



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

**OF DOM DEVELOPMENT S.A. CAPITAL
GROUP**

IN THE FIRST HALF YEAR OF 2008

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

INTRODUCTION

The holding company of Dom Development S.A. Capital Group (the „Group”) is the joint-stock company Dom Development S.A. („the Company” / „the holding company”). The Company has been entered into the National Court Register under number 0000031483, District Court for the capital city of Warsaw, 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 2008 Dom Development B.V. controlled 63.10% of the Company’s shares. The Company’s minority shareholders with more than 5% of shares are Jarosław Szanacja with 7.06% and Grzegorz Kielpsz with 5.66%.

1. Structure 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 30 June 2008.

Entity name	Company’s registered seat	% of share capital held by holding company	% of votes held by holding company	Consolidation method
Subsidiaries:				
Dom Development na Dolnej sp. z o.o.	Warsaw	100%	100%	full consolidation
Dom Development Morskie Oko sp. z o.o.	Warsaw	100%	100%	full consolidation
Dom Development – Zarządzanie Nieruchomościami sp. z o.o.	Warsaw	100%	100%	full consolidation
Dom Development Grunty sp. z o.o.	Warsaw	46%	100%	full consolidation
Joint-venture:				
Fort Mokotów sp. z o.o.	Warsaw	49%	49%	proportionate consolidation

As at June 30, 2008, the Company had interests in the associated entities, consolidated by means of equity method:

- Towarzystwo Ubezpieczeń Wzajemnych „Bezpieczny Dom”, with its registered seat in Warsaw: 42,30% stake in the share capital.

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

The Company and the Group will continue their activities for the period of at least twelve months after 30 June 2008.

2. The area of activity of Dom Development S.A. Capital 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 Morskie Oko sp. z o.o. – a subsidiary and Fort Mokotów sp. z o.o. – jointly controlled company), 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 2008 the Group did not discontinue any of its operations.

3. Basic economic and financial data disclosed in the consolidated financial statement of the Group for the period of six months ended on June 30, 2008.

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

	1st half of 2008	1st half of 2007	Change
Sales revenue	455,534	401,886	13%
Selling costs	15,929	14,109	13%
Overheads.....	32,149	24,788	30%
Operating earnings.....	136,039	109,886	24%
EBITDA	137,130	110,924	24%
Profit after tax	114,083	92,104	24%
Earnings per share (PLN)	4.65	3.75	24%

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

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

	30.06.2008	31.12.2007	Change
Total assets.....	1,331,601	1,252,067	6%
Fixed assets.....	23,528	21,881	8%
Current assets, including:.....	1,308,073	1,230,186	6%
Inventory	1,045,417	862,358	21%
Trade and other receivables.....	104,710	65,914	59%
Other current assets	80,227	26,425	204%
Cash and cash equivalents.....	77,719	275,489	-72%

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

	30.06.2008	31.12.2007	Change
Total shareholders' equity and liabilities ...	1,331,601	1,252,067	6%
Share capital.....	24,560	24,560	0%
Shareholders' equity.....	763,844	696,138	10%
Total liabilities.....	567,757	555,929	2%
Long-term liabilities.....	325,633	330,419	-1%
Short-term liabilities	242,124	225,510	7%

4. Material events and description of Group's activities

Within the period of six months ending on June 30, 2008, the Group 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.

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

During the first half-year of 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

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 9/1	II Q 2008	Single family	27
Regaty II stage 9/3	II Q 2008	Single family	31
Akacje 11	II Q 2008	Popular	77

5. Future investments

As at June 30, 2008, the Group intended to implement new development projects:

segment	Number of apartments
popular.....	7,182
apartments of higher standard.....	269
luxury apartments	67
single-family houses	102

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

6. Liabilities on account of loans, borrowings and bonds

The total amount of unpaid loans, borrowings and bonds amounted to PLN 256,855 thousand as at June 30, 2008.

Detailed information concerning the foregoing liabilities is presented in note 14 and 16 of the consolidated financial statements as at June 30, 2008.

7. Finance management

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

	30.06. 2008	31.12. 2007	Change
Total assets.....	1,331,601	1,252,067	6%
Shareholders' equity.....	763,844	696,138	10%
Total liabilities.....	567,757	555,929	2%
Long-term liabilities.....	325,633	330,419	-1%
Long-term loans and borrowings and bonds	239,613	241,779	-1%
Short-term loans and borrowings.....	17,242	37,005	-53%
Asset/equity ratio.....	57%	56%	
Total debt ratio.....	43%	44%	
Long-term debt ratio	43%	47%	
Short-term debt ratio.....	32%	32%	
Debt-to-capital ratio	74%	80%	
Current ratio 1	5.40	5.46	
Quick ratio 2.....	1.08	1.63	
Cash ratio 3.....	0.32	1.22	

Within the period of six months ending on June 30, 2008, the financial condition of the Company and the whole Group was good. The liquidity ratios of the Company are at a level guaranteeing safe and effective activities of the Group.

Also the equity/assets ratio and the level of financial leverage rates (total debt ratio and debt to capital ratio) as at June 30, 2008 guarantees to a large degree that the Group will be able to pay its liabilities.

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

Consolidated cash flows (in thousand PLN)

	1st half of 2008	1st half of 2007	Change
Cash and cash equivalents – opening balance	275,489	227,535	21%
Net cash flow from operating activities.....	-124,341	-20,383	n/d
Net cash flow from investing activities.....	-1,288	-1,514	n/d
Net cash flow from financing activities	-72,141	-3,151	n/d
Cash and cash equivalents – closing balance	77,719	202,487	-62%

8. Description of external and internal factors which may affect the activities of the Company

The following is the description of risks identified by the Management Board of the Company as having key importance:

The risk connected with the possibility of purchasing more land – the development and profitability of the Group depend primarily on the possibility of purchasing more building land at competitive prices and proper development of that land as well as the Group's ability to sell the built apartments and houses at a proper moment and at good margin. The ability to fulfil the above objectives depends primarily on the state of the apartment construction market in Poland and in particular in Warsaw.

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.

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 differences in foreign exchange rates – the risk connected with the differences in foreign exchange rates of currencies in which mortgage credits granted to the buyers for the purchase of real estates are denominated. The decrease in the PLN exchange rate in relation to foreign currencies may result in the situation where the buyers will not be able to repay their mortgage or new buyers will have limited possibilities of taking out such mortgage credits. This may result in significant reduction of the demand for new apartments and houses or lead to increased foreclosures.

The risk connected with the infrastructure – The development project may be implemented only after the obligatory infrastructure is provided. Despite positive results of legal and technical analysis, the lack of necessary infrastructure may lead to a situation when it will not be possible to complete the development project on a given plot of land or such completion will be too expensive in the event when the Group will have to provide the infrastructure. The Group sets individual management over the provision of the infrastructure. However, there is risk of delays in preparing access to infrastructure, in particular resulting from factors for which the Group is not responsible.

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 depending on the market conditions: (i) purchasing land at prices exceeding market prices or (ii) loss of money paid in advance.

The risk connected with financial leverage – The Group uses credits, loans and debentures to finance its activities. Almost all foregoing liabilities are 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.

9. The rules of managing the Company and the Group

Within the six months' period ending on June 30, 2008, there were no changes in the management of the Company and the Group.

10. The Management Board and the Supervisory Board

Composition of the Management Board of the holding entity of the Group as at 30 June 2008

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

Composition of the Supervisory Board of the Company as at 30 June 2008

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

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

11. Company's share capital

As at 30 June 2008, the share capital's structure was as follows:

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

As at 30 June 2008 the Company was controlled by Dom Development B.V. with its registered office in Holland, which held 63.10% of the Company's shares. The minority shareholders holding more than 5% of shares are Jarosław Szanajca – 7.06% and Grzegorz Kiełpsz – 5.66%.

Detailed information on the Company's shares is described in note 11 of the consolidated financial statements prepared for the period of six months, ending on 30 June 2008.

12. Share options

In the period of six months, ending on 30 June 2008, any allocation of the share options did not took place as part of the Programme of Management Options, related to the shares of Dom Development S.A..

Detailed information on the share options of the Company as part of the Programme of Management Options is described in the note 37 of the consolidated financial statements prepared for the period ending on 30 June 2008.

13. Transactions with the affiliated entities

The Company's internal transactions were conducted during regular activities on the basis of the market prices.

Transactions with the affiliated entities are presented in note 36 to the consolidated financial statements for the period ending on 30 June 2008.

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

14. Material events after 30 June 2008

In the period after 30 June 2008 there were following material post-balance sheet events:

- On 30 July 2008 the Management Board of Dom Development S.A. entered into an agreement with Powszechna Kasa Oszczędności Bank Polski S.A. pursuant to which the Bank provided the Borrower with a loan of PLN 200,000,000 (two hundred million) for the conduct of business stated in the statute of the Borrower and the special purpose vehicles in which the Borrower will hold more than 50% of shares. The agreement was entered into for a limited duration, until 31 December 2012. The Bank's receivable under this agreement will be secured by a joint contractual mortgage and a joint ceiling mortgage. The loan shall bear interest at the rate based on the interbank interest rate for three month deposits offered on the Warsaw interbank market WIBOR 3M plus the Bank's margin.
- On 30 July 2008 the Management Board of Dom Development S.A. entered into an agreement with Bank Ochrony Środowiska S.A. pursuant to which the Bank provided the Borrower with a loan of PLN 100,000,000 (one hundred million) for financing the purchase of real estate for residential development (both single- and multi-family dwellings) or for future sale and refinancing purchases of land bought for the above purposes if the Borrower had already bought land and paid for it with its own equity. The agreement was entered into for a limited duration, until 30 June 2011. The Bank's receivable under this agreement will be secured by an ordinary mortgage and a ceiling mortgage. The loan shall bear interest at the rate based on the interbank interest rate for one month deposits offered on the Warsaw interbank market WIBOR 1M plus the Bank's margin.

Warsaw, 15 September, 2008

Jarosław Szanajca
President of the Management Board

Grzegorz Kiełpsz
Vice-President of the Management Board

Leszek Piotr Nałęcz
Vice-President of the Management Board

Janusz Stolarczyk
Member of the Management Board

Terry R. Roydon
Member of the Management Board

Jerzy Ślusarski
Member of the Management Board