



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

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

**IN THE FIRST HALF YEAR OF 2007**

Report of the Management Board on the activities of  
**Dom Development S.A. Capital Group**  
in the first half year of 2007

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## INTRODUCTION

The holding company of Dom Development S.A. Capital Group (the „Group”) is the joint-stock company Dom Development S.A. („the Company” / „the holding company”). The Company has been entered into the National Court Register under number 0000031483, District Court for the capital city of Warsaw, 19th 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 2007 Dom Development B.V. controlled 63.10% of the Company’s shares. The Company's minority shareholders with more than 5% of shares are Jarosław Szanacja with 7.16% and Grzegorz Kiełpsz with 5.74%.

### 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 2007.

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

As at June 30, 2007, 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: 49,26% stake in the share capital,
- Dom Development Grunty sp. z o.o. with its registered seat in Warsaw: 46% stake in the share capital.

In the period of twelve months ended on 31 December 2006 the Group did not discontinue any of its operations.

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**2. The area of activity of Dom Development S.A. Capital Group**

The main area of activity of the companies comprising the Group is the construction and sale of residential real estate. The activities of the Group are conducted in Warsaw and in its vicinity. The development projects are usually conducted by Dom Development S.A. In the event when the projects are conducted by special purpose entities created only for the purpose of those projects (Dom Development Morskie Oko sp. z o.o. – a subsidiary and Fort Mokotów sp. z o.o. – jointly controlled company), Dom Development S.A. supervises the completion of the construction investments and sales.

The main area of activity of the associated entity Towarzystwo Ubezpieczeń Wzajemnych “Bezpieczny Dom”, is financial risk insurance.

In the period of six months ended on 30 June 2007 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, 2007.**

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

	1 <sup>st</sup> half of 2007	1 <sup>st</sup> half of 2006	Change
Sales revenue .....	401,886	348,989	15%
Selling costs .....	14,109	10,441	35%
Overheads .....	24,788	17,405	42%
Operating earnings .....	109,886	73,004	51%
EBITDA.....	110,924	73,801	50%
<b>Profit after tax .....</b>	<b>92,104</b>	<b>57,947</b>	59%
Earnings per share (PLN)	3.75	2.65	42%

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

	30.06.2007	31.12.2006	Change
Total assets.....	1,028,497	923,923	11%
Fixed assets.....	26,913	17,046	58%
Current assets, including: .....	1,001,584	906,877	10%
Inventory.....	759,201	594,865	28%
Trade and other receivables .....	32,783	60,808	-46%
Other current assets.....	7,113	23,670	-70%
Cash and cash equivalents.....	202,487	227,535	-11%

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

	30.06.2007	31.12.2006	Change
Total shareholders' equity and liabilities.....	1 028 497	923 923	11%
Share capital.....	24 560	24 050	2%
Shareholders' equity.....	585 097	491 882	19%
Total liabilities .....	443 400	432 041	3%
Long-term liabilities.....	164 056	154 815	6%
Short-term liabilities.....	279 344	277 227	1%

**4. Material events and description of Group's activities**

Within the period of six months ending on June 30, 2007, the Group was continuing its development activities consisting of building and selling residential real estates. The construction works are conducted according to the general contracting system and the works are contracted to specialized outside construction companies.

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

- current projects during their implementation, both in relation to the progress of construction works and current and anticipated sales revenues,
- the best manner in which the plots of land from the land-bank may be used,
- the plots of land which may be bought in order to be used during the subsequent development projects - also in major Polish cities other than Warsaw - conducted in the following years.

**During the first half-year of 2007 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>
Olimpia 2 phase 3.....	popular	116
Derby 7 phase 1/2 .....	popular	127

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

<i>plan</i>	<i>segment</i>	<i>Number of apartments</i>
Derby 15.....	popular	277
Olbrachta phase 1.....	popular	243
Olimpia 2 phase 5.....	popular	63
Derby 17.....	popular	185

**5. Future investments**

As at June 30, 2007, the Group intended to implement 36 new development plans.

<i>segment</i>	<i>Number of apartments</i>
popular.....	5,783
apartments of higher standard.....	384
luxury apartments.....	11
single-family houses.....	128

**6. Liabilities on account of loans, borrowings and bonds**

The total amount of unpaid loans, borrowings and bonds amounted to PLN 201,212 thousand as at June 30, 2007.

Detailed information concerning the foregoing liabilities is presented in note 14 and 16 of the consolidated financial statements as at June 30, 2007.

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**7. Finance management**

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

	30.06. 2007	31.12. 2006	Change
Total assets.....	1,028,497	923,923	11%
Shareholders' equity.....	585,097	491,882	19%
Total liabilities.....	443,400	432,041	3%
Long-term liabilities.....	164,065	154,815	6%
Long-term loans and borrowings and bonds.....	95,691	102,200	-6%
Short-term loans and borrowings.....	105,521	98,915	7%
Asset/equity ratio.....	57%	53%	
Total debt ratio.....	43%	47%	
Long-term debt ratio.....	28%	31%	
Short-term debt ratio.....	48%	56%	
Debt-to-capital ratio.....	76%	88%	
Current ratio 1.....	3.59	3.27	
Quick ratio 2.....	0.87	1.13	
Cash ratio 3.....	0.72	0.82	

Within the period of six months ending on June 30, 2007, 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, 2007 guarantees to a large degree that the Group will be able to pay its liabilities.

**Consolidated cash flows (in thousand PLN)**

	1 <sup>st</sup> half of 2007	1 <sup>st</sup> half of 2006	Change
Cash and cash equivalents – opening balance .....	227,535	73837	208%
Net cash flow from operating activities.....	(20,383)	73,450	n/a
Net cash flow from investing activities.....	(1,514)	(946)	n/a
Net cash flow from financing activities.....	(3,151)	1,961	n/a
Cash and cash equivalents – closing balance .....	202,437	148,302	37%

**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 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.

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**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, with a large living space that does not meet definition of the “social housing”, may increase from 7% to 22%. At present there is a lack of final regulations both in Polish and European law regarding this matter. There is also a risk that after initial increase in the demand, prior to the expected increase of VAT, the demand decrease or that part of the cost will be shifted to the developer.

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, 2007, there were no changes in the management of the Company and the Group.

**10. The Management Board and the Supervisory Board**

Composition of the Management Board of the holding entity of the Group as at 30 June 2007

Jarosław Szanajca	– President of the Management Board
Janusz Zalewski*	– Vice-President of the Management Board
Grzegorz Kiełpsz	– Vice-President of the Management Board
Janusz Stolarczyk	– Member of the Management Board
Terry Roydon	– Member of the Management Board

\* On 26 April 2007, Mr. Janusz Zalewski, the Vice-President of the Company’s Management Board, resigned from the function of the Vice-President of the Management Board. Mr Janusz Zalewski will hold the function of the Vice-President of the Management Board until 28 September 2007.

On 29 December 2006 all members of the Supervisory Board were appointed for a joint three-year term.

Composition of the Supervisory Board of the Company as at 30 June 2007

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



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Włodzimierz Bogucki – Member of the Supervisory Board

On 29 December 2006 all members of the Supervisory Board were appointed for a joint three-year term.

**11. Company's share capital**

As at 30 June 2007, the share capital's structure was as follows:

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

As at 30 June 2007 the Company was controlled by Dom Development B.V. with its registered office in Holland, which held 63.10% of the Company's shares. The minority shareholders holding more than 5% of shares are Jarosław Szanajca – 7.16% and Grzegorz Kielpsz – 5.74%.

Detailed information on the Company's shares is described in note 11 of the consolidated financial statements prepared for the period of six months, ending on 30 June 2007.

**12. Share options**

In the period of six months, ending on 30 June 2007, any allocation of the share options did not took place as part of the Programme of Management Options, related to the shares of Dom Development S.A..

Detailed information on the share options of the Company as part of the Programme of Management Options is described in the note 38 of the consolidated financial statements prepared for the period ending on 30 June 2007.

**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 37 to the consolidated financial statements for the period ending on 30 June 2007.

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**14. Material events after 30 June 2007**

On 19 July 2007, Dom Development S.A. concluded with Archicom Projekt 8 Sp. z o.o. an agreement for the purchase of perpetual usufruct right to the land belonging to Wrocław municipality, located in Wrocław at Nyska Street with the area of approximately 1.9 hectare. The Company plans to execute on this land a real estate development project consisting of approximately 500 apartments with the total value of about PLN 200,000,000. The Company plans to start executing this project at the end of 2008.

Dom Development S.A. purchased the land real property for about PLN 92 million for the construction of almost 1,600 apartments at Kępa Gocławska in Warsaw. The area of the purchased land is 67,244 m<sup>2</sup> and is located near Bora-Komorowskiego Street, N-S Expressway and Anińska Expressway. The Company plans to execute on this land a real estate development project with the total value of about PLN 745,000,000. The Company plans to start executing this project in spring 2009.

On 28 August 2007, the Company exercised the CALL option under the Agreement for Servicing and Guaranteeing Bond Issue of 22 June 2004 concluded with PKO BP S.A. and BOŚ S.A. Consequently, the Company purchased 250 Series A Bonds in order to redeem them. The average unit purchase price (nominal value and interest) amounts to PLN 201,547.44, whereas the nominal value of 1 bond amounts to PLN 200,000.00. The total value of the purchased bonds amounts to PLN 50,386,860.00.

*Warsaw, 11 September, 2007*

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Jarosław Szanajca, President of the Management Board

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Grzegorz Kielpsz, Vice-President of the Management Board

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Janusz Zalewski, Vice-President of the Management Board

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Janusz Stolarczyk, Member of the Management Board

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Terry R. Roydon, Member of the Management Board