MANAGEMENT BOARD'S REPORT OF ACTIVITIES OF

DOM DEVELOPMENT CAPITAL GROUP

IN THE FIRST HALF OF 2011

CONTENTS

APPROVAL BY THE MANAGEMENT BOARD OF THE MANAGEMENT BOARD'S REPORT OF ACTIVITIES OF DOM DEVELOPMENT CAPITAL GROUP IN THE FIRST HALF OF 2011

This Management Board's report of activities of Dom Development Capital Group in the first half of 2011 was drafted and approved by the Management Board of the Company on 23 August 2011.

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

INTRODUCTION

The joint stock company Dom Development S.A. (the "Company", the "parent company") is the parent company of Dom Development Capital Group (the "Group"). The Company has been entered into the National Court Register under number 0000031483 maintained by the District Court for the capital city of Warsaw, 12th Commercial Division of the National Court Register. The registered office of the Company is in Warsaw (00-078 Warsaw, pl. Piłsudskiego 3).

Dom Development was established in 1995 by a group of international investors and Polish management staff joined it in November 1996. Participation of the international investors guaranteed implementation of Western European experience and standards as regards housing developments 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 2011 the Company was controlled by Dom Development B.V. which held 61.91% of the Company's shares.

1. STRUCTURE AND ACTIVITIES OF DOM DEVELOPMENT CAPITAL GROUP

1.1. Group's Structure

The Group's structure and the Company's interest in the share capital of the entities comprising the Group as at 30 June 2011 is presented in the table below:

Entity	Country of registration	% of the share capital held by the parent company	% of the votes held by the parent company	Consolidation method
Subsidiaries				
Dom Development Morskie Oko 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

1.2. Activities of the Company and the Group

The main area of activity of the companies operating within the Group is the construction and sale of residential real estate. The Group conducts its activities mainly in Warsaw and its vicinity, and Wrocław. The development projects of the Group are usually executed directly by Dom Development S.A. For projects carried through special purpose vehicles, Dom Development S.A. supervises the execution of the construction investments and sales.

In the six-month period ended 30 June 2011:

- The Group did not discontinue any of its activities;
- The Group did not make any material capital investments within the framework of the Capital Group. All free cash was invested by the companies operating within the Group in short term bank deposits;
- No material changes were made to the structure of Dom Development Capital Group.

2. BASIS FOR THE DRAFTING OF THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The interim condensed consolidated financial statements have been drafted on the assumption that the companies operating within the Group will continue as a going concern in the foreseeable future.

Polish law requires the Group to draft its interim condensed consolidated financial statements in accordance with IFRS, applicable to interim financial reporting as adopted by the European Union (EU) (IAS 34). At this particular time, due to the endorsement of IFRS by the EU and the activities of the Group, there are no differences in the IFRS policies applied by the Group and IFRS that have been endorsed by the EU.

The interim condensed consolidated financial statements have been drafted in accordance with IFRS applicable in the interim financial reporting (IAS 34) and all applicable IFRS that have been adopted by the EU.

The interim condensed consolidated financial statements are drafted based on the same accounting policies as for the consolidated financial statements of the Company for the year ended 31 December 2010, except for the following amendments to existing standards and new interpretations that are effective for annual periods beginning on 1 January 2011 which are described in note 7.3 of the interim condensed consolidated financial statements.

3. BASIC ECONOMIC AND FINANCIAL FIGURES DISCLOSED IN THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS OF THE GROUP FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2011

3.1. Selected data from the consolidated income statement

	(in thousand PLN)		Change
	H1 2011	**H1 2010**	
Sales revenue	166 193	302 734	(45.1%)
Selling costs	(17 967)	(14 301)	25.6%
General administrative expenses	(23 030)	(21 164)	8.8%
Operating profit	**9 116**	**36 491**	(75.0%)
EBITDA	6.2%	12.4%	(50.0%)
Net profit	**6 569**	**25 049**	(73.8%)
Earnings per share (PLN)	**0.29**	**1.02**	(71.6%)

3.2. Selected data from the consolidated balance sheet, assets

	(in thousand PLN)		Change
	30.06.2011	**31.12.2010**	
Total assets	1 767 310	1 623 749	8.8%
Fixed assets	22 407	22 921	(2.2%)
Current assets, including:	1 744 903	1 600 828	9.0%
Inventory	1 313 154	1 118 968	17.4%
Trade and other receivables	32 995	43 752	(24.6%)
Other current assets	3 058	3 417	(10.5%)
Short-term financial assets	168 250	-	-
Cash and cash equivalents	227 446	434 691	(47.7%)

3.3. Selected data from the consolidated balance sheet, liabilities

	(in thousand PLN)		Change
	30.06.2011	31.12.2010	
Total equity and liabilities	1 767 310	1 623 749	8.8%
Share capital	24 560	24 560	-
Shareholders' equity	759 152	773 380	(1.8%)
Total liabilities	1 008 158	850 369	18.6%
Long-term liabilities	391 640	414 589	(5.5%)
Short-term liabilities	616 518	435 780	41.5%

4. MATERIAL EVENTS AND DESCRIPTION OF GROUP'S ACTIVITIES IN THE FIRST HALF OF 2011

In the six-month period ended 30 June 2011 the Group continued its development activities, being the construction and sale of residential real estates. The construction works are conducted in the general contractor system, and the works are contracted to specialized third-party building companies.

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

- current projects during their implementation in relation to both, the progress of construction works, and current and anticipated sales revenue,
- the best possible manner in which the plots of land from the land-bank may be used,
- the potential plots of land which may be purchased for further development projects to be carried out in the following years, also in major Polish cities other than Warsaw,
- optimization of financing of the Group's operating activities.

In the first half of 2011 the following material changes in the portfolio of the Group's investments under construction took place:

Projects commenced in the first half of 2011:

Project	Standard	Number of apartments
Akropol	Popular	366
Wilno, phase 2 (stage 2A)	Popular	117
Derby 14, phase 1	Popular	174
Adria, phase 2	Popular	230
Oaza, phase 1	Popular	116
Saska I, phase 2/2	Popular	144
Opera B	Luxury apartments	11

Projects ended (completed) the first half of 2011:

Project	Standard	Number of apartments
Derby 9	Popular	258
Klasyków, phase 1	Popular	135
Saska, phase 1 (stage 1A)	Popular	325

5. CURRENT AND FUTURE DEVELOPMENT PROJECTS

As at 30 June 2011, the projects under development account for 3 174 apartments in total. The new development projects for 6 745 apartments in total are defined and planned by the Group.

6. FINANCE MANAGEMENT

6.1. Consolidated asset financing structure

	(in thousand PLN)		Change
	30.06.2011	**31.12.2010**	
Total assets	1 767 310	1 623 749	8.8%
Shareholders' equity	759 152	773 380	(1.8%)
Total liabilities	1 008 158	850 369	18.6%
Long-term liabilities	391 640	414 589	(5.5%)
Short-term liabilities	616 518	435 780	41.5%
Long-term loans and borrowings, and bonds	332 330	377 330	(11.9%)
Short-term loans and borrowings	51 112	102 169	(50.0%)
Equity ratio (shareholders' equity/total assets)	43.0%	47.6%	
Leverage ratios			
Debt ratio	57.0%	52.4%	
Long-term debt ratio	22.2%	25.5%	
Short-term debt ratio	34.9%	26.8%	
Debt to equity ratio	132.8%	110.0%	
Interest bearing debt ratio	50.3%	61.8%	
Liquidity ratios			
Current ratio *current assets / short-term liabilities less deferred income*	6.84	6.65	
Quick ratio *current assets less inventory / short-term liabilities less deferred income*	1.69	2.00	
Cash ratio cash and cash equivalents / short-term liabilities less deferred income	0.89	1.81	

The Company and the entire Group were in good financial standing in the six-month period ended 30 June 2011. The liquidity ratios of the Group are sufficient to guarantee safe and efficient operations.

Also the equity ratio and the financial leverage ratios (debt ratio and debt to equity ratio) as calculated at 30 June 2011, demonstrate with a high likelihood that the Group will be able to pay its liabilities.

6.2. Consolidated cash flows

	(in thousand PLN)		Change
	H1 2011	**H1 2010**	
Cash and cash equivalents – opening balance	434 691	230 847	88.3%
Net cash flow from operating activities	(89 252)	15 901	na.
Net cash flow from investing activities	(24)	(1 561)	na.
Net cash flows from financing activities	(117 969)	45 480	na.
Cash and cash equivalents – closing balance	227 446	290 667	(21.8%)

7. DESCRIPTION OF SIGNIFICANT RISK FACTORS AND FACTORS IMPORTANT FOR DEVELOPMENT OF THE DOM DEVELOPMENT CAPITAL GROUP

Significant risk factors and threats to the business activity conducted by the Company and the Group in the second half of 2011 as identified by the Management Board have been presented below.

7.1. Macroeconomic factors

The impact of the worldwide crisis, which initially affected the banking sector, has been affecting Poland since the middle of 2008. The follow up effects of this crisis have been the downturn of economic growth, an evident increase in unemployment, and as a consequence reduced purchasing power of the Group's potential customers. This and similar global circumstances may significantly impact operations of the Group.

7.2. Availability of mortgages

Stricter lending criteria applied by banks when assessing credit worthiness of their customers led to a situation where many new potential buyers of apartments hit a creditworthiness barrier. The demand for new apartments and houses may be limited as a result of a lack of new lending solutions and difficult access to loans.

7.3. Foreign exchange risk

A significant part of apartments and houses purchased by clients is financed with mortgages taken in foreign currencies, mainly in the Swiss franc and Euro. Despite the restrictions to obtain a foreign currency mortgage there is still a high percentage of foreign currency mortgages. In the case that PLN weakens as compared to these currencies, apartment buyers will not be able to service the mortgage. This in turn will increase the supply of the real estate properties foreclosed by banks in the circumstances of a limited demand from buyers who will not be granted a mortgage.

7.4. Concentration of operations in the Warsaw market

The Company's and the Group's present and planned activity is concentrated in the Warsaw market. This makes the Company's results highly dependent on the situation in this market. However, it can be assumed that in the long-term this will be the most dynamic residential real estate market in Poland, and the Company and the Group will already have a well established position and therefore the possibility of further development. An expansion of the Company's operations outside the Warsaw market is also considered. The Group has been currently running its first project in the Wrocław market.

7.5. Opportunity to purchase land for new projects

The future success of the Company and the Group is founded on the ability to continually and effectively acquire attractive land for new development projects at the right times and competitive prices. This will allow the generation of satisfying project contributions.

7.6. Administrative decisions

The nature of development projects requires a number of licenses, permits and arrangements to be obtained by the Company at every stage of the investment process. Despite significant caution applied in the project execution schedules there is always a risk of delay in their obtainment, challenges of decisions which have already been issued (also due to appeals with no consequences for appellants) or even failing to obtain them. All these affect the ability to conduct and complete the executed and planned projects.

Risk management in Dom Development S.A. takes place through a formalized process of periodic identification, review and assessment of risk factors. The objective of the Risk Management process is to set relevant procedures and processes for identified risks. The implementation of those procedures and processes is aimed at eliminating or reducing the risk, to which the Company and the Group are exposed.

The fundamental activity adopted by the Company so as to reduce the exposure to market risks is proper assessment of potential and control of current development projects based on investment models and decision-making procedures developed in the Company. The adherence to such procedures is closely monitored by the Management Board of the Company.

8. THE MANAGEMENT BOARD AND THE SUPERVISORY BOARD

8.1. Composition of the Management Board of the Group's parent company as at 30 June 2011

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

8.2. Composition of the Supervisory Board of the Group's parent company as at 30 June 2011

Grzegorz Kiełpsz, Chairman of the Supervisory Board
Richard Lewis, Vice Chairman 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
Marek Moczulski, Member of the Supervisory Board
Krzysztof Grzyliński, Member of the Supervisory Board

9. LIST OF SHAREHOLDERS

List of shareholders who hold, directly or indirectly through subsidiaries, at least 5% of the overall number of votes at the General Shareholders Meeting ("GSM") as at the day of drafting of this Management Board's Report of Activities of the Group in the first half of 2011 are presented in the table below.

	Status as at the date of drafting of the financial statements				Change in the period from publication of the financial statements for the year ended 31.12.2010
	Shares	**% of capital**	**Number of votes at the GSM**	**% of votes at the GSM**	**Shares**
Dom Development B.V.	15 206 172	61.91	15 206 172	61.91	(290 214)
Jarosław Szanajca	1 534 050	6.25	1 534 050	6.25	-
Aviva Powszechne Towarzystwo Emerytalne Aviva BZ WBK SA *)	1 313 383	5.35	1 313 383	5.35	no data
Grzegorz Kiełpsz	1 280 750	5.21	1 280 750	5.21	-

*) Shareholding of Aviva Powszechne Towarzystwo Emerytalne (*General Pension Society*) Aviva BZ WBK S.A. has been presented as per the latest notice as of 11.07.2011 received by the Company from Aviva PTE Aviva BZ WBK S.A

10. SHAREHOLDING IN THE DOM DEVELOPMENT S.A. AND SHARE OPTIONS

The shares of Dom Development S.A. or rights thereto (options) owned by the persons performing management and supervisory functions at Dom Development S.A. as at the date of drafting of this Management's Report of Activities of the Group in the first half of 2011 are presented in the table below.

	Status as at the date of drafting of the financial statements			Change in the period from publication of the financial statements for the year ended 31.12.2010	
	Shares	Share options	Total	Shares	Share options
The Management Board					
Jarosław Szanajca	1 534 050	-	1 534 050	-	-
Janusz Zalewski	300 000	123 534	423 534	-	23 534
Jerzy Ślusarski	9 363	109 634	118 997	-	23 534
Janusz Stolarczyk	100 200	64 447	164 647	-	11 767
Terry Roydon	58 500	61 767	120 267	-	11 767
The Supervisory Board					
Grzegorz Kiełpsz	1 280 750	-	1 280 750	-	-

11. FORECASTS

The Management Board of Dom Development S.A. does not publish any financial forecasts concerning both, the parent company and the Group.

12. PROCEEDINGS BEFORE COURT, ARBITRATION OR PUBLIC ADMINISTRATION AUTHORITY

As of 30 June 2011 there was no individual proceeding before any court, authority competent for arbitration or public administration body, concerning the liabilities or receivables of the Company or its subsidiary, the value of which would be at least 10% of the Company's shareholders' equity.

As of 30 June 2011 there were not two or more proceedings before any court, authority competent for arbitration or public administration body, concerning the liabilities or receivables, the value of which would be at least 10% of the Company's shareholders' equity.

As of 30 June 2011, the Company was a party to proceedings concerning liabilities and receivables, the total value of which was approx. PLN 37 016 thousand, including the total value of proceedings concerning liabilities at approx. PLN 36 656 thousand and the total value of proceedings concerning receivables at approx. PLN 360 thousand.

The proceedings involving the companies operating within the Group have no significant impact on the Group's activity.

13. TRANSACTIONS WITH RELATED ENTITIES

All transactions made by the Company or its subsidiaries with related entities are based on the arm's length principle.

Transactions with the related entities are presented in note 7.20 to the interim condensed consolidated financial statements for the period ended 30 June 2011.