



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

OF DOM DEVELOPMENT S.A. CAPITAL GROUP

IN THE FIRST HALF YEAR OF 2006

Report of the Management Board on the activities of
Dom Development S.A. Capital Group
in the first half year of 2006

Dom Development S.A. ("Company"), with its registered seat in Warsaw is the holding entity in Dom Development S.A. Capital Group („Group”).

The Company is a majority-owned subsidiary of Dom Development B.V. with its registered office in the Netherlands. As at 30 June 2006 Dom Development B.V. controlled 81.12% of the Company’s shares. The Company's minority shareholders with more than 5% of shares are Jarosław Szanacja with 8.05% and Grzegorz Kiełpsz with 6.46%. The other shares mainly belong to the key employees and the other Members of the Management Board.

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 2006.

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 City sp. z o.o.	Warsaw	90%	90%	full consolidation
Joint-venture (according to IAS 31):				
Fort Mokotów sp. z o.o.	Warsaw	49%	49%	proportionate consolidation

As at June 30, 2006, 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: 40% stake in the share capital,
- Dom Development Grunty sp. z o.o. with its registered seat in Warsaw: 46% stake in the share capital.

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.

Report of the Management Board on the activities of
Dom Development S.A. Capital Group
in the first half year of 2006

In the period of six months ended on 30 June 2006 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, 2006.

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

	1 st half of 2006	1 st half of 2005	Change
Sales revenue.....	348,989	192,025	82%
Selling costs	10,441	9,575	9%
Overheads.....	17,405	17,750	-2%
Operating earnings	73,004	16,065	354%
EBITDA.....	73,801	16,929	336%
Profit after tax	57,947	11,599	400%
Earnings per share (PLN)	2.65	0.53	400%

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

	1 st half of 2006	1 st half of 2005	Change
Total assets	635,208	441,299	44%
Fixed assets	16,291	19,953	-18%
Current assets, including:	618,917	421,346	47%
Inventory.....	387,982	291,440	33%
Trade and other receivables.....	30,641	32,003	-4%
Other current assets	51,992	23,693	119%
Cash and cash equivalents.....	148,302	74,210	100%

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

	1 st half of 2006	1 st half of 2005	Change
Total shareholders' equity and liabilities.....	635,208	441,299	44%
Share capital.....	21,854	21,854	0%
Shareholders' equity.....	191,914	92,639	107%
Total liabilities	443,294	348,660	27%
Long-term liabilities	189,402	204,963	-8%
Short-term liabilities.....	253,891	143,697	77%

Report of the Management Board on the activities of
Dom Development S.A. Capital Group
in the first half year of 2006

4. Material events and description of Group's activities

Within the period of six months ending on June 30, 2006, 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 conducted in the following years.

During the first half-year of 2006 the following material changes in the portfolio of investments under construction took place:

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

<i>plan</i>	<i>Segment</i>	<i>Number of apartments</i>
Derby 5 phase 2	popular	138
Akacje 10 phase 1	popular	202
Marina Mokotów phase 4.....	apartments of higher standard	64 *
Marina Mokotów phase 1.....	single-family houses	2 *

* 49% of the total number of apartments was disclosed, which is equal to the Company's interest in the jointly controlled entity Fort Mokotów sp. z o.o.

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

<i>plan</i>	<i>segment</i>	<i>Number of apartments</i>
Olimpia 2 phase 2	popular	276
Derby 7 phase 1	popular	254
Gdański.....	apartments of higher standard	260

The Company and the Group will continue its activities for at least 12 months after June 30, 2006.

Report of the Management Board on the activities of
Dom Development S.A. Capital Group
in the first half year of 2006

5. Future investments

As at June 30, 2006, the Group intended to implement 33 new development plans.

<i>segment</i>	<i>Number of apartments</i>
popular.....	5,306
apartments of higher standard.....	631
luxury apartments	11
single-family houses.....	40

6. Liabilities on account of credits, loans and bonds

The total amount of unpaid credits, loans from the shareholders and bonds amounted to PLN 239,343 thousand as at June 30, 2006.

Detailed information concerning the foregoing liabilities is presented in note 17 and 19 of the consolidated financial statements as at June 30, 2006.

7. Finance management

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

	I half of 2006	I half of 2005	Change
Total assets	635,208	441,299	44%
Shareholders' equity.....	191,914	92,639	107%
Total liabilities	443,294	348,660	27%
Long-term liabilities.....	189,402	204,963	-8%
Long-term loans and borrowings and bonds.....	154,090	187,405	-18%
Short-term loans and borrowings	85,253	51,919	64%
Asset/equity ratio	30%	21%	
Total debt ratio	70%	79%	
Long-term debt ratio.....	99%	221%	
Short-term debt ratio	132%	155%	
Debt-to-capital ratio	231%	376%	
Current ratio 1	2.44	2.93	
Quick ratio 2.....	0.91	0.90	
Cash ratio 3	0.58	0.52	

Report of the Management Board on the activities of
Dom Development S.A. Capital Group
in the first half year of 2006

Within the period of six months ending on June 30, 2006, 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, 2006 guarantees to a large degree that the Group will be able to pay its liabilities.

Consolidated cash flows (in thousand PLN)

	1 st half of 2006	1 st half of 2005	Change (in thousand PLN)
Cash and cash equivalents – opening balance	73,837	78,685	-6%
Net cash flow from operating activities.....	73,450	(36,045)	n/a
Net cash flow from investing activities	(946)	8,845	n/a
Net cash flow from financing activities.....	1,961	22,726	-91%
Cash and cash equivalents – closing balance.....	148,302	74,210	100%

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 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

Report of the Management Board on the activities of
Dom Development S.A. Capital Group
in the first half year of 2006

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.

The risk connected with taxes – Amendments in the tax law may have significant influence on the Group's activities. It must be highlighted here that as of January 1, 2008 the VAT rate applied on account of the sale of apartments and houses will be increased from 7% to 22%. This increase will exclude the so-called „social housing”. The draft of the bill containing a definition of the „social housing” specifies that this definition will mean almost all types of apartments and houses built by the Group. However, it is not certain that this definition will become effective or that it will not be narrowed. There is also a risk of decrease in the demand or that part of the risk will be shifted to the developer following the initial period of demand prior to the expected increase of VAT.

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, 2006, there were no changes in the management of the Company and the Group.

Report of the Management Board on the activities of
Dom Development S.A. Capital Group
in the first half year of 2006

10. The Management Board and the Supervisory Board

As at 30 June 2006, the following persons were members of the Management Board of Dom Development S.A.

President of the Management Board	Jarosław Szanajca
Vice-President of the Management Board	Grzegorz Kiełpsz
Vice-President of the Management Board	Janusz Zalewski
Member of the Management Board	Janusz Stolarczyk
Member of the Management Board	Richard R. Lewis

As at 30 June 2006, the following persons were members of the Supervisory Board of Dom Development S.A.

Chairman of the Supervisory Board	Zygmunt Kostkiewicz
Member of the Supervisory Board	Teresa Rogoźnicka
Member of the Supervisory Board	Stanisław Plakwicz
Member of the Supervisory Board	Terry R. Roydon

11. Company's share capital

As at 30 June 2006, 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	registered	-	-	1,800,000	1,800,000	cash	09.07.1999	09.07.1999
B	registered	-	-	2,250,000	2,250,000	cash	20.07.2000	20.07.2000
C	registered	-	-	8,550,000	8,550,000	cash	20.07.2000	20.07.2000
D	registered	-	-	2,468,961	2,468,961	cash	20.07.2000	20.07.2000
E	registered	-	-	417,150	417,150	cash	09.11.2000	09.11.2000
F	registered	-	-	6,194,529	6,194,529	cash	26.11.2001	26.11.2001
G	registered	-	-	173,700	173,700	cash	09.07.2002	09.07.2002
Total number of shares				21,854,340				
Total share capital					21,854,340			
Nominal value per share = PLN 1								

As at 30 June 2006 the Company was controlled by Dom Development B.V. with its registered office in Holland, which held 81.12% of the Company's shares. The minority shareholders holding more than 5% of shares are Jarosław Szanajca – 8.05% and Grzegorz Kiełpsz – 6.46%.

Detailed information on the Company's shares, with special consideration given to the changes made after 30 June 2006, is described in note 45 of the consolidated financial statements prepared for the period of six months, ending on 30 June 2006.

Report of the Management Board on the activities of
Dom Development S.A. Capital Group
in the first half year of 2006

Public issue of the Company's shares on the Warsaw Stock Exchange ('WSE')

In the period from 17-30 October 2006 the public subscription for shares and rights to the Company's shares took place.

By public sale of A series shares of Dom Development S.A., Dom Development B.V. offered 2,231,904 shares for sale. By public subscription of F series shares Dom Development S.A. offered 2,705,882 shares for sale.

As at 22 October all the above-mentioned shares and rights to shares were subscribed and paid for by the investors.

On 24 October 2006 the shares and rights to shares of the Company Dom Development S.A. were introduced to public trading on the main market of the WSE.

12. Share options

In the period of six months, ending on 30 June 2006, the allocation of the share options took place as part of the IA Programme of Management Options, related to the shares of Dom Development S.A., and allocated to the members of the Company's management.

In the same period the Company adopted another Programme of the Management Options (Programme II) aimed at the Company's management.

Detailed information on the share options of the Company as part of the Programme of Management Options is described in the notes 40 and 42 of the consolidated financial statements prepared for the period ending on 30 June 2006.

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 40 to the consolidated financial statements for the period ending on 30 June 2006.

14. Material events after 30 June 2006

The most important events after 30 June 2006 are described in the note 45 to the consolidated financial statements for the period ending on 30 June 2006. Those are in particular:

- The correction of settlements with the Tax Office related to the corporate income tax for the years 2000-2005.
- The consent of the EBRD given on 7 August 2006 for a temporary suspension or termination of some provisions of the shareholders' support and subordination agreement of 19 March 2003 entered into by

Report of the Management Board on the activities of
Dom Development S.A. Capital Group
in the first half year of 2006

the Company, Dom Development B.V., Jarosław Szanajca and Grzegorz Kielpsz and the European Bank for Reconstruction and Development.

- The changes in the share capital of the Company.
- The authorization of the Company's Supervisory Board to change and adopt the changed provisions of the IA Programme of the Management Share Options.
- The authorization of the Company's Supervisory Board to accept the terms and conditions of the II Programme of the Management Share Options ("Programme II") with respect to 726,000 shares of Dom Development S.A.
- The public issue of the Company' shares at the Warsaw Stock Exchange ('WSE')

Warsaw, 27 October, 2006

Jarosław Szanajca, President of the Management Board

Grzegorz Kielpsz, 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