



**REPORT OF THE MANAGEMENT BOARD ON THE
ACTIVITIES OF**

DOM DEVELOPMENT S.A.

IN THE FIRST HALF OF 2009

Report of the Management Board on the activities of
Dom Development S.A.
in the first half of 2009

INTRODUCTION

A joint stock company Dom Development S.A. („Company”) is the holding entity of Dom Development Capital Group. The Company has been 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. The Company’s seat is in Warsaw (00-078 Warsaw, pl. Piłsudskiego 3).

Dom Development 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.

The Company is a majority-owned subsidiary of Dom Development B.V. with its registered office in the Netherlands. As at 30 June 2009 Dom Development B.V. controlled 63.15% of the Company’s shares. The Company's minority shareholders with more than 5% of shares are Jarosław Szanacja with 7.06% and Grzegorz Kiełpsz with 5.66%.

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

Structure of the Group

The following table presents the Group’s structure and the Company's stake in the entities comprising the Group as at 30 June 2009.

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. under liquidation .	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

Activities of the Company and the Group

The main area of activity of the companies comprising the Group is the construction and sale of residential real estate. The activities of the Group are conducted in Warsaw and in its vicinity. The development projects are usually conducted by Dom Development S.A. In the event when the projects are conducted by special purpose entities created only for the purpose of those projects, Dom Development S.A. supervises the completion of the construction investments and sales.

The main area of activity of the associated entity Towarzystwo Ubezpieczeń Wzajemnych "Bezpieczny Dom", is financial risk insurance.

In the period of six months ended on 30 June 2009:

- the Company did not discontinue any of its operations,
- the Company 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 Capital Group.

2. Basis for the preparation of the condensed financial statements

The Company prepares its financial statements based on International Financial Reporting Standards. 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.

All the applicable International Financial Reporting Standards („IFRS”) adopted by the European Union and the standards applicable for the periods beginning on 1 January 2009 as well as the standards which became effective by 30 June 2009 were applied by the Company in the condensed financial statements for the period of six months ending on 30 June 2009 („condensed financial statements”).

These condensed financial statements were prepared pursuant to International Accounting Standard 34 "Interim financial reporting" with the application of the same accounting principles for the current and comparable period.

The condensed financial statements were prepared following the same accounting policies and methods of computation that were disclosed in and applied to the most recent annual financial statements of the Company for 2008 with the exception of a change in the moment at which sales revenue is recognised. This change is described in the introduction to the condensed financial statements.

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3. Basic economic and financial data disclosed in the condensed financial statement of the Company for the period of six months ended on 30 June 2009

Selected data from the profit and loss account (in thousand PLN)

	1 st half of 2009	1 st half of 2008	Change
Sales revenue	379,951	500,225	(24%)
Selling costs	10,993	15,929	(31%)
Overheads	21,290	30,702	(31%)
Operating earnings	83,815	162,246	(48%)
EBITDA	71,395	136,145	(48%)
Profit after tax	70,162	135,071	(48%)
Earnings per share (PLN)	2.86	5.50	(48%)

Selected data from the balance sheet - assets (in thousand PLN)

	30.06.2009	31.12.2008	Change
Total assets	1,651,024	1,754,689	(6%)
Fixed assets	20,492	22,824	(10%)
Current assets, including:	1,630,532	1,731,865	(6%)
Inventory	1,435,013	1,446,616	(1%)
Trade and other receivables	46,081	65,756	(30%)
Other current assets	5,415	6,325	(14%)
Cash and cash equivalents	144,023	213,168	(32%)

Selected data from the balance sheet - liabilities (in thousand PLN)

	30.06.2009	31.12.2008	Change
Total shareholders' equity and liabilities....	1,651,024	1,754,689	(6%)
Share capital	24,560	24,560	0%
Shareholders' equity	731,550	678,522	8%
Total liabilities	919,474	1,076,167	(15%)
Long-term liabilities	458,548	462,676	(1%)
Short-term liabilities	460,926	613,491	(25%)

4. Material events and description of Company's activities in the first half of 2009

Within the period of six months ending on 30 June 2009, the Company was continuing its development activities consisting of building and selling residential real estates. The construction works are conducted according to the general contracting system and the works are contracted to specialized outside construction companies.

There are several development projects that are simultaneously conducted within the Group. The Management Board of the Company regularly checks and gives its opinion on:

- current projects during their implementation, both in relation to the progress of construction works and current and anticipated sales revenues,
- the best manner in which the plots of land from the land-bank may be used,
- the plots of land which may be bought in order to be used during the subsequent development projects - also in major Polish cities other than Warsaw - conducted in the following years
- optimisation of financing of the Group's operating activities.

During the first half of 2009 the following material changes in the Company's portfolio of investments under construction took place:

Finished projects, i.e. projects for which legally valid occupation permits were issued:

Project	Decision on the use permit	Segment	Number of apartments
Regaty I- 1st phase.....	I Q 2009	Popular	148
Regaty I - 2nd phase	I Q 2009	Popular	242
Derby 18	II Q 2009	Popular	82
Derby 13	II Q 2009	Popular	174

In the first half of 2009 the Company did not commence any new projects.

5. Currently realised and future development projects

As at 30 June 2009, there are projects under development consisting of 1,104 units in total. In the Company's plans there are defined new construction projects consisting of 7,180 units in total.

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6. Finance management

The financing structure of the Company's assets (in thousands of PLN)

	30.06. 2009	31.12. 2008	Change
Total assets	1,651,024	1,754,689	(6%)
Shareholders' equity.....	731,550	678,522	8%
Total liabilities.....	919,474	1,076,167	(15%)
Long-term liabilities.....	458,548	462,676	(1%)
Long-term loans and borrowings and bonds	434,970	433,283	0%
Short-term loans and borrowings	84,613	62,510	35%
Asset/equity ratio.....	44%	39%	
Total debt ratio.....	56%	61%	
Long-term debt ratio	63%	68%	
Short-term debt ratio	63%	90%	
Debt-to-capital ratio.....	126%	159%	
Current ratio 1	3.54	2.82	
Quick ratio 2.....	0.42	0.46	
Cash ratio 3.....	0.31	0.35	

Within the period of six months ended on 30 June 2009, the financial condition of the Company was good. The liquidity ratios of the Company are at a level guaranteeing safe and effective activities of the Company.

Also the equity/assets ratio and the level of financial leverage rates (total debt ratio and debt to capital ratio) as at 30 June 2009 guarantees to a large degree that the Company will be able to pay its liabilities.

Cash flows (in thousand PLN)

	1 st half of 2009	1 st half of 2008	Change
Cash and cash equivalents – opening balance	213,168	262,166	(19%)
Net cash flow from operating activities.....	(79,106)	(122,592)	n/d
Net cash flow from investing activities.....	5,921	(1,288)	n/d
Net cash flow from financing activities.....	4,040	(72,140)	n/d
Cash and cash equivalents – closing balance	144,023	66,146	118%

7. Description of significant risk factor and factors important for development of the Company and Dom Development Capital Group

Identified by the Management Board significant risk factors and threats to the business activity conducted by the Company and the Group in the second half 2009 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 francs 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 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 risk connected with competition – the competition of other developers especially at the stage of identification and purchase of proper land. Competition may also result in the oversupply of apartments and houses caused by the excessive number of development projects or excessive price of land.

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The risk connected with the prices of the real estates - in the event of decrease in the prices of real estates there may be problems with selling built apartments and houses at favourable prices.

The risk connected with sudden decrease in the land prices – The Group has a bank of land which is common practice in Western Europe. The new land for this bank is obtained through the acquisition of plots or their reservation through conclusion of preliminary sales contracts. A sharp decline in the price of land would result in a decrease of the value of land that is currently possessed by the Group and potential need for impairment write down to the value of that land. Additionally there is a risk of loss of money paid in advance in the case of withdrawal from land purchase contracts by the Company.

The risk connected with financial leverage – The Company uses credits, loans and debentures to finance its activities. A significant part of these liabilities is secured on the Company's assets. The lack of possibility to service those liabilities or breach of conditions specified in the contracts might result in the immediate maturity of the whole or a part of a given liability.

Risk management in Dom Development S.A. takes place through a formalized process of identification, analysis and assessment of risk factors. Within this Risk Management process proper procedures and processes are set forth in respect of identified risks and the implementation of those procedures and processes are aimed at eliminating or reducing the Company's and Group's risk.

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.

8. The Management Board and the Supervisory Board

Composition of the Management Board of the Company as at 30 June 2009

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

Composition of the Supervisory Board of the Company as at 30 June 2009

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

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9. List of shareholders who have, directly or indirectly through subsidiaries, at least 5% of the overall number of votes at the General Shareholders Meeting ("GSM") as at the date of preparing this report of the Management Board on the Company's activities for the 1th half of 2009

	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

10. 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 the date of preparing this report of the Management Board on the Company's activities for the 1th half of 2009

	Shares	Share Options	Total
Management Board			
Jarosław Szanajca.....	1,734,050	-	1,734,050
Janusz Zalewski	436,000	31,000	467,000
Jerzy Ślusarski	5,363	67,850	73,213
Janusz Stolarczyk.....	106,200	35,850	142,050
Terry Roydon.....	58,500	50,000	108,500
Supervisory Board			
Grzegorz Kiełpsz	1,390,750	-	1,390,750
Zygmunt Kostkiewicz	29,500	-	29,500

On 15 January 2009 the Supervisory Board of the Company allotted 31,000 share options to Janusz Zalewski, Vice President of the Management Board of the Company, under the Management Options Programme II related to the shares of Dom Development SA, entitling subscription to 31,000 ordinary shares of Dom Development SA.. Janusz Stolarczyk , a member of the Management Board, sold 1,000 ordinary shares.

11. Forecasts

The Management Board of Dom Development S.A. does not publish any financial forecasts in relation to the Company and the Group.

12. 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 the first half of 2009 before courts, arbitration authority and public administration authorities did not exceed 10% of Company's equity.

13. Transactions with the affiliated entities

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

Transactions with the affiliated entities are presented in note 15 to the condensed financial statements for the period ending on 30 June 2009.

Warsaw, 21 August 2009

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 R. Roydon
Member of the Management Board