



DOM DEVELOPMENT S.A.

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE PERIOD OF THREE MONTHS ENDED ON 31 DECEMBER 2008

PREPARED IN ACCORDANCE WITH INTERNATIONAL
FINANCIAL REPORTING STANDARDS

I. INTRODUCTION TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. General information about the holding company of Dom Development S.A. Capital Group

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") with its registered office in Warsaw (00-078 Warsaw, Pl. Piłsudskiego 3) 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.

According to the Polish Classification of Business Activity the Company's scope of activity is construction projects concerning construction of buildings – PKD 4110Z. The Company conducts its activities mainly in Warsaw and its vicinity.

The Company is a majority-owned subsidiary of Dom Development B.V. with its registered office in the Netherlands. As at 31 December 2008 the holding company Dom Development S.A. was controlled by Dom Development B.V. which held 63.15% of the Company's shares.

2. General information about the Group

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

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.	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

The main area of activity of the Group is the construction and sale of residential real estate.

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

The main area of activity of the subsidiary entity – Dom Development Grunty sp. z o.o. is purchase of real estate for development activities of the Group.

Fort Mokotów sp. z o.o. was formed for the duration of the construction of the Marina Mokotów project, but for no longer than until 31 December 2011 (as per the company's articles of association).

All entities of the Group conduct business activities in the territory of Poland in compliance with the Code of Commercial Companies and Partnerships, and have been formed for an unspecified time, with the exception of Fort Mokotów sp. z o. o.

In the period of three months ended on 31 December 2008 the Group did not discontinue any of its operations.

In the period of three months ended on 31 December 2008 the Group did not make any changes to its structure, including mergers, acquisitions, sale of the Group's entities, long-term investments, divisions, restructuring or discontinuation of operations.

3. Basis for the preparation of the consolidated financial statements

All the applicable International Financial Reporting Standards („IFRS”) adopted by the European Union and the standards applicable for the periods beginning on 1 January 2008 as well as the standards which became effective by 31 December 2008 were applied by the Company in the condensed consolidated financial statements for the period of three months ending on 31 December 2008 („condensed consolidated financial statements”).

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.

These condensed consolidated 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 consolidated financial statements were prepared based on the assumption that the Group would continue its business activities in the foreseeable future, with no threats to the continuation of these activities.

The condensed consolidated financial statements are stated in Polish zloty („PLN”). Financial data included in the consolidated financial statements are expressed in thousands of PLN unless stated otherwise.

4. Summary of significant accounting policies

These condensed consolidated financial statements were prepared following the same accounting policies and methods of computation that were disclosed in and applied to the most recent annual consolidated financial statements of the Group.

Significant change in the accounting Policie to be introduced by the Company from 1 January 2009

The International Financial Reporting Interpretation Committee (IFRIC) has completed a project reviewing the interpretation of revenue recognition from real estate sales under IAS 11 (“Construction contracts”) and IAS 18 (“Revenue”).

Prepared by IFRIC a draft interpretation (D-21 Real Estate Sales) was approved by International Accounting Standards Board (IASB) in June 2008 and subsequently published by IFRIC in the form of interpretation (IFRIC-15 Agreements for the Construction of Real Estate) on 2 July 2008.

This interpretation, application of which will be required to the Group’s financial statements for the periods beginning from 1 January 2009, will introduce changes to the currently applied accounting policies in relation to the real estate sales.

At present the Group prepares its financial statements under IAS 11 using a percentage of completion method, described in the Group’s last annual consolidated financial statements in chapter “Significant accounting principles”. Application of the above interpretation will require the Group to account for its revenues differently, in accordance to IAS 18.

Description and effect of The changes resulting from the first application of the new interpretation (IFRIC-15) on the Group’s consolidated financial statements is described in Note 20 in chapter „ Additional notes to the condensed consolidated financial statements”.

Dom Development S.A.
 Consolidated balance sheets
 as at 31 December 2008 and 31 December 2007
 (in PLN; all amounts in thousands unless stated otherwise)

II. CONSOLIDATED BALANCE SHEETS

ASSETS	Note	31.12.2008	31.12.2007
Fixed assets			
Intangible fixed assets		1,360	707
Tangible fixed assets		6,781	6,548
Investments in associated entities		1,050	1,024
Deferred income tax assets		8,428	10,579
Long-term receivables		2,910	1,552
Long-term deferred costs		361	1,471
Total fixed assets		20,890	21,881
Current assets			
Inventory	1	1,152,331	862,358
Trade and other receivables		55,519	65,914
Other current assets		81,631	26,425
Cash and cash equivalents	3	223,697	275,489
Total current assets		1,513,178	1,230,186
Total assets		1,534,068	1,252,067
EQUITY AND LIABILITIES			
Shareholders' Equity			
Share capital	4	24,560	24,560
Share premium less treasury shares		231,535	231,535
Reserve capital from valuation of share options		13,908	7,128
Other capital (supplementary capital)		371,837	191,556
Reserve capital from reducing the share capital		510	510
Accumulated, unappropriated profit (loss)		147,570	240,849
Equity attributable to the equity holders of the holding company		789,920	696,138
Minority interest		(165)	-
Total shareholders' equity		789,755	696,138
Long-term liabilities			
Long-term loans and borrowings	5	233,283	41,779
Deferred tax liability		55,067	87,876
Bonds	6	200,000	200,000
Other long-term liabilities		226	764
Total long-term liabilities		488,576	330,419
Short-term liabilities			
Trade payables and other liabilities		145,452	120,995
Short-term loans and borrowings	5	62,510	37,005
Short-term tax liabilities		7,222	6,088
Short-term provisions		13,725	12,444
Accrued liabilities and deferred income		26,828	48,978
Total short-term liabilities		255,737	225,510
Total liabilities		744,313	555,929
Total equity and liabilities		1,534,068	1,252,067

Dom Development S.A.
 Consolidated income statements
 for the period of twelve months ended on 31 December 2008 and 2007
 and for the period of three months ended on 31 December 2008 and 2007
 (in PLN; all amounts in thousands unless stated otherwise)

III. CONSOLIDATED INCOME STATEMENTS

	Note	Period of twelve months ended on		Period of three months ended on	
		31.12.2008	31.12.2007	31.12.2008	31.12.2007
Sales revenues	10	698,162	878,753	92,227	204,195
Cost of sales	11	(429,030)	(545,666)	(58,452)	(125,719)
Gross profit on sales		269,132	333,087	33,775	78,476
Selling expenses	11	(30,002)	(22,368)	(6,017)	(2,611)
General administrative expenses	11	(61,914)	(57,699)	(14,631)	(19,089)
Other operating income		6,659	4,073	5,222	639
Other operating expenses		(18,168)	(16,134)	(13,397)	(5,091)
Operating profit		165,707	240,959	4,952	52,324
Financial income	12	12,103	11,635	4,204	2,527
Financial costs		(4,859)	(2,231)	(4,042)	(453)
Profit before tax		172,951	250,363	5,114	54,398
Income tax expense	13	(36,011)	(49,719)	(2,645)	(11,276)
Profit after tax		136,940	200,644	2,469	43,122
Profit attributable to:					
Equity holders of the holding company		136,948	200,644	2,470	43,122
Minority interests		(8)	-	(1)	-
Earnings per share:					
Basic (PLN)	7	5.58	8.17	0.10	1.76
Diluted (PLN)	7	5.58	8.17	0.10	1.76

Dom Development S.A.
Consolidated cash flow statements
for the period of twelve months ended on 31 December 2008 and 2007
(in PLN; all amounts in thousands unless stated otherwise)

IV. CONSOLIDATED CASH FLOW STATEMENTS

	Period of twelve months ended on	
	31.12.2008	31.12.2007
Cash flow from operating activities		
Profit before taxation	172,951	250,363
Adjustments:		
Depreciation	2,420	2,226
Profit/loss on foreign exchange differences.....	(64)	53
Profit/loss on investments	150	406
Interest paid and accrued	11,699	9,804
Cost of the management option scheme.....	6,780	5,622
Changes in the operating capital		
Changes in provisions.....	1,281	8,520
Changes in inventory.....	(277,010)	(264,879)
Changes in receivables	6,445	(13,661)
Changes in short term liabilities excluding loans and borrowings.....	25,053	(17,203)
Changes in prepayments	(75,278)	16,051
Other adjustments	38	1,437
Cash flow generated from operating activities	(125,535)	(1,261)
Interest paid	(25,392)	(12,628)
Income tax paid	(64,077)	(8,387)
Net cash flow from operating activities	(215,004)	(22,276)
Cash flow from investing activities		
Proceeds from the sale of intangible assets and tangible fixed assets.....	276	480
Acquisition of intangible and tangible fixed assets	(3,733)	(4,102)
Net cash flow from investing activities	(3,457)	(3,622)
Cash flows from financing activities		
Proceeds from contracted loans and borrowings.....	253,283	71,186
Issue of bonds	-	200,000
Repayment of loans and borrowings.....	(36,275)	(113,516)
Redemption of bonds	-	(80,000)
Dividend payments	(50,103)	(3,684)
Payment of financial leasing liabilities	(236)	(134)
Net cash flow from financing activities.....	166,669	73,852
Increase (decrease) in net cash and cash equivalents	(51,792)	47,954
Cash and cash equivalents – opening balance.....	275,489	227,535
Cash and cash equivalents – closing balance.....	223,697	275,489

Dom Development S.A.
 Statements of changes in the consolidated shareholders' equity
 for the period of twelve months ended on 31 December 2008 and 2007
 (in PLN; all amounts in thousands unless stated otherwise)

V. STATEMENT OF CHANGES IN THE CONSOLIDATED SHAREHOLDERS' EQUITY

	Share capital	Share premium less treasury shares	Other capitals (supplementary capital)	Reserve capital from reduction of share capital	Reserve capital from the valuation of shares options	Accumulated unappropriated profit (loss)	Equity attributable to the equity holders of the holding company	Minority interests	Total equity
Balance as at 1 January 2008	24,560	231,535	191,556	510	7,128	240,849	696,138	-	696,138
Creation of reserve capital from the valuation of the share options	-	-	-	-	6,780	-	6,780	-	6,780
Transfer of retained profit attributable to minority interests	-	-	-	-	-	157	157	(157)	-
Transfer of profit to supplementary capital ...	-	-	180,281	-	-	(180,281)	-	-	-
Dividend payment	-	-	-	-	-	(50,103)	(50,103)	-	(50,103)
Profit for twelve months ended on 31 December 2008	-	-	-	-	-	136,948	136,948	(8)	136,940
Balance as at 31 December 2008	24,560	231,535	371,837	510	13,908	147,570	789,920	(165)	789,755
	Share capital	Share premium less treasury shares	Other capitals (supplementary capital)	Reserve capital from reduction of share capital	Reserve capital from the valuation of shares options	Accumulated unappropriated profit (loss)	Equity attributable to the equity holders of the holding company	Minority interests	Total equity
Balance as at 1 January 2007	24,050	230,371	79,301	510	1,506	156,144	491,882	-	491,882
Creation of reserve capital from the valuation of the employee' options	-	-	-	-	5,622	-	5,622	-	5,622
Increase of the capital by the issue of shares....	510	1,164	-	-	-	-	1,674	-	1,674
Transfer of profit to supplementary capital ...	-	-	112,255	-	-	(112,255)	-	-	-
Dividend payment	-	-	-	-	-	(3,684)	(3,684)	-	(3,684)
Profit for twelve months ended on 31 December 2007	-	-	-	-	-	200,644	200,644	-	200,644
Balance as at 31 December 2007	24,560	231,535	191,556	510	7,128	240,849	696,138	-	696,138

VI. ADDITIONAL NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Inventories

INVENTORY	31.12.2008	31.12.2007
Advances on deliveries	22,422	150,853
in this at purchase prices/production costs	22,491	150,853
in this revaluation write down	(69)	-
Semi-finished goods and work in progress	1,043,045	611,763
in this at purchase prices/production costs	1,055,089	619,270
in this revaluation write down	(12,044)	(7,507)
Finished goods	86,864	99,742
in this at purchase prices/production costs	87,298	100,698
in this revaluation write down	(434)	(956)
Total	1,152,331	862,358

WRITE-OFFS REVALUATING THE INVENTORIES	01.01- -31.12.2008	01.01- -31.12.2007
Balance at the beginning of the period	8,463	4,764
Increase	7,736	3,894
Release	(3,652)	(195)
Balance at the end of the period	12,547	8,463

Due to the condition of the real estate market in which the Group operates, at the end of the fourth quarter 2008 the Company approached testing of inventory impairment especially rigorously. As a result of the impairment tests and analysis performed, the Group made a provision for impairment of projects in the construction phase and land for future projects for the total amount of PLN 7,429 thousand.

Balance sheet value of inventories used to secure the payment of liabilities

SECURITY ON INVENTORIES - MORTGAGE	31.12.2008	31.12.2007
Balance sheet value of inventory used to secure liabilities	340,167	170,369
Value of mortgages used to secure the loans	514,177	250,846

Note 2. Change in the write-offs revaluating short-term receivables

CHANGE IN THE WRITE-OFFS REVALUATING TRADE AND OTHER RECEIVABLES	01.01- -31.12.2008	01.01- -31.12.2007
Opening balance	2,547	5,895
a) Additions	506	1,488
b) Disposals	(1,125)	(4,836)
Closing balance	1,928	2,547

Dom Development S.A.

Additional notes to the condensed consolidated financial statements
for the period of three months ended on 31 December 2008
(in PLN; all amounts in thousands unless stated otherwise)

Note 3. Cash and cash equivalents

Cash and cash equivalents are represented by cash at bank, cash on hand and short-term bank deposits which will mature within 3 months. The book value of these assets corresponds to their fair value.

CASH AND CASH EQUIVALENTS	31.12.2008	31.12.2007
Cash on hand and at bank	5,629	15,048
Short-term deposits and treasury bills.....	285,841	259,848
Overdraft	(67,820)	-
Other	47	593
Total	223,697	275,489

The Company presents overdrafts as a decrease in cash and cash equivalents due to holding deposits in the same banks exceeding the level of the overdrafts (see note 5). Repayment of these overdrafts took place with PLN 29,980 thousand repaid on 2 January 2009 and PLN 37,840 thousand by 9 January 2009 in correspondence with the closing of the deposit accounts.

Note 4. Share capital

SHARE CAPITAL (STRUCTURE) AS AT 31 December 2008

Series/ issue	Type of shares	Type of preference	Limitation of right to shares	Number of shares	Nominal value of series/issue (PLN)	Capital covered with	Registration date	Right to dividend (since)
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								

SHARE CAPITAL (STRUCTURE) AS AT 31 December 2007

Series/ issue	Type of shares	Type of preference	Limitation of right to shares	Number of shares	Nominal value of series/issue (PLN)	Capital covered with	Registration date	Right to dividend (since)
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								

Dom Development S.A.

Additional notes to the condensed consolidated financial statements
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On 27 October 2006 the agreement with CDM PEKAO S.A. was concluded regarding taking up 96,750 J series shares in the increased share capital of Dom Development S.A. (the afore-mentioned shares concern the Management Share Option Programme IB in which CDM PEKAO S.A, pursuant to depositary agreement dated 26 October 2006 CDM PEKAO S.A. is a depositary in this programme).

On 28 January 2008 all rights and obligations arising from the above trust agreement signed with CDM on 26 October 2006 were assumed by UniCredit CA IB Polska S.A.

Description of changes in the share capital of the holding company in the period from 1 January 2008 to the date of preparing the financial statements.

In the period from 1 January 2008 by the date of preparation of these financial statements there have been no changes to the shareholders capital.

On 14 February 2007 the District Court for the capital city of Warsaw 12th Commercial Division of the National Court Register issued the ruling concerning the registration of an increase in the share capital to the amount of PLN 24,560,222 in connection with the issue of 172,200 H series ordinary, bearer shares, 92,700 I series ordinary bearer shares, 96,750 J series ordinary bearer shares and 148,200 L series ordinary bearer shares.

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 these financial statements for the 4th quarter of 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 Kielpsz.....	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 that company.

In the period since the preparation of the last quarterly financial statements there has been a change in the number of shares owned by Dom Development B.V. from 15,507,386 to 15,509,386 and the percent of the share capital from 63.14% to 63.15%. To the best of the Company Management's knowledge there has been no change in the number of shares owned by other above mentioned shareholders and the percent of the share held by them as well as in the percent of votes to which they are entitled at the Shareholders Meeting since the preparation of the last quarterly financial statements.

Dom Development S.A.

Additional notes to the condensed consolidated financial statements
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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 these financial statements for the 4th quarter of 2008

	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	107,200	35,850	1,050
Terry Roydon	58,500	50,000	108,500
Supervisory Board			
Zygmunt Kostkiewicz	29,500	-	29,500
Grzegorz Kielpsz.....	1,390,750	-	1,390,750

*) Due to the resignation of Mr. Leszek Piotr Nałęcz from his position as Member and Vice-President of the Management Board responsible for the Company's Finances effective from 30 December 2008, Mr. Janusz Zalewski was appointed to this position. As at the date of preparation of this quarterly report for the fourth quarter of 2008 Mr. Janusz Zalewski held 436,000 shares in the Company and 31,000 share options allotted under the third tranche of the Management Options Programme II related to the shares of Dom Development SA, entitling subscription to 31,000 ordinary shares of Dom Development SA.

Since the date of preparation of the previous quarterly report there has been a change in the number of share options owned by Mr. Janusz Stolarczyk (from 20,850 to 35,850) and Mr. Jerzy Ślusarski (from 36,850 to 67,850) due to allotment of share options entitling subscription to ordinary shares under the third tranche of Management Options Programme II related to 726,000 shares of Dom Development S.A.

Note 5. Loans and borrowings

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 the Group did not have borrowing-related liabilities.

As at 31 December 2008 and 31 December 2007 all the Group's loans were expressed in Polish Zloty.

Dom Development S.A.

Additional notes to the condensed consolidated financial statements
for the period of three months ended on 31 December 2008
(in PLN; all amounts in thousands unless stated otherwise)

Loan liabilities as at 31 December 2008**BANK LOANS SHOWN IN LIABILITIES AS AT 31 DECEMBER 2008**

Bank	Registered office	Amount of loan – as per agreement	Currency	Outstanding loan amount (less accrued interest)	Currency	Due date
ING BANK ŚLĄSKI	Warsaw	39,613	PLN	39,613	PLN	30.09.2009
PKO BP	Warsaw	7,241	PLN	2,897	PLN	01.04.2009
BOŚ	Warsaw	100,000	PLN	53,283	PLN	30.06.2011
PKO BP	Warsaw	200,000	PLN	200,000	PLN	31.12.2012
Total bank loans shown in liabilities		346,854	PLN	295,793	PLN	

As at 31 December 2008 the Group held two overdrafts which are presented as a decrease in cash and cash equivalents in these consolidated financial statements (see note 3). This presentation is due to holding deposit accounts in the same crediting banks in excess of the overdrafts with deposit accounts payment terms preceding repayment of the overdrafts.

BANK LOANS REDUCING ASSETS AS AT 31.12.2008

Bank	Registered office	Amount of loan – as per agreement	Currency	Outstanding loan amount (less accrued interest)	Currency	Due date
BOŚ	Warsaw	40,000	PLN	29,980	PLN	23.04.2010
PKO BP	Warsaw	40,000	PLN	37,840	PLN	16.03.2010
Total overdrafts		80,000	PLN	67,820	PLN	

The Company's Management Board estimates that the fair value of the loans and borrowings contracted by the Company is almost equal to their net book value.

Note 6. Bonds

BONDS	31.12.2008	31.12.2007
Nominal value of the issued bonds	200,000	200,000
Interest due for payment as at balance sheet date disclosed in the item - Accrued liabilities and deferred income	1,460	1,251

On 5 November 2007 the Company and Bank BPH S.A. signed a Bond Issue Programme Agreement. During the seven-year term of this programme, Dom Development S.A. intends to issue mid-term bonds (with a maturity date exceeding 1 year, but not 7 years) with the total value of no more than PLN 400,000,000, which is to be construed as the nominal value of all issued and unredeemed bonds on any day of the term of the Programme. The return on bonds shall depend on the market conditions on the sale date and calculated according to WIBOR 3M + margin. The proceeds from the

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for the period of three months ended on 31 December 2008
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bonds will be used for financing the development of the Company. The bonds shall be issued in series and offered to selected investors. The Company does not plan to introduce the bonds issued under the programme to public trading. The terms of the Agreement with Bank BPH S.A. are typical for such types of programmes.

On 28 November 2007, pursuant to the above-mentioned agreement, the Company issued 20,000 I series bonds with the nominal value of PLN 10,000 each and the total nominal value of PLN 200,000,000 under the Bond Issue Programme Agreement signed with Bank BPH S.A. on 5 November 2007. The maturity date of these bonds is 28 November 2012 and the interest at WIBOR 3M plus bank commission is payable every three months until the settlement date. The interest becomes due and payable in February, May, August and November during the term of the agreement. The proceeds from the issue of bonds are used for financing the development of the Company. The bonds are an unsecured liability of the Company.

Note 7. Earnings per share

CALCULATION OF BASIC AND DILUTED EARNINGS PER SHARE	01.01- -31.12.2008	01.01- -31.12.2007	01.10- -31.12.2008	01.10- -31.12.2007
Basic earnings per share				
Profit attributable to the equity holders of the holding company (PLN)	136,948	200,644	2,470	43,122
The average weighted number of ordinary shares for the calculation of basic earnings per share	24,560,222	24,560,222	24,560,222	24,560,222
Basic earnings per share (PLN)	5.58	8.17	0.10	1.76
Diluted earnings per share				
Theoretical profit attributable to the equity holders of the holding company for the calculation of the diluted earnings per share	136,948	200,644	2,470	43,122
Potential diluting shares related to Management Share Options Programme II*)	-	-	-	-
The average weighted number of ordinary shares for the calculation of diluted earnings per share	24,560,222	24,560,222	24,560,222	24,560,222
Diluted earnings per share (PLN)	5.58	8.17	0.10	1.76

*) Options for the shares issued as part of IB programme do not result in dilution of earnings per share since they are issued and recognized in the share capital. The shares are deposited with Unicredit CA IB Polska S.A., which is a trustee in this programme (see note 4).

As the Group has no discontinued operations, the earnings per share from the continued operations equal the earnings per share calculated above.

Note 8. Key assumptions and estimate bases

Calculation of the revenues from the sales of the finished goods and the cost of the sold finished goods (see the section „long-term contract disclosure principles" in the last annual consolidated financial statements), is based on detailed budgets of individual development projects prepared based on the Company's best knowledge and experience. During construction, each development project budget is updated at least once every three months.

Note 9. Segment reporting

The Group does not conduct segment reporting as its activities take place within a single segment.

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Note 10. Operating income

SALES REVENUES BY KIND	01.01- -31.12.2008	01.01- -31.12.2007	01.10- -31.12.2008	01.10- -31.12.2007
Sales of finished goods	677,733	840,505	88,314	189,000
Sales of services	19,158	29,642	2,796	6,589
Sales of goods for resale (land)	1,271	8,606	1,117	8,606
Total	698,162	878,753	92,227	204,195

Note 11. Operating costs

OPERATING COSTS	01.01- -31.12.2008	01.01- -31.12.2007	01.10- -31.12.2008	01.10- -31.12.2007
Cost of sales				
Cost of finished goods sold	(411,531)	(515,147)	(55,851)	(114,198)
Cost of services sold	(16,463)	(21,917)	(1,719)	(2,919)
Cost of land sold	(1,036)	(8,602)	(882)	(8,602)
Total cost of sales	(429,030)	(545,666)	(58,452)	(125,719)
Selling costs and general administrative expenses				
Selling costs	(30,002)	(22,368)	(6,017)	(2,611)
General administrative expenses	(61,914)	(57,699)	(14,631)	(19,089)
Total selling costs and general administrative expenses	(91,916)	(80,067)	(20,648)	(21,700)
Selling costs and general administrative expenses by kind				
Depreciation.....	(2,420)	(2,226)	(703)	(627)
Cost of materials and energy	(8,430)	(6,317)	(1,659)	(2,474)
External services	(26,674)	(24,234)	(7,035)	(6,460)
Taxes and charges	(883)	(472)	(152)	(127)
Wages and salaries	(38,568)	(34,392)	(8,506)	(9,548)
Social security and other benefits	(4,843)	(3,582)	(699)	(744)
Management Options Programme.....	(6,780)	(5,622)	(1,189)	(920)
Other costs by kind	(3,318)	(3,222)	(705)	(800)
Total selling costs and general administrative expenses by kind.....	(91,916)	(80,067)	(20,648)	(21,700)

Note 12. Financial income

FINANCIAL INCOME	01.01- -31.12.2008	01.01- -31.12.2007	01.10- -31.12.2008	01.10- -31.12.2007
Interest	12,019	11,404	4,133	2,305
Other	84	231	71	222
Total	12,103	11,635	4,204	2,527

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Note 13. Income tax

INCOME TAX	01.01- -31.12.2008	01.01- -31.12.2007	01.10- -31.12.2008	01.10- -31.12.2007
Current income tax	66,680	16,908	16,074	6,092
Deferred income tax	(30,669)	32,811	(13,429)	5,184
Total	36,011	49,719	2,645	11,276

Note 14. Transactions with related entities

In the twelve-month periods ended 31 December 2008 and 2007 the Company was a party to the transactions with related entities, as listed below. Descriptions of transactions have been presented in the form of tables. In exceptional cases, descriptions of particular agreements or explanations have also been provided in a descriptive form. Due to the Company's turnover, it has been assumed that in the event in which transactions with a given related entity did not exceed in any of the presented periods PLN 100 thousand, the transactions have been omitted in the summary.

Dom Development S.A. as a buyer of goods or services

Counterparty	Transaction description	01.01- -31.12.2008	01.01- -31.12.2007
Woodsford Consulting Limited	Consulting services as per agreement dated 1 February 2000, with further amendments	1,631	1,903
Hansom Property Company Limited	Consulting services as per agreement dated 31 March 1999	212	193
Towarzystwo Ubezpieczeń Wzajemnych Bezpieczny Dom"	Insurance of financial losses risk	475	1,225
Dom Development Grunty	Services as per Annex to agreement dated 12 April 2007	85	128
Fort Mokotów sp. z o.o.	Real estate management	-	5,586
Fort Mokotów sp. z o.o.	Other	145	175

Dom Development S.A. buying land as part of an agency agreement

Counterparty	Transaction description	01.01- -31.12.2008	01.01- -31.12.2007
Dom Development Grunty sp. z o.o.	Amounts of advances transferred to Dom Development Grunty Sp. z o.o. for the purchase of land as part of mandate contracts	10,267	55,548
Dom Development Grunty sp. z o.o.	Value of land transferred to Dom Development S.A. as part of mandate contracts	47,381	13,853

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Dom Development S.A. providing services (seller) – the value of services invoiced during the period

Counterparty	Transaction description	01.01- -31.12.2008	01.01- -31.12.2007
Fort Mokotów sp. z o.o.	General Project Execution agreement dated 15 April 2002	-	212
Fort Mokotów sp. z o.o.	The sales commission agreement and agreement for provision of advertising and marketing services dated 15 April 2002	650	1,964
Fort Mokotów sp. z o.o.	Repair services based on agreement dated 22 July 2005	156	120
Fort Mokotów sp. z o.o.	Real estate management services	10	876
Fort Mokotów sp. z o.o.	Other	115	123

Dom Development S.A. as a party paying a dividend

Counterparty	Transaction description	01.01- -31.12.2008	01.01- -31.12.2007
Dom Development BV	Dividend (gross)	31,613	2,324

Dom Development S.A. as a party receiving a dividend

Counterparty	Transaction description	01.01- -31.12.2008	01.01- -31.12.2007
Fort Mokotów sp. z o.o.	Dividend (gross)	-	29,400

Dom Development S.A. as the payer of additional contribution to the capital

Counterparty	Transaction description	01.01- -31.12.2008	01.01- -31.12.2007
Dom Development Na Dolnej Sp. z o.o.	Payment to cover the loss /additional payment to capital	31	-
PTI Sp. z o.o.	Payment to cover the loss /additional payment to capital	-	12

Balances with related entities

Balances as in the books of the Company

Entity	Receivables from related entities		Liabilities to related entities	
	31.12.2008	31.12.2007	31.12.2008	31.12.2007
Total balance	56,833	87,604	3	1,530
Balances below PLN 100,000.....	9	28	3	11
Balances over PLN 100,000.....	56,824	87,576	-	1,519
Subsidiaries	56,727	87,576	-	-
Dom Development Morskie Oko sp. z o.o. additional contributions to capital	1,147	1,147	-	-
Dom Development Grunty sp. z o.o.	55,580	86,429	-	-
Associated entities	97	-	-	1,268
Fort Mokotów sp. z o.o.	97	-	-	1,268
Other entities	-	-	-	251
Woodsford Consulting Limited	-	-	-	251

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Promissory agreements and sale agreements relating to the sale of apartments by the Company to management personnel and their relatives

Related person	Date	Description	Value	Cumulative
			(PLN)	payments made as at 31 December 2008 (PLN)
Jakub Domalik - Plakwicz	31.01.2007	Promissory sale agreement concerning residential facilities with the area of 59.40 sq. m together with parking space	797,472.20	797,472.20
Janusz Stolarczyk and Danuta Stolarczyk	22.03.2007	Annex no.1 regarding purchase of additional parking space in addition to promissory sale agreement concerning residential facilities with the area of 89.1 sq. m together with two utility rooms and two parking spaces	9,000.00	9,000.00
Janusz Stolarczyk and Danuta Stolarczyk	18.04.2007	Annex no.1 regarding purchase of additional parking space in addition to promissory sale agreement concerning residential facilities with the area of 122.93 sq. m together with two parking spaces	36,000.00	36,000.00
Wojciech Sadowski	29.05.2007	Promissory sale agreement concerning residential facilities with the area of 48.10 sq. m together with utility room and parking space	455,053.60	409,620.40
Jerzy Ślusarski and Ewa Ślusarska	04.07.2007	Annex no.1 regarding customer requested changes to promissory sale agreement concerning residential facilities with the area of 58.20 sq. m together with parking space	5,350.00	5,350.00
Paweł i Marta Plakwicz	17.04.2008	Agreement of the liability sale to the third party – session concerning residential facilities with the area of 104,58 sq. m, together with a parking space,	1,710,074.00	85,503.70
Jerzy i Ewa Ślusarscy	28.07.2008	Promissory sale agreement concerning shop of the area of 76.40 sq. m together with parking space	641,154.00	641,154.00

Note 15. Incentive plan – Management Options Programme

As at 31 December 2008 there were three Management Option Programmes adopted as part of the Incentive Scheme for the Management staff of the Group. They are as follows:

Name of the Programme	Share options in the programme (number of shares)	Allocated options (number of shares)	Exercised options (number of shares)	Share options in the programme (number of shares)	Allocated options (number of shares)	Exercised options (number of shares)
	31.12.2008			31.12.2007		
Programme I	413,100	413,100	413,100	413,100	413,100	413,100
Programme I B	92,500	92,500	-	96,750	96,750	-
Programme II	726,000	565,475	-	726,000	435,950	-

In the fourth quarter 2008 the number of share options allotted under Programme II increased due to allotment of 242,000 share options under the third tranche of this programme (increase of allotted share options) and simultaneous

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decrease of 80,600 share options due to the termination of employment contracts with a several employees who were under this Programme.

On 8 December 2008 the Management Board of Dom Development S.A. adopted a resolution in respect of naming the persons authorized to participate in the third tranche of Management Share Options Programme II concerning 726,000 shares of Dom Development S.A. as well as the number and the price of the said shares for each of those persons. Pursuant to the foregoing resolution another 242,000 options for the Company's shares were allocated.

The fair value of the allocated options which may be changed into shares was estimated as at the day of allocating the options by means of a model based on the Black-Scholes-Merton, taking into account the conditions existing at the date of allocating the options. The following are preliminary assumptions to the model for the valuation of the options allocated under the second tranche of Programme II:

Dividend rate (%)	1.30
Anticipated volatility rate (%)	52.75
Risk-free interest rate (%)	4.36
Anticipated period of option exercise (in years)	3.00
Share exercise price (PLN)	14.91
Current share price (PLN)	18.86

The value of the options as at the day when they were allocated was calculated on the basis of the foregoing model and assumptions and amounted to PLN 2,047 thousand. Such value is evenly accounted for in the income statement within the period of three years.

Within the two three month periods which ended on 31 December 2008 and 2007 the following amounts were accounted for in the income statement: PLN 1,189 thousand and PLN 920 thousand respectively.

Share options allocated and possible to be exercised as at respective balance sheet dates

SHARE OPTIONS		31.12.2008	31.12.2007
Options unexercised at the end of the period	Amount	657,975	532,700
	Total exercise price	44,290	50,498
Options possible to be exercised at the end of the period	Amount	-	-
	Total exercise price	-	-

On 10 July 2008, the Supervisory Board of Dom Development S.A. approved the amended rules of the Dom Development S.A. 726,000 Executive Share Option Scheme II.

The amendment refers to the changing the price at which shares may be acquired, defined in point IV.2 of Scheme II as PLN 114.48, into a price set as not less than 90% of the arithmetical average of the closing prices of the Company's shares on the public market over the 30 days prior to the adoption of the Supervisory Board resolutions defining the persons entitled to participate in the Scheme, the number of shares, and a share price for each person, with the condition that the price shall not be more than PLN 114.48.

Note 16. Contingent liabilities

CONTINGENT LIABILITIES	31.12.2008	31.12.2007
Bills of exchange, including:	190,693	112,000
– bills of exchange constituting an additional guarantee for BOŚ bank in respect of claims arising from the granted loan.....	140,000	70,000
– bills of exchange constituting an additional guarantee for PKO BP bank in respect of claims arising from the granted loan	47,241	40,000
– bills of exchange constituting an additional guarantee for BOŚ bank in respect of claims arising from the trilateral contract on insurance of loan guarantees of the Company's clients.....	2,000	2,000
– bills of exchange constituting other security	1,452	-
Guarantees	9,904	9,800
Sureties	1,109	1,214
Total	201,706	123,014

In the three month period ended 31 December 2008 the Company did not provide any guarantees for loans, borrowings or other guarantees – jointly to one entity or its subsidiary, of which the value would amount to at least 10% of the Company's shareholders' equity.

Note 17. Material court cases as at 31 December 2008

The entities comprising the Group are not a party in material court proceedings as at 31 December 2008.

Note 18. Additional information on the operating activity of the Company

In the period from 1 January to 31 December 2008 the following material changes in the portfolio of the Group's investments under construction took place:

The 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

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Commenced projects, i.e. projects with the 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

Note 19. The factors which will influence the results achieved by the Group at least in the next six months

The most important factors which may influence the financial situation of the Group at least in the next quarter are:

- a downturn in the residential market which the Group is operating on,
- Poland facing worldwide crisis on financial markets,
- availability of home loans, and especially convenient terms of such loans for potential clients,
- achieving the planned sales volume in terms of quantity and value, as well as in the individual market segments, especially in the light of the current economic downturn on the primary market of apartment sales,
- prompt, compliant with schedules, completion of the construction works by the construction companies completing individual investments of the Group in the general construction system,
- availability of external financing (loans, bonds) for the real estate development entities,
- lack of sudden changes in the legal and tax regulations that may influence in an uncontrollable manner the market demand for products offered by the Company and the Group,
- maintaining the stable political situation and creating a positive economic climate by the government and local authorities.

Note 20. Changes in accounting policies – description and impact of the change that will be introduced by the Company from 1 January 2009.

The International Financial Reporting Interpretation Committee (IFRIC) has completed a project reviewing the interpretation of **revenue recognition** from real estate sales under IAS 11 ("Constructions contracts") and IAS 18 ("Revenue").

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Prepared by IFRIC a draft interpretation (D-21 Real Estate Sales) was approved by International Accounting Standards Board (IASB) in June 2008 and subsequently published by IFRIC in the form of interpretation (IFRIC-15 Agreements for the Construction of Real Estate) on 2 July 2008.

This interpretation, application of which will be required to the Group's consolidated financial statements for the periods beginning from 1 January 2009, will introduce changes to the currently applied Group's accounting policies in relation to the real estate sales.

Up to 31 December 2008 the Group recognized sales revenue based on IAS11 using "percentage of completion" method described in the last annual consolidated financial statements of the Group in chapter "Significant accounting policies". Using IAS11, the Group recognized sales revenue in proportion to the state of progress of sales and construction for specific investment projects.

Use of the IFRIC-15 interpretation will require the Group to recognize sales revenue differently, that is to say in accordance with IAS18. From 1 January 2009 real estate sales revenue will be recognized only at the moment it is released to the buyer based on handover protocol signed by both parties ("recognition on completion" method).

The main result of the above change is that sales revenue and cost of sales (and as a result – sales contribution) will be recognized considerably later than it has been previously. From 1 January 2009 sales revenue for an individual real estate project will not be recognized until after the completion of the construction process of that particular project.

The Company estimated the impact of the above described change in the accounting policy on the Group's consolidated financial statements for the period in which the accounting policy would be applied for the first time, i.e. for the period beginning on 1 January 2009. These changes will cause adjustment to the consolidated shareholders' equity as at 1 January 2009 resulting from:

a/ Adjustment to the consolidated shareholders' equity opening balance as at 1 January 2008 by PLN 193,796 thousand.

This adjustment will eliminate the portion of profit from past periods, i.e. The net profit recognized using "percentage of completion" method cumulatively till 31 December 2007, which would not be recognized if the "recognition on completion" method was applied. This applies to the profit calculated using "percentage of completion" method on the products for which preliminary sales agreements had been signed but the products were not released to the buyers by the 31 December 2007.

b/ Adjustment to the consolidated net profit for the year ended 31 December 2008.

This adjustment will represent the difference between net profit recognized using "percentage of completion" method (shown in these financial statements) and the net profit that would be recognized if the "recognition on completion" method was used.

The impact of the above adjustments on the consolidated shareholders' equity opening balance as at 1 January 2009 is presented in the table below:

CONSOLIDATED SHAREHOLDERS' EQUITY

Consolidated shareholders' equity as at 31 December 2008 (using IAS 11) ...	789,755
a/ Adjustment to the opening balance as at 1 January 2008	(193,796)
b/ Adjustment to the consolidated net profit for the year ended 31 December 2008, consisting of:	
- elimination of the consolidated net profit for the year 2008 recognised under IAS 11 (i.e. before the change of accounting policy)	(136,940)
- consolidated net profit for the year 2008 recognised under IAS 18 (i.e. after the change in accounting policy)	224,269
Adjustment to the consolidated net profit for the year ended 31 December 2008	87,329
Consolidated shareholders' equity as at 1 January 2009 (using IAS 18)	683,288

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The above change in accounting principles will not impact the profitability of the real estate development projects but it will influence the allocation of revenues and cost of sales to individual accounting periods.

Note 21. Material post-balance sheet events

There were no material post-balance sheet events in the period between the balance sheet day and the day on which these financial statements for the fourth quarter of 2008 were prepared.

Note 22. Forecasts

The Management Board of Dom Development S.A. does not publish any financial forecasts in relation to the holding company nor the Group.

Note 23. Selected consolidated financial data translated into EURO

In compliance with the reporting requirements the following financial data of the Group have been translated into euro:

SELECTED DATA FROM THE CONSOLIDATED BALANCE SHEET	31.12.2008	31.12.2007
	thousand EURO	thousand EURO
Total current assets.....	362,664	343,436
Total assets	367,670	349,544
Total shareholders' equity	189,280	194,343
Long-term liabilities	117,097	92,245
Short-term liabilities	61,293	62,956
Total liabilities.....	178,390	155,201
<i>PLN/EURO exchange rate as at the balance sheet date</i>	<i>4.1724</i>	<i>3.5820</i>

SELECTED DATA FROM THE CONSOLIDATED INCOME STATEMENT	01.01- -31.12.2008	01.01- -31.12.2007	01.10- -31.12.2008	01.10- -31.12.2007
	thousand EURO	thousand EURO	thousand EURO	thousand EURO
Sales revenue	197,662	232,671	23,929	56,515
Gross profit on sales.....	76,196	88,193	8,763	21,720
Operating profit.....	46,913	63,800	1,285	14,482
Profit before tax.....	48,964	66,290	1,327	15,056
Profit after tax.....	38,769	53,126	641	11,935
<i>Average PLN/EURO exchange rate for the reporting period</i>	<i>3.5321</i>	<i>3.7768</i>	<i>3.8542</i>	<i>3.6131</i>

Warsaw, 26 February 2009

Jarosław Szanajca, President of the Management Board

Dom Development S.A.

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Janusz Zalewski, Vice-President of the Management Board