second half of 2008. However, what should be pointed out here is the fact that 2007 was a record-breaking year as regards results of the Group, which properly took advantage of the situation in the residential property market in the years 2006 and 2007.

In 2008, a substantial decrease was suffered in particular by ratios representing profitability of balance sheet items – assets (ROA) and equity (ROE). What contributed to it was not only a smaller net profit but also an increase in inventory in the Group's balance sheet, together with higher long-term debt.

PROFITABILITY RATIOS	**2008**	**2007**
Operating profit margin ratio *EBITDA / Net sales revenues*	24.1%	27.7%
Net profit margin ratio *Profit after tax / sales revenues*	19.6%	22.8%
Return on assets (ROA) *Profit after tax / total assets*	8.9%	16.0%
Return of equity (ROE) *Profit after tax / shareholders' equity*	17.3%	28.8%

Liquidity ratios

All the liquidity ratios remain very high. What influenced it was good Group's results and sales margins as well as policy of the Management Board related to the financing of investments under construction, including skilful use of proceeds from bonds issued at the end of 2007. Reliability of the Company in terms of its financial result becomes increasingly stronger, which is proved by a diversified structure of banks financing the Company's activity and their willingness to grant new loans to the Company despite such a difficult market situation.

In view of the fact that the market within which the Group operates is weak, special attention should be given to providing good security of financial liquidity. This is clearly visible when considering the fact that towards the end of 2008 the Company recorded over three-and-a-half excess in cash compared to short-term interest bearing debt.

LIQUIDITY RATIOS	**2008**	**2007**
Current ratio *current assets / short-term liabilities*	5.92	5.46
Quick ratio *(current assets – inventory) / short-term liabilities*....................	1.41	1.63
Cash ratio cash / short-term liabilities...	0.87	1.22

Debt ratios

Thanks to appropriate operating and financial policy (financing structure), values of the presented ratios are still on a safe level for the conducted business activity and confirm the Company's and Group's creditworthiness on the financial market.

DEBT RATIOS	**2008**	**2007**
Equity to assets ratio *Shareholders' equity / Total assets*	51.5%	55.6%
Equity debt ratio *Total liabilities / Shareholders' equity*...	94.3%	79.9%
General debt ratio *Total liabilities / Total assets*	48.5%	44.4%
Interest bearing debt ratio *Interest bearing liabilities / Shareholders' equity*........................	62.8%	40.0%
Net interest bearing debt ratio *Interest bearing liabilities - cash / Shareholders' equity*.............	34.5%	0.5%

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

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

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

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

In 2008, as in the previous years, the whole activity of the Group was located mainly in Warsaw and its vicinity. In 2008 there were continued the changes in the portfolio of housing products offered by the Group. i.e. a further increase in the share of popular flats in the structure of the planned investment projects.

Due to the general decline in the sale of flats in 2008 this has not been reflected in the sale structure so far. However, it is already visible in the structure of planned investment projects. Considering weak economy, the Company suspended its operations in non-Warsaw markets, where a drop in demand for flats is especially felt.

Sales structure of Dom Development S.A. Capital Group

NUMBER OF PRODUCTS SOLD BY SEGMENT	2008	2007	Change
Popular flats	789	1,404	(43.8)%
Apartments of higher standard	201	296	(32.1)%
Luxury apartments	1	-	n/d
Single-family houses	3	4	(25.0)%
Total	**994**	**1,704**	**(41.7)%**

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

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

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

As regards the construction services, contractors are chosen in the process of internal tender procedures organized by the Company. The Group uses the services of various construction companies operating on the Warsaw market.

The biggest contractors of the Group in 2008 in terms of the value of services purchased in this period were:

SUPPLIER	01.01- -31.12.2008 thousand PLN
HENPOL Sp. z o.o.	106,329
UNIBEP S.A.	88,806
WARBUD S.A.	73,364
KALTER Sp. z o.o.	72,837
HOCHTIEF POLSKA Sp. z o.o.	57,918

The turnover shown above accounts for over 75% of the sum spent by the Group on construction and design services in 2008.

8. Group's operations during the year

In 2008 the following material changes in the portfolio of investments under construction took place:

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 faza 5	IV Q 2008	Popular	63
Olbrachta faza 1	IV Q 2008	Popular	243
Olbrachta faza 2	IV Q 2008	Popular	205

Commenced projects, i.e. projects with 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 stage 3	II Q 2008	Popular	166
Regaty II stage 9	II Q 2008	Single family	88
Akacje 11	II Q 2008	Popular	77

Significant agreements for the business activity of Dom Development S.A. Capital Group concluded in 2008

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

Significant agreements related to the purchase of land in 2008

Project's working name	Type of real property purchase agreement	Date of agreement	Value of transaction PLN thousand
Kamienica Raczyńskiego (Warsaw)	Final agreement on the purchase of the right to a perpetual usufruct of the land	June and September 2008	96,311
Targówek (Warsaw)	Final agreement on the purchase of land	November and December 2008	76,502

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

Supplier	Date of the agreement	Name of the project
WARBUD S.A.	09-01-2008	Grzybowska
ERBUD S.A.	10-09-2008	Oaza

Agreements concluded between the shareholders

Dom Development S.A. Capital Group has no information on possible agreements concluded between the shareholders in 2008.

Insurance agreements

Subject of insurance	Insurer	Insurance amount thousand PLN
Insurance of property – housing estates under Company's management	PZU S.A. i TUiR WARTA	203,485
Third party liability insurance for the Management Board	AIG	30,000
Insurance of property – the registered office of the Company and the sales office	TUiR WARTA S.A.	20,471
Third party liability insurance concerning the conducted business activities and the assets held	TUiR WARTA S.A., PZU S.A.	7,091
Other insurance	TUiR WARTA S.A.	645

Financial agreements

Significant financial agreements concluded by the Company in 2008 were agreements pertaining to bank loans taken. Information concerning these agreements can be found in point 13.

Cooperation agreement

In 2008, Dom Development S.A. Capital Group did not conclude any significant cooperation agreements with other entities.

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

Due to the deepening crisis on the real estate market, which may not be a short-term phenomenon, the main priority for the management is to prepare the Company and the Group for the new, related challenges. The primary steps taken in this respect in 2008 were:

- to ensure adequate source of finance and its structure to the Company both for current and future construction projects, whilst exercising due care from the perspective of both the Company's and its clients' interest,
- co-operation with banks and aiding clients in obtaining mortgages,
- to match the sales offer to the market demand with particular attention paid to the utilisation of governmental programmes supporting purchases of flats,
- aligning land purchases to Company's existing needs and those predicted for the future years,
- optimum exploitation of the existing land bank in a timely manner,
- intensification of sales-oriented activities and focus on their efficiency,
- to maintain and build upon customer confidence in the Dom Development brand,
- restructuring the organization and employment to predicted level of operational activities for the Company,
- restructuring and cutting back on overheads.

Apart from the above-mentioned measures taken by the Management Board, which will be continued in 2009, the most important task for the Management Board within the next twelve months will be increasing the company's share in the Warsaw market. It will be possible thanks to the following:

- a well-established position in the Warsaw residential property market,
- potential of the Group's management,
- gained know-how in the sphere of operations related to completion of development projects,
- accumulated experience in selling and financing development projects,
- possessed land bank (it pertains to both projects already started and the ones to be started).

During the next twelve months there is also planned:

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

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

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

Macroeconomic factors – Since the middle of 2008, the impact of the world crisis, which in the first place affected the banking sector, has been increasingly visible in Poland as well. The next stages of this crisis will be the slowing down of economic growth, noticeable rise in unemployment and, as a consequence, smaller purchasing power of the Company's potential customers.

Availability of mortgage loans – considerable increase in the prices of flats and houses recorded in the last years and stricter lending criteria used by banks when assessing credit worthiness of their customers led to a situation where many new potential purchasers of flats hit a barrier of creditworthiness. Lack of new lending solutions and the continuing crisis in the banking sector (difficult access to loans) may cause a low demand for new flats and houses to continue.

Foreign exchange risk – a significant part of flats and houses purchased by clients is financed with mortgage loans in foreign currencies, mainly in Swiss franks and Euro. A significant percent of foreign exchange loans, despite the limitations in obtaining them which have been introduced in 2007, may lead to the situation in which, in the case PLN weakens compared to these currencies, flat buyers will not be able to service the loans taken out to finance them, which will increase the supply with the real properties foreclosed by banks, and this will be accompanied by a limited demand from buyers who will not be granted such loans.

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

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

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

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

In view of the ever deepening crisis in the property market, caused, among other factors, by difficulties in getting mortgage loans and crisis in the financial markets, in 2008 the Management Board took a series of measures aimed at preparing the Company for new crisis-related challenges. Description of steps taken can be found in point 9.

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

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

11. Statement on the application of corporate governance in Dom Development S.A. in 2008

a. corporate governance rules addressed to the issuer and the location, where the text of the set of corporate governance rules are publicly available

In 2008 Dom Development S.A. followed the corporate governance rules described in the Code of Best Practice for Warsaw Stock Exchange Listed Companies.

The Code of Best Practice for Warsaw Stock Exchange Listed Companies is publicly available under the following address:
http://corp-gov.gpw.pl/assets/library/english/best_practices_2007.pdf

b. the range of issuer's withdrawal from the rules pointed in the corporate governance rules, mentioned in the point 11.a, indication of withdrawn rules and explanation the reason for this withdrawal,

Dom Development S.A. did not withdraw from any rules described in the Code of Best Practice for Warsaw Stock Exchange Listed Companies.

c. Description of basic features of internal control systems and risk management systems functioning in the Company with reference to the process of preparing financial statements and consolidated financial statements

The Company's Management Board is responsible for the internal control system in the Company and its effectiveness in the process of the compilation of financial statements and periodic reports prepared and published in accordance with the Ordinance of the Minister of Finance of 19th February 2009 on Current and Periodic Information Disclosed by Issuers of Securities.

The effectiveness of the Company's internal control system and risk management in the financial reporting process was ensured through the following means:

- **established structure and scope of financial reporting applied by the Company**

  The medium term plan of the Company (covering a period of at least 3 years) is updated on a yearly basis. Furthermore, each year a detailed operating and financial budget which is the implementation of the assumptions of the medium-term plan is prepared. The process is managed by the Management Board, but the middle and senior management of the Company is involved in the process as well. The budget, which is prepared annually for the following year, is approved by the Company's Management Board.

  In the course of the year the Company's Management Board analyses the current financial results and compares them with the adopted budget. It uses for that purpose the management reporting practices applied in the Company which are based on the accounting policy adopted by the Company (International Financial Reporting Standards) and which takes into account the form and level of detail of financial data presented in the Company's and Group's financial statements.

  When presenting its financial data in financial statements, periodic financial reports and management reports, the Company applies consistent accounting principles.

- **clear division of duties and competences in the process of preparing financial information**

Preparation of financial reports, periodic financial reports and current management reports of the Company is a responsibility of the financial division lead by the Vice-President of the Management Board, the Company's Financial Director.

The Company's financial reports are prepared by a team of well qualified employees of the financial and accounting division with the assistance of reporting and control section. The whole process is supervised by the middle management of the financial division. Before they are handed to an independent auditor, financial statements are checked by the financial inspector responsible for the accounting and reporting division and then by the Vice-President of the Management Board, who concurrently serves as the Company's Financial Director.

- **regular assessment of the Company's operation on the basis of its financial reports**

  The data used in financial statements and periodic reports and the monthly management and operating reports are provided by the Company's financial and accounting system. After all pre-determined procedures of book-closing at the end of each month have been conducted, detailed financial and operating management reports are prepared. Those reports are analysed in detail by the reporting and control division and then by the middle and senior management of individual organisational units of the Company. As regards closed reporting periods, the Company's financial results are thoroughly analysed and compared with budget assumptions and forecasts made in the month preceding the analysed reporting period. Taking into consideration the specifics of the sector, not only individual cost groups are analysed, but individual investment projects are analysed separately as well.

  Any identified deviations are appropriately clarified and any mistakes are corrected on an ongoing basis in the Company's books in accordance with the employed accounting policy.

- **verification of the Company's financial statements by an independent certified auditor**

  Pursuant to the legal regulations in force, the Company's financial statements are subject to review by or scrutiny of an independent certified auditor possessing generally recognised and appropriately high qualifications.

  In the Company a so-called Audit Life Cycle has been worked out. This is a cyclical schedule of mutual communications between the Management Board, the certified auditor and the Audit Committee of the Supervisory Board. Its aim consists in particular in ensuring appropriate relations between the Audit Committee and the certified auditor as well as the correct presentation of the results of the verification.

- **a highly formalised process of formulating material assessments, which considerably influences the Company's financial statements**

  A key action the Company takes in order to reduce its exposure to market risks is an accurate assessment of potential development investments and control of the current ones on the basis of investment models and decision procedures worked out in the Company, compliance with which is subject to particularly close scrutiny of the Company's Management Board.

  Revenues from product sale and costs of the products sold are calculated, in accordance with the Company's accounting policy in that respect, on the basis of detailed budgets of individual development projects prepared in accordance with the best knowledge and experience of the Company. In the course of realisation of development projects, all budgets are updated at least every three months. The updating process is based on highly formalised principles introduced by the Company and is subject to particularly close scrutiny on the part of the Management Board, especially the Vice-President of the Management Board serving as the Company's Financial Director.

- **risk management process and internal audit**

  Since 2000 a highly formalised risk management procedure has been employed in the Company. Under this procedure the management process consists in through identification and assessment of fields of risk for all areas of the Company's and the Group's operations. At the same time actions which need to be taken in order to reduce or eliminate that risks are defined (i.a. by means of a system of procedures and internal controls). The risk management procedure is periodically updated by the Company's Management Board in cooperation with key managers and external advisors.

The Company's internal audit section also participates in the process of risk identification and assessment of the control mechanisms. The schedule of internal audits is prepared on the basis of the risk assessment conduced in cooperation with the Management Board under supervision of the Audit Committee. Apart from scheduled audits, verification audits dealing with recommendations formulated in the course of previous audits and out-of-schedule audits are carried out as well. The results of the work of the internal audit section are reported to the Audit Committee and to experts indicated by that Committee.

d. shareholders having, directly or indirectly, significant shareholdings

As at 31 December 2008 the holding company Dom Development S.A. was controlled by Dom Development B.V. which holds 63.15% of the Company's shares.

The table below shows the list of shareholders who have, directly or indirectly through subsidiaries significant shareholdings 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 the Company.

e. indication of persons holding all securities that give special supervisory rights, and description of these rights

Pursuant to point 6.2.2 of the Statute of Dom Development S.A. a shareholder holding at least 50.1% of the Company's shares is personally vested with the right to appoint and dismiss half of the members of the Management Board, including the President of the Management Board and the Vice-President of the Management Board who is responsible, pursuant to the Management Board bylaws for the Company's finances. In the event of an odd number of Management Board members, a shareholder holding at least 50.1% shares in the Company is authorised to appoint, accordingly: 3 (where the Management Board is comprised of five persons) and 4 (where the Management Board comprised of seven persons) Management Board members. The above authorisation is exercised by way of serving a written statement to the Company on appointment or dismissal of a given Management Board member. The remaining members of the Management Board shall be appointed and dismissed by the Supervisory Board.

Pursuant to point 7.4 of the Statute of Dom Development S.A. a shareholder holding at least 50.1 % of the shares in the Company is vested with the personal right to appoint and dismiss half of the members of the Supervisory Board, including 1 Deputy Chairman thereof. In the event of an odd number of Supervisory Board members, a shareholder holding at least 50.1% shares in the Company is authorised to appoint, accordingly: three (where the Supervisory Board is comprised of five persons) and four (where the Supervisory Board is comprised of seven persons) Supervisory Board members and five (where the Supervisory Board is comprised of nine persons). The above authorisation is exercised by way of serving a written statement to the Company on appointment or dismissal of a given Supervisory Board member.

On 31 December 2008, Development B.V. with its registered office in the Netherlands was a shareholder holding at least 50.1% shares in the Company.

f. indication of all limitations regarding voting rights, such as limitations of voting rights by persons holding a determined share or number of votes, and time limitations regarding voting rights or provisions, according to which, by cooperation of companies, capital rights connected with securities are separted from possession of securities

Dom Development S.A. concluded on 26 October 2006 a deed of trust with Unicredit CA IB Poland S.A. (legal successor of Centralny Dom Maklerski Pekao S.A.) in compliance with which, UniCredit CA IB Poland S.A., pursuant to article 431 § 2 point 1 of the Commercial Companies Code, has taken up the J Series Shares of Dom Development S.A. (private subscription). Taking up of the above-mentioned shares by Unicredit CA IB Poland S.A. occurred for the purpose of future offering them to persons entitled in accordance with the principles of Executive Share Option Scheme I B for 96,750 J Series Shares.

According to the above-mentioned deed of trust, UniCredit CA IB Poland S.A. has undertaken to not execute any corporate rights from J Series Shares, in particular to not register holding the shares in a Shareholders Meeting of Dom Development S.A. (with the exception of registration in order to hold a Shareholders Meeting without formally convening a Shareholders Meeting, on written request by Dom Development S.A), execute voting rights from J Series Shares or make motions, as authorized pursuant to provisions of the Commercial Companies Code.

Furthermore, CA IB Poland S.A. has undertaken to not execute the right to acquire shares from the new issue, as entitled on grounds of possessing J Series Shares, and not to transfer or encumber this right for the benefit of other entities.

g. indication of all limitations regarding the assignment of ownership of the issuer's securities

Taking into consideration the fact that UniCredit CA IB Poland S.A. has taken up J Series Shares, mentioned in the paragraph above, for the purpose of future offering them to persons entitled in accordance with the principles of Executive Share Option Scheme I B for 96,750 J Series Shares, UniCredit CA IB Poland S.A. has undertaken to not dispose J Series Shares, and in particular to not encumber J series shares with liabilities or real burdens.

h. description of the principles regarding the appointment or of dismissal managing persons and their authorisations, in particular the right to take a decision of issue or buy shares

In accordance with the Company's Statute the Management Board of Dom Development S.A. shall comprise between 4 and 8 members, including the President. The Supervisory Board shall determine the number of members of the Management Board. A shareholder holding at least 50.1% of the Company's shares is personally vested with the right to appoint and dismiss half of the members of the Management Board, including the President of the Management Board and the Vice-President of the Management Board who is responsible, pursuant to the Management Board bylaws for the Company's finances. In the event of an odd number of Management Board members, a shareholder holding at least 50.1% shares in the Company is authorised to appoint, accordingly: 3 (where the Management Board is comprised of five persons) and 4 (where the Management Board comprised of seven persons) Management Board members. The above authorisation is exercised by way of serving a written statement to the Company on appointment or dismissal of a given Management Board member. The remaining members of the Management Board shall be appointed and dismissed by the Supervisory Board.

The Management Board represents the Company in and out of court. The joint action of two members of the Management Board or of one member of the Management Board and an commercial proxy is required for the submission of declarations and for signing on the Company's behalf.

Pursuant to point 3.2.8 of the Company's Statute the Management Board is authorised to increase the Company's share capital by the issue of new shares with an aggregate nominal value of no more than PLN 1,726,000 (in words: one million seven hundred and twenty six thousand) by way of one or several share capital increases within the limits specified above (authorised and unissued capital). The Management Board's authorisation to increase the share capital and to issue new shares within the limits of the authorised and unissued capital to PLN 1,726,000 shall expire 3 years from the date of entry to the register of business entities of the amendment to the Statute performed under resolution

No. 1 dated 10 August 2006. Authorisation to increase the share capital referred to sentence above, includes the issuing of subscription warrants with subscription rights expiring after the period determined above.

With the consent of the Supervisory Board, the Management Board may deprive a shareholder of all or part of its pre-emptive rights in relation to shares issued within the limits of the authorised and unissued capital.

A condition of the Management Board performing a share capital increase within the limits of the authorised and unissued capital is obtaining a positive opinion of the Supervisory Board in this respect. In other cases, provided that the provisions of the Commercial Companies Code do not stipulate otherwise, the Management Board may decide on all matters relating to increases in the share capital within the limits of the authorised and unissued capital.

i. description of amending the issuer's statute

Pursuant to article 430 § 1 of the Commercial Companies Code, an amendment to the Statute of Dom Development S.A. shall require a resolution of the Shareholders Meeting and court registration. The Management Board of Dom Development S.A. shall notify the registration court of the amendment to the Statute. The Shareholders Meeting may authorize the Supervisory Board to put together a uniform text of the amended Statute or to make such other editorial changes as may be defined in the resolution of the Shareholders Meeting.

j. the mode of functioning of the Shareholders Meeting and basic rights of the Shareholders Meeting, and description of the rights of shareholders and manner of execution of rights, in particular rules resulting from shareholders meeting bylaws, if such bylaws was adopted and information in that scope do not directly result from legal rules

The Shareholders Meeting holds its sessions as Ordinary and Extraordinary Shareholders Meetings, and as a governing body of the Company it acts pursuant to the provisions of the Commercial Companies Code of 15 September 2000 (Journal of Laws No. 94, item 1037, as amended), the Statute of the Company and provisions of the non-confidential and publicly available Shareholders Meeting Bylaws dated 5 September 2006 and amended by way of resolution No. 27 of the Extraordinary Shareholders Meeting of Dom Development S.A. dated 15 May 2008.

An Ordinary Shareholders Meeting is convened by the Management Board. It takes place in Warsaw within 6 months of the end of each financial year. Shareholders are entitled to participate in the Shareholders Meeting provided that they have filed with the Company registered certificates of deposit issued by an entity maintaining a securities account pursuant to the provisions of the Act on Public Trade in Securities at least one week prior to the date of the Shareholders Meeting and that the said certificates have not been collected by them before the end of the Meeting. Members of the Company's Management Board and Supervisory Board do not have to receive invitations to participate in the Shareholders Meeting. Other persons, in particular certified auditors and experts, may participate in the session or an appropriate part thereof at the invitation of the Management Board, should their participation be justified by the need to present to the participants of the Shareholders Meeting their opinions in discussed matters. A certified auditor should be present at a session of the Shareholders Meeting devoted to the Company's financial matters.

The Shareholders Meeting is valid and may adopt resolutions only if shareholders holding at least 50.1% of all votes are represented at the Meeting. Resolutions are adopted by an absolute majority of validly cast votes, unless the Commercial Companies Code and or the Statute provide otherwise. Votes may be taken with the use of an electronic system for casting and calculating votes. Pledges and share users are not entitled to exercise voting rights attached to shares.

A resolution on removing certain matters from the agenda of the Shareholders Meeting or not examining matters included in the agenda or placed on the agenda pursuant to a motion of shareholders requires for its validity a majority of three-fourths of the votes cast and the explicit prior consent of all present shareholders who have lodged such a motion.

After the attendance list has been signed and checked, the Chairman puts the agenda to the vote. The Shareholders Meeting may adopt the suggested agenda without changes, change the order of debate or remove certain matters from the agenda, subject to the provisions of the Statutes. The Shareholders Meeting may also place new matters on the agenda and discuss them, without however adopting any resolutions on such matters. The Chairman of the Meeting has no right to remove matters from the agenda or alter them without the consent of the Shareholders Meeting.

Each participant of the Shareholders Meeting may speak on matters included in the adopted agenda which are brought up for discussion at that moment. Each participant of the Shareholders Meeting may lodge a formal motion. The Chairman gives the floor to a participant willing to lodge a formal motion out of turn. Formal motions are motions concerning modes of debate and voting.

The Shareholders Meeting adopts resolutions on matters included in the agenda by taking a vote. Voting is open, subject to the relevant provisions of the Statute and the Commercial Companies Code.

In 2008 sessions of the Shareholders Meeting of the Company Dom Development S.A. convened in a formal manner was held on 15 May 2008 and on 16 September 2008, in the registered seat of the Company. The Shareholders Meeting was convened upon a motion of the Management Board of the Company, and shareholders of the Company did not file their motions for the Shareholders Meeting to be convened.

The course of the Shareholders Meeting complied with the provisions of the Commercial Companies Code, provisions of the Company's Statute, provisions of the non-confidential and publicly available of the Shareholders Meeting Bylaws of Dom Development S.A. as well as the Best Practices of WSE Listed Companies. The Shareholders in both cases had the possibility to familiarize themselves with the content of draft resolutions included in the agenda not later than 14 days prior to the planned date of the session of the Shareholders Meeting. The Company did not question the correctness of documents submitted by the shareholders and their proxies confirming their right to represent the shareholders when verifying shareholders' IDs entitling them to participate in the Shareholders Meeting.

The Chairman of the Shareholders Meeting ensured that the session proceeded in an orderly and efficient manner. Sessions of Shareholders Meetings have never been cancelled or discontinued. Members of the Management Board and the Supervisory Board present at the Shareholders Meeting readily explained all matters concerning the scope of their respective competences and legal regulations.

Resolutions of the Shareholders Meeting were adopted in circumstances rendering it possible to protect the rights of minority shareholders, including voicing reservations and lodging objections against resolutions. None of the resolutions adopted was appealed against in the court.

The Ordinary Shareholders Meeting of Dom Development S.A. took place within the time limit set forth in Article 395 of the Commercial Companies Code and the documentation concerning financial statements for the financial year 2007 was published on the website of the Company approximately 2 months before the date of the Ordinary Shareholders Meeting. Resolutions adopted in the Ordinary Shareholders Meeting concerning distribution of the profit earned by the Company in 2007 and on payment of the dividend were adopted unanimously.

All resolutions of the Shareholders Meeting from 2008 were adopted in pursuance of the best interest of he Company and took into account the rights of other interested parties. Resolutions adopted in the Shareholders Meetings are available on the Company's website at the address

http://inwestor.domdevelopment.pl/financial-information/current-reports?rok=2008&grupa=WZA

k. composition and changes in composition that took place during the last financial year, and description of principles of functioning of the governing, supervisory and administrative bodies of the issuer and their committees

Management Board

At the end of 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 accordance with Mr. Grzegorz Kiełpsz's resignation from the position of the Vice President of the Management Board, the Supervisory Board, during its session of 3 April 2008, appointed Mr. Jerzy Ślusarski, currently member of the Management Board, as Vice President of the Management Board, effective as of 17 September 2008. Furthermore, in connection with Mr. L. Piotr Nałęcz's resignation from the position of the Vice President of the Management Board of Dom Development S.A., on 31 December 2008 this position was assumed by Mr. Janusz Zalewski.

Principles governing the functioning of the Management Board

The Company's Management Board acted pursuant to the provisions of the of Commercial Companies Code, provisions of the Statute and the non-confidential and publicly available Management Board Bylaws approved by way of a resolution of the Supervisory Board, and in accordance with the Best Practices of WSE Listed Companies.

The Management Board is an executing body of the Company. It manages the current operations of the Company and represents it towards third parties. The Management Board decides in all matters concerning the Company not reserved for Shareholders Meetings and/or the Supervisory Board by legal regulations, the Statutes or resolutions of the Shareholders Meeting.

The Management Board may be composed of 4 to 8 members including its President (the actual number is determined by the Supervisory Board), appointed for a joint three-year term of office. For statements to be validly made and signed on behalf of the Company, two members of the Management Board must act jointly or a member of the Management Board must act jointly with a commercial proxy. Resolutions of the Management Board are adopted by an absolute majority of votes. In case of a voting deadlock, the President of the Management Board has the casting vote.

When defining strategic as well as current tasks of the Company, during the period in question, the Management Board always bore in mind the overriding interest of the Company and legal regulations, and took into account the interests of the shareholders, employees of the Company and its creditors.

Striving to ensure the transparency and efficiency of the management system, the Management Board complied with the principles of processional conduct within the boundaries of justified economic risk and took into consideration a wide range of available information, analyses and opinions.

Remunerations of the Members of the Management Board were established by the Supervisory Board on the basis of clear-cut procedures, were adjusted according to the criteria of the scope of responsibilities and competences and took into account the economic results of the Company. The remunerations remained in reasonable relation to the level of remuneration paid to management board members in similar companies operating on the development market.

Supervisory Board

The Supervisory Board is composed of 5 to 9 members.

Until 16 September 2008 the composition of the Supervisory Board was as follows:

Zygmunt Kostkiewicz – Chairman of the Supervisory Board
Richard Lewis – Deputy 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

Dom Development B.V., with its registered seat in the Netherlands, holding more than 50.1% of the Company's shares, appointed Mr. Grzegorz Kiełpsz as the Member of the Supervisory Board, effective from 17 September 2008. On the same day Mr. Grzegorz Kiełpsz was appointed by the Supervisory Board as the Chairman of the Supervisory Board. Additionally, Mr. Zygmunt Kostkiewicz was appointed as the Deputy Chairman of the Supervisory Board. After the above-mentioned changes, from 17 September 2008 the Supervisory Board has been composed of 7 members and its composition is as follows:

Grzegorz Kiełpsz - Chairman of the Supervisory Board
Zygmunt Kostkiewicz – Deputy Chairman of the Supervisory Board
Richard Lewis – Deputy 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

Principles governing the functioning of the Supervisory Board

The Supervisory Board acts pursuant to the provisions of the Commercial Companies Code, provisions of the Statute, the non-confidential and publicly available Supervisory Board Bylaws adopted by the Supervisory Board setting forth its organisation and manner of operation as well as the Best Practices of WSE Listed Companies.

The Supervisory Board is a constant supervisory body of the Company. It supervises all areas of the Company's operation. The Supervisory Board adopts resolutions or gives its opinions in matters reserved for the Supervisory Board in the Company's Statute and in the mode provided for in the Statute or relevant legal regulations.

Sessions of the Supervisory Board were held regularly and were attended by the Members of the Management Board. In 2008 the Supervisory Board held 4 sessions in the registered seat of the Company as well as 7 teleconferences. The Management Board provided the Supervisory Board with exhaustive information on all important matters concerning the Company's operations.

The Supervisory Board fulfilled the requirement of having among its members at least two independent members complying with the criteria of independence stipulated in the Company's Statute.

Resolutions of the Supervisory Board concerning: (i) giving consent for the Company or a related entity of the Company to make any considerations on any account whatsoever for the benefit of the Members of the Management Board, (ii) giving consent for the Company or a related entity of the Company to conclude a material agreement with a related entity of the Company, a Member of the Supervisory Board or the Management Board, or entities related to that members, (iii) choice of a certified auditor who should audit the Company's financial statement, were all adopted with the consent of a majority of the Independent Members of the Supervisory Board.

Remuneration of the Members of the Supervisory Board was determined in a transparent manner and did not constitute a considerable share of the Company's costs influencing its financial results. The amount of the remuneration was approved by way of a resolution of the Shareholders Meeting and was disclosed in the annual report.

The Supervisory Board presented to the Ordinary Shareholders Meeting of the Company's Shareholders which took place on 15 May 2008 a brief assessment of the Company's situation including internal audit system and risk management system that is substantial for the Company, and assessment of the work of the Supervisory Board, prepared pursuant to the provisions of the Best Practices of WSE Listed Companies.

Committees of the Supervisory Board

Two committees, the Audit Committee and the Remuneration Committee, were established within the structure of the Supervisory Board.

Audit Committee

The Audit Committee until 31 December 2008 was composed of 4 Members:
Włodzimierz Bogucki – Chairman of the Audit Committee
Richard Lewis – Member of the Audit Committee
Michael Cronk – Member of the Audit Committee
Stanisław Plakwicz – Member of the Audit Committee

The Audit Committee is a permanent committee of the Supervisory Board. It is composed of at least three members appointed by the Supervisory Board from among its members, with the reservation that two members of the Audit Committee should be Independent Members of the Supervisory Board within the meaning of point 7.7 of the Statute, whereas one member of the Audit Committee must possess skills in accounting and finance.

The duties and competences of the Audit Committee are set forth in the non-confidential and publicly available Audit Committee Bylaws approved by the Supervisory Board.

The tasks of the Audit Committee consist in particular of (i) supervision of the Company's Management Board as regards the Management Board's compliance with relevant rules of law and other regulations, in particular the Accounting Act of 29th September 1994, preparation of financial information by the Company, in particular with reference to the choice of the accounting policy adopted by the Company, application and evaluation of consequences of new legal regulations, information on the manner in which assessed positions, forecasts etc., are treated in annual financial reports and compliance with instructions and remarks of certified auditors appointed by the Supervisory Board, (ii) providing the Company's Supervisory Board with recommendations on matters concerning the appointment and dismissal of the certified auditor, (iii) control of independence and objectivity of the certified auditor, in particular from the point of view of a possible replacement of the certified auditor and his remuneration, (iv) verification of the certified auditor's work.

While discharging its duties, the Audit Committee cooperated with the Supervisory Board, the Management Board, middle management and external and internal auditor.

The following persons attend meetings of the Audit Committee when invited: Vice-President of the Management Board responsible for financial matters, Deputy Financial Director, Financial Controller and representatives of the external and internal audit. In 2008 the Audit Committee held 4 sessions in the registered seat of the Company and 1 teleconference.

Remuneration Committee

The Remuneration Committee until 31 December 2008 was composed of following members:

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

The Remuneration Committee is a permanent committee of the Supervisory Board. It is composed of at least three members appointed by the Supervisory Board from among its members, with the reservation that at least one member of the Remuneration Committee should have the status of an Independent Member of the Supervisory Board within the meaning of point 7.7 of the Statute. The Supervisory Board appoints one member of the Remuneration Committee who serves concurrently as an Independent Member of the Supervisory Board within the meaning of point 7.7 of the Statute for the position of the Chairman of the Remuneration Committee. Should only one Independent Member of the Supervisory Board be appointed as a member of the Remuneration Committee, that members assumes the function of the Chairman of the Remuneration Committee automatically. Each Member of the Remuneration Committee may by dismissed at any time by the Supervisory Board.

The duties and competences of the Remuneration Committee are set forth in the non-confidential and publicly available Remuneration Committee Bylaws approved by the Supervisory Board.

The tasks of the Remuneration Committee consist in particular in: (i) a periodic assessment of the principles of establishing remunerations for the members of the Management Board and providing the Supervisory Board with appropriate recommendations in this respect, (ii) preparing suggestions as regards remunerations and granting additional benefits to individual members of the Management Board, including in particular benefits within the framework of management option schemes (options convertible into shares in the Company's share capital) to be reviewed by the Supervisory Board, (iii) submitting projects concerning the Company's remuneration policy.

The following persons attend meetings of the Remuneration Committee when invited: President of the Management Board and Vice-President of the Management Board responsible for financial matters. In 2008 the Remuneration Committee held 4 sessions in the registered seat of the Company and 3 teleconferences.

12. Description of transactions with related entities

All transactions made by the Company or its subsidiaries with related entities were subject to market conditions.

Description of transactions with related entities can be found in note 36 of the Group's consolidated financial statements for the accounting year ended on December 31, 2008.

13. Information on concluded and terminated agreements concerning loans and borrowings

Borrowings

As at December 31, 2008 and December 31, 2007, the Group did not have any borrowings. In these periods the Company did not take or repay any 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 denominated in Polish Zloty.

Apart from loans indicated in the table above, as at December 31, 2008, the Group had additionally two overdraft facilities, which have been presented in the consolidated financial statements as decrease in cash and cash equivalents. Such presentation was dictated by the fact that bank deposits held with the same lending banks exceed the amount of these loans and their maturity preceded the repayment date of overdraft facilities.

In 2008, no loan agreements were terminated.

The bank Loans contracted in 2008 are presented in the following table:

BANK LOANS CONTRACTED IN 2008

Bank	Type of loan	Amount of loan – as per agreement	Currency	Outstanding loan amount (less accrued interest)	Interest	Due date
PKO BP	Overdraft	40,000	PLN	37,838	WIBOR 1M + bank mark-up	16.03.2010
BOŚ	Overdraft	40,000	PLN	29,980	WIBOR 1M + bank mark-up	23.04.2010
BOŚ	Investment loan	100,000	PLN	53,283	WIBOR 1M + bank mark-up	30.06.2011
PKO BP	Operational loan	200,000	PLN	200,000	WIBOR 3M + bank mark-up	31.12.2012
Total		**380,000**		**321,101**		

14. Description of use of proceeds from the issue of securities in the reporting period

In 2008, the Company did not issue any securities.

15. Proceedings before court, arbitration authority or public administration authority

Total amount of receivables and liabilities resulting from proceedings of Dom Development S.A. conducted in 2008 before courts, arbitration authority and public administration authorities did not exceed 10% of equity.

16. Changes in the basic management principles of the Company and the Group.

In 2008 there were no major changes in the basic principles of management. The development of the organization calls for improvement of the management procedures in force both in Dom Development S.A. and other entities of the Group.

17. Information on borrowings granted in 2008

In 2008, the Group did not grant any borrowings.

18. Information on sureties and guarantees provided and received in 2008

In 2008, the Group did not provide or receive any sureties.

Guarantees of due performance and guarantees of due rectification of defects and faults received in 2008 are described in the table below:

Guarantees received in 2008

Company	Type of guarantee	Amount guaranteed
WARBUD S.A.	Bank guarantee	22,680
HOCHTIEF Polska Sp. z o.o.	Bank guarantee	10,008
ERBUD S.A.	Bank guarantee	9,205
HENPOL Sp. z.o.o.	Bank guarantee	3,822
UNIBEP S.A.	Bank guarantee	2,437
UNIBEP S.A.	Insurer guarantee	2,084
KALTER Sp. z o.o.	Bank guarantee	2,074
AMP Sp. z o.o.	Bank guarantee	1,785
MOSTOSTAL WARSZAWA S.A.	Bank guarantee	1,495
MROZEK Sp z o.o.	Bank guarantee	371
MROZEK Sp z o.o.	Insurer guarantee	165

In 2008, the Company provided one guarantee to DEGI Deutsche Gesellschaft Fur Immobilienfonds mbH in the amount of EUR 25 thousand as a security of the Company’s obligation under the office premises rental agreement.

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

The following Members of the Management Board of the Company: Jarosław Szanajca, Janusz Zalewski, Jerzy Ślusarski, and Janusz Stolarczyk are employed in the Company on the basis of the employment contracts. Pursuant to the provisions of those employment agreements, the termination of employment relationship with a given Member of the Management Board entitles them to receive remuneration in the notice period, which is described in note 38 in the Group’s consolidated financial statements for 2008.

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

The amount of remuneration (including bonuses) paid or accrued to individual members of the management or supervisory bodies is presented below:

	In the Company thousand PLN	In other entities of the Group thousand PLN
1. The Management Board		
Remuneration and bonuses		
Jarosław Szanajca	1,583	200
Grzegorz Kiełpsz	798	213
Janusz Zalewski	-	-
Leszek Piotr Nałęcz	1,305	-
Janusz Stolarczyk	872	-
Jerzy Ślusarski	958	12
Terry Roydon	58	-
Richard Lewis	-	-
2. The Supervisory Board:		
Grzegorz Kiełpsz	173	-
Zygmunt Kostkiewicz	89	-
Richard Lewis	72	-
Markham Dumas	72	-
Włodzimierz Bogucki	72	-
Michael Cronk	72	-
Stanisław Plakwicz	72	-

In 2008 there was no remuneration paid from the profit to members of the management or supervisory bodies.

Additionally, on 8 December 2008 the allocation of the options for the Company's shares took place as part of the II Management Options Programme. The share options were allocated to the following Members of the Management Board:

	Date of allotting a share option	Number of shares	Option period	Purchase price per 1 share / PLN
The Management Board				
Leszek Piotr Nałęcz *	08.12.2008	31,000	od 08.12.2011 do 08.12.2015	14.91
Janusz Stolarczyk	08.12.2008	15,000	od 08.12.2011 do 08.12.2015	14.91
Jerzy Ślusarski	08.12.2008	31,000	od 08.12.2011 do 08.12.2015	14.91
Total Management Board		**77,000**		
Total Supervisory Board	-	-	-	-
Total Members of the Management Board and the Supervisory Board:		**77,000**		

*) In connection with the resignation of Mr. Leszek Piotr Nałęcz from the function of Vice President of the Management Board responsible for the Company's finances effective from December 30, 2008, Mr. Janusz Zalewski was appointed to this position on December 31, 2008, who possessed 436,000 shares in the Company as at December 31, 2008. On

January 16, 2009, Mr. Janusz Zalewski was granted 31,000 options entitling him to subscribe for 31,000 ordinary shares in Dom Development S.A. allocated as part of the third tranche of the 2nd Management Options Scheme concerning Shares in Dom Development S.A.

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

The ownership structure of shares and options for the Company's shares among the Members of the Management Board and the Supervisory Board as at 31 December 2008 was as follows:

	Shares		Share options	Total
	Number	Nominal value Thousand PLN	number	number
The Management Board				
Jarosław Szanajca	1,734,050	1,734	-	1,734,050
Janusz Zalewski *.................................	436,000	436	-	436,000
Jerzy Ślusarski	5,363	5	67,850	73,213
Janusz Stolarczyk	107,200	107	35,850	143,050
Terry Roydon	58,500	59	50,000	108,500
The Supervisory Board				
Zygmunt Kostkiewicz	29,500	30	-	29,500
Grzegorz Kiełpsz..................................	1,390,750	1,391	-	1,390,750

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

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

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

On December 8, 2008, the Supervisory Board of Dom Development S.A. passed a resolution to determine persons entitled to participate in the third tranche of the 2nd Management Options Scheme concerning 726,000 shares in Dom Development S.A. and the number and price of shares for each such person. The said resolution provides for the granting of further 242,000 options for shares in the Company. The price of one share is PLN 14.91.

On January 16, 2009, the Supervisory Board of Dom Development S.A. passed a resolution to grant 31,000 options for shares to Mr. Janusz Zalewski as part of the 2nd Management Options Scheme of Dom Development S.A. The purchase price of one share is PLN 16.97.

Granted and exercisable share options as at individual balance sheet dates and changes in individual 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	-	-

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

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

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

- IB Management Options Programme

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

  As at 31 December 2008 all shares resulting from options allocated under this programme were subscribed to and entrusted to CDM PKO S.A., currently UniCredit CA IB Polska S.A., which is a depository in this programme.

  As at 31 December 2008 all the share options regarding this programme were allotted (options for 96,750 shares) of which 4,250 options have expired.

- II Management Options Programme

  Pursuant to II Management Options Programme, the Supervisory Board of the Company adopts a resolution naming the people entitled to participate in the Programme. It is also entitled to set the condition or conditions, which must be met by the participants before they execute the subscription rights. On 10 August 2006 the Extraordinary

General Shareholders' Meeting entitled the Management Board to increase the share capital of the Company and to issue warrants allowing for the execution of subscription rights by the participants of the II Programme. After the Supervisory Board gives its consent, the Management Board is entitled to adopt the resolution concerning the increase of the share capital

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

As at 31 December 2008 718,538 share options were allotted, of which 153.063 expired.

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

On 4 September 2008 Dom Development S.A. concluded an agreement on the audit and review of the standalone and consolidated financial statements with BDO Numerica S.A. (entity authorized to conduct audits).

The agreement covers the audit of the financial statements submitted by the Company and the Group for the year ended on 31 December 2008 and review of mid-year financial statements submitted by the Company and the Group for the period of six months ended on 30 June 2008. The total amount of remuneration on account of the audit of the annual financial statements amounts to PLN 235 thousand. The total amount of remuneration on account of the audit of mid-year financial statements amounted to PLN 65 thousand.

The total amount of remuneration on account of the audit of the annual financial statements submitted for the comparative, previous year amounted to PLN 140 thousand and the total amount of remuneration on account of the audit of mid-year financial statements amounted to PLN 80 thousand.

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