



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

DOM DEVELOPMENT S.A.

IN THE FIRST HALF OF 2010

INTRODUCTION

A joint stock company Dom Development S.A. („Company”) is the holding entity of Dom Development Capital Group. The Company has been entered into the National Court Register under number 0000031483, District Court for the capital city of Warsaw, 12th Commercial Division of the National Court Register. The Company’s seat is in Warsaw (00-078 Warsaw, pl. Piłsudskiego 3).

Dom Development was established in 1995 by a group of international investors and in November 1996 Polish management staff joined it. Participation of the group of international investors guaranteed implementation of western experience and standards as regards home building in the Warsaw market.

The Company is a majority-owned subsidiary of Dom Development B.V. with its registered office in the Netherlands. As at 30 June 2010 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 6.25% and Grzegorz Kielpsz with 5.21%.

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

Structure of the Group

The following table presents the Group’s structure and the Company's stake in the entities comprising the Group as at 30 June 2010.

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. under liquidation	Poland	100%	100%	full consolidation
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

Activities of the Company and the Group

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

In the period of six months ended on 30 June 2010:

- the Company did not discontinue any of its operations,
- the Company did not make any material equity investments within the framework of the capital group. All free cash resources were invested by the Company in short term bank deposits,
- no material changes were made to the structure of Dom Development Capital Group.

2. Basis for the preparation of the condensed financial statements

The interim condensed financial statements have been prepared on the assumption that the Company will continue as a going concern in the foreseeable future.

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

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

These interim condensed financial statements are prepared based on the same accounting policies as for the financial statements of the Company for the year ended 31 December 2009, except for the implementation of the amendments to existing standards and new interpretations that are effective for financial years beginning on 1 January 2010 which are described in note 2 of the interim condensed financial statements.

3. Basic economic and financial data disclosed in the condensed financial statement of the Company for the period of six months ended on 30 June 2010

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

	1 st half of 2010	1 st half of 2009	Change
Sales revenue	302 798	379 951	(20%)
Selling costs	14 301	10 993	30%
Overheads.....	20 800	21 290	(2%)
Operating earnings.....	36 767	83 815	(56%)
EBITDA	12.5%	22.4%	(44%)
Profit after tax.....	25 295	70 162	(64%)
Earnings per share (PLN)	1.03	2.86	(64%)

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

	30.06.2010	31.12.2009	Change
Total assets	1 556 645	1 574 023	(1%)
Fixed assets.....	10 719	10 303	4%
Current assets, including:	1 545 926	1 563 720	(1%)
Inventory	1 222 303	1 295 762	(6%)
Trade and other receivables.....	32 723	37 171	(12%)
Other current assets	5 420	4 959	9%
Cash and cash equivalents.....	285 480	225 828	26%

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

	30.06.2010	31.12.2009	Change
Total shareholders' equity and liabilities	1 556 645	1 574 023	(1%)
Share capital	24 560	24 560	0%
Shareholders' equity	756 548	748 922	1%
Total liabilities.....	800 097	825 101	(3%)
Long-term liabilities.....	384 464	396 613	(3%)
Short-term liabilities	415 633	428 488	(3%)

4. Material events and description of Company's activities in the first half of 2010

Within the period of six months ending on 30 June 2010, the Company was continuing its development activities consisting of building and selling residential real estates. The construction works are conducted according to the general contracting system and the works are contracted to specialized outside construction companies.

There are several development projects that are simultaneously conducted within the Company. 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 Company's operating activities.

During the first half of 2010 the following material changes in the Company's portfolio of investments under construction took place:

Projects commenced in the first half of 2010:

Project	Standard	Number of apartments
Regaty 4 phase	Popular	202
Saska I 2 phase	Popular	145
Klasyków 1 phase	Popular	135
Adria 1 phase	Popular	256
Derby 11	Popular	87
Derby 20	Popular	90

In the first half of 2010 the Company did not complete any projects.

5. Currently realised and future development projects

As at 30 June 2010, there are projects under development consisting of 1 498 units in total. In the Company's plans there are defined new construction projects consisting of 6 778 units in total.

6. Finance management

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

	30.06. 2010	31.12. 2009	Change
Total assets	1 556 645	1 574 023	(1%)
Shareholders' equity	756 548	748 922	1%
Total liabilities	800 097	825 101	(3%)
Long-term liabilities	384 464	396 613	(3%)
Long-term loans and borrowings and bonds	375 000	384 945	(3%)
Short-term loans and borrowings	209 970	134 218	56%
Asset/equity ratio	48.6%	47.6%	
Gearing ratios			
Total debt ratio	51.4%	52.4%	
Long-term debt ratio	24.7%	25.2%	
Short-term debt ratio	26.7%	27.2%	
Debt-to-capital ratio	105.8%	110.2%	
Interest bearing debt ratio	77.3%	69.3%	
Liquidity ratios			
Current ratio - current assets /short-term liabilities less deferred income	4.66	5.54	
Quick ratio - current assets less inventory /short-term liabilities less deferred income	0.97	0.95	
Cash ratio - cash and cash equivalents /short-term liabilities less deferred income	0.86	0.80	

Within the period of six months ended on 30 June 2010, the financial condition of the Company was good. The liquidity ratios of the Company are at a level guaranteeing safe and effective activities of the Company.

Also the equity/assets ratio and the level of financial leverage rates (total debt ratio and debt to capital ratio) as at 30 June 2010 guarantees to a large degree that the Company will be able to pay its liabilities.

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Cash flows (in thousand PLN)

	1st half of 2010	1st half of 2009	Change
Cash and cash equivalents – opening balance	225 828	213 168	6%
Net cash flow from operating activities.....	15 698	(79 106)	n/d
Net cash flow from investing activities.....	(1 526)	5 921	n/d
Net cash flow from financing activities	45 480	4 040	n/d
Cash and cash equivalents – closing balance	285 480	144 023	98%

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

Identified by the Management Board significant risk factors and threats to the business activity conducted by the Company and the Group in the second half 2010 have been presented below.

Macroeconomic factors – Since the middle of 2008 the impact of the world crisis, which initially affected the banking sector, has also been visible in Poland. The follow on effects of this crisis have been the slowing down of economic growth, noticeable rise in unemployment, and as a consequence smaller purchasing power of the Company's potential customers.

Availability of mortgage loans – stricter lending criteria used by banks when assessing credit worthiness of their customers led to a situation where many new potential purchasers of flats hit a barrier of creditworthiness. Lack of new lending solutions (difficult access to loans) and slow recovery from the crisis by the banking sector may cause the low demand for new flats and houses to continue.

Foreign exchange risk – a significant part of flats and houses purchased by clients is financed with mortgage loans in foreign currencies, mainly in Swiss francs and Euro. A significant percent of foreign exchange loans, despite the limitations in obtaining them which have been introduced in 2007, may lead to the situation in which, in the case PLN weakens compared to these currencies, flat buyers will not be able to service the loans taken out to finance them, which will increase the supply with the real properties foreclosed by banks, and this will be accompanied by a limited demand from buyers who will not be granted such loans.

Concentration of operations on the Warsaw market – the Company's and the Group's present and planned activity is concentrated on the Warsaw market, which, to a large extent, makes the Company's results dependent on the situation on this market. However, it can be assumed that in the long-term this will be the most dynamic residential real estate market in Poland, where the Company and the Group have an established position and the possibility to further develop their operations. The Company also analyse further expansion outside the Warsaw market.

Ability to purchase land for new projects – the source of the Company's and the Group's future success is the ability to continually and effectively acquire attractive land for new development projects at appropriate dates and competitive prices which will enable generating satisfying margins.

Administrative decisions – the nature of development projects forces the Company to obtain a number of licenses, permits and arrangements at every stage of the investment process. Despite significant caution used in the planned schedules of projects' execution, there is always a risk of delays in obtaining them, challenges of decisions which have already been made (also due to appeal remedies which have no consequences for the suing parties) or even failing to obtain them, which affects the ability to conduct and complete the executed and planned projects.

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

The key activities adopted by the Company to reduce the exposure to the market risks consist of appropriate assessment of potential and control of current development projects on the basis of investment models and decisive procedures developed in the Company the adherence to which is particularly closely monitored by the Management Board of the Company.

8. The Management Board and the Supervisory Board

Composition of the Management Board of the Company as at 30 June 2010

Jarosław Szanajca – President of the Management Board
Janusz Zalewski – Vice President of the Management Board
Jerzy Ślusarski – Vice President of the Management Board
Janusz Stolarczyk – Member of the Management Board
Terry Roydon – Member of the Management Board

Composition of the Supervisory Board of the Company as at 30 June 2010

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

9. List of shareholders who have, directly or indirectly through subsidiaries, at least 5% of the overall number of votes at the General Shareholders Meeting

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("GSM") as at the date of preparing this report of the Management Board on the Company's activities for the 1th half of 2010

State as at the date of preparing these financial statements					Change in the period from publication of the financial statements for the year ended at 31 December 2009
	Shares	% of capital	Number of votes at the GSM	% of votes at the GSM	Shares
Dom Development B.V.	15 496 386	63.10	15 496 386	63.10	(13 000)
Jarosław Szanajca	1 534 050	6.25	1 534 050	6.25	(200 000)
Grzegorz Kielpsz.....	1 280 750	5.21	1 280 750	5.21	(110 000)

10. The shares of Dom Development S.A. or rights thereto (options) owned by the persons performing management and supervisory functions at Dom Development SA as at the date of preparing this report of the Management Board on the Company's activities for the 1th half of 2010

Status as at the date of preparation of these financial statements			Change in the period from publication of the financial statements for the year ended at 31 December 2009	
	Shares	Share Options	Shares	Share Options
Management Board				
Jarosław Szanajca	1 534 050	-	1 534 050	(200 000)
Janusz Zalewski	300 000	100 000	400 000	(59 000)
Jerzy Ślusarski	9 363	86 100	95 463	(12 000)
Janusz Stolarczyk	100 200	52 680	152 880	(6 000)
Terry Roydon	58 500	50 000	108 500	-
Supervisory Board				
Grzegorz Kielpsz.....	1 280 750	-	1 280 750	(110 000)
Zygmunt Kostkiewicz	29 500	-	29 500	-

11. Forecasts

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

12. Proceedings before court, arbitration authority or public administration authority

During the discussed period covered by this financial statements, as of 30 June 2010 there were no single proceedings before any court, competent authority for arbitration proceedings or public administrative agencies, concerning the Company's or its subsidiary entities' obligations or receivables, the value of which would be at least 10% of the Company's equity.

At the date of 30 June 2010, the Company was party to proceedings concerning obligations and receivables, the total value of which was approx PLN 106 890 thousand with total value of proceedings concerning obligations at approx PLN 82 234 thousand and total value of proceedings concerning receivables at approx PLN 24 656 thousand.

The largest proceeding concerning the Company's receivables is the enforcement proceeding of the Company's petition of 20 January 2009 against Erabud Sp. z o.o. with its registered seat in Warsaw, in order to enforce an amount of 35% of the gross price value of real estate i.e. PLN 22 672 419.00 paid to Erabud Sp. z o.o. on the basis of a preliminary purchase agreement dated 4 January 2008 and relating to the purchase of real estate in Józefosław, municipality Piaseczno, of surface 88 495 m².

The largest proceeding concerning the Company's obligations is closely related with the above-mentioned enforcement proceedings. This is the matter of the action of Erabud Sp. z o.o. with its registered seat in Warsaw, for the performance of the above-mentioned preliminary purchase agreement dated 4 January 2008. A statement of claim of Erabud Sp. z o.o. dated 26 September was served to the Company on 8 October 2009. The value of the dispute amounts to PLN 64 778 340.00 and is identical to the total gross price for the above-mentioned real estate, as specified in the said preliminary agreement. In the opinion of the Management Board of the Company, the above-mentioned statement of claim is unfounded. The Company effectively withdrew from the said preliminary agreement on 17 September 2008. Then, in the absence of Erabud Sp. z o.o.'s voluntary reimbursement of the downpayment in the amount of PLN 22 672 419.00, the Company has started the said procedure for enforcement with the court enforcement officer.

Other proceedings involving the Company have no significant impact for the Company's activity.

13. Transactions with the affiliated entities

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

Transactions with the affiliated entities are presented in note 19 to the interim condensed financial statements for the period ending on 30 June 2010.

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in the first half of 2010

Warsaw, 23 August 2010

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