



Management Board's Report of activities of

DOM DEVELOPMENT S.A. CAPITAL GROUP

in the first half of 2012



CONTENTS

APPROVAL BY THE MANAGEMENT BOARD OF THE MANAGEMENT BOARD'S REPORT OF ACTIVITIES OF DOM DEVELOPMENT S.A. CAPITAL GROUP IN THE FIRST HALF OF 2012.....	2
INTRODUCTION.....	3
1. STRUCTURE and activities OF DOM DEVELOPMENT S.A. CAPITAL GROUP	3
1.1. Group's Structure	3
1.2. Activities of the Company and the Group	3
2. BASIS FOR THE DRAFTING OF THE CONDENSED consolidated FINANCIAL STATEMENTS	4
3. BASIC ECONOMIC AND FINANCIAL FIGURES DISCLOSED IN THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS OF THE GROUP FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2012	4
3.1. Selected data from the consolidated income statement.....	4
3.2. Selected data from the consolidated balance sheet, assets.....	4
3.3. Selected data from the consolidated balance sheet, liabilities	5
4. MATERIAL EVENTS AND DESCRIPTION OF GROUP'S ACTIVITIES IN THE FIRST HALF OF 2012	5
5. CURRENT AND FUTURE DEVELOPMENT PROJECTS.....	6
6. FINANCE MANAGEMENT.....	6
6.1. Assets financing structure in the Group.....	6
6.2. Consolidated cash flows.....	6
7. DESCRIPTION OF SIGNIFICANT RISK FACTORS AND FACTORS IMPORTANT FOR DEVELOPMENT OF THE DOM DEVELOPMENT S.A. CAPITAL GROUP	7
7.1. Macroeconomic factors	7
7.2. Availability of mortgages	7
7.3. Foreign exchange risk.....	7
7.4. Concentration of operations in the Warsaw market.....	7
7.5. Opportunity to purchase land for new projects	7
7.6. Administrative decisions.....	8
8. THE MANAGEMENT BOARD AND THE SUPERVISORY BOARD	8
8.1. Composition of the Management Board of the Group's parent company as at 30 June 2012.....	8
8.2. Composition of the Supervisory Board of the Group's parent company as at 30 June 2012.....	8
9. LIST OF SHAREHOLDERS	9
10. SHAREHOLDING IN THE DOM DEVELOPMENT S.A. AND SHARE OPTIONS	9
11. FORECASTS.....	9
12. PROCEEDINGS BEFORE COURT, ARBITRATION OR PUBLIC ADMINISTRATION AUTHORITY	10
13. TRANSACTIONS WITH RELATED ENTITIES	10



APPROVAL BY THE MANAGEMENT BOARD OF THE MANAGEMENT BOARD'S REPORT OF ACTIVITIES OF DOM DEVELOPMENT S.A. CAPITAL GROUP IN THE FIRST HALF OF 2012

This Management Board's report of activities of Dom Development S.A. Capital Group in the first half of 2012 was drafted and approved by the Management Board of the Company on 22 August 2012.

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 S.A. 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 market, where the Group operates.

The Company is a majority-owned subsidiary of Dom Development B.V. with its registered office in the Netherlands. As at 30 June 2012 the Company was controlled by Dom Development B.V. which held 61.64% of the Company's shares.

1. STRUCTURE AND ACTIVITIES OF DOM DEVELOPMENT S.A. 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 2012 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. under liquidation	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. under liquidation	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 2012:

- 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 S.A. 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 Group for the year ended 31 December 2011, except for the following amendments to existing standards and new interpretations that are effective for annual periods beginning on 1 January 2012 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 2012

3.1. Selected data from the consolidated income statement

	(in thousand PLN)		Change
	H1 2012	H1 2011	
Sales revenue	308 047	166 193	85.4%
Selling costs	(19 130)	(17 967)	6.5%
General administrative expenses	(23 611)	(23 030)	2.5%
Operating profit	37 603	9 116	312.5%
EBITDA/sales revenue ratio	12.7%	6.2%	105.4%
Net profit	30 219	6 569	360.0%
Earnings per share (PLN)	1.23	0.29	324.1%

3.2. Selected data from the consolidated balance sheet, assets

	(in thousand PLN)		Change
	30.06.2012	31.12.2011	
Total assets	1 986 757	1 916 100	3.7%
Fixed assets	8 260	7 505	10.1%
Current assets, including:	1 978 497	1 908 595	3.7%
Inventory	1 473 685	1 465 828	0.5%
Trade and other receivables	31 477	49 271	(36.1)%
Other current assets	4 392	13 249	(66.9)%
Cash and cash equivalents	468 943	380 247	23.3%

3.3. Selected data from the consolidated balance sheet, liabilities

	(in thousand PLN)		Change
	30.06.2012	31.12.2011	
Total equity and liabilities	1 986 757	1 916 100	3.7%
Share capital	24 670	24 560	0.4%
Shareholders' equity	830 475	835 069	(0.6)%
Total liabilities	1 156 282	1 081 031	7.0%
Long-term liabilities	481 035	320 593	50.0%
Short-term liabilities	675 247	760 438	(11.2)%

4. MATERIAL EVENTS AND DESCRIPTION OF GROUP'S ACTIVITIES IN THE FIRST HALF OF 2012

In the six-month period ended 30 June 2012 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 2012 the following material changes in the portfolio of the Group's investments under construction took place:

Projects commenced in the first half of 2012:

Project	Standard	Number of apartments
Derby 14, phase 2	Popular	154
Derby 14, phase 3	Popular	189
Klasyków 1, phase 2	Popular	236
Młyny Królewskie	Popular	294
Saska 1, phase 3/1	Popular	159
Wilno, phase 2B	Popular	124
Wilno, phase 4	Popular	109

Projects ended (completed) the first half of 2012:

Project	Standard	Number of apartments
Klasyków 1, phase 3	Popular	187
Przy Ratuszu	Popular	465
Regaty, phase 5	Popular	180
Saska 1, phase 2/1	Popular	190
Wilno, phase 1A	Popular	130
Wilno, phase 1B	Popular	84
Opera B	Luxury apartments	325

5. CURRENT AND FUTURE DEVELOPMENT PROJECTS

As at 30 June 2012, the projects under development account for 2 939 apartments in total. The new development projects for 7 275 apartments in total are defined and planned by the Group.

6. FINANCE MANAGEMENT

6.1. Assets financing structure in the Group

	(in thousand PLN)		Change
	30.06.2012	31.12.2011	
Total assets	1 986 757	1 916 100	3.7%
Shareholders' equity	830 475	835 069	(0.6)%
Total liabilities	1 156 282	1 081 031	7.0%
Long-term liabilities	481 035	320 593	50.0%
Short-term liabilities	675 247	760 438	(11.2)%
Long-term loans and bonds	430 000	260 000	65.4%
Short-term loans and bonds	58 178	229 354	(74.6)%
<u>Leverage ratios</u>			
Equity ratio <i>shareholders' equity / total assets</i>	41.8%	43.6%	(4.1)%
Debt to equity ratio <i>total liabilities / shareholders' equity</i>	139.2%	129.5%	7.6%
Debt ratio <i>total liabilities / total assets</i>	58.2%	56.4%	3.2%
Interest bearing debt ratio <i>interest bearing liabilities / shareholders' equity</i>	58.8%	58.6%	0.3%
Net interest bearing debt ratio <i>interest bearing liabilities less cash and cash equivalents / shareholders' equity</i>	(4.7)%	(7.6)%	(38.0)%
<u>Liquidity ratios</u>			
Current ratio <i>current assets / short-term liabilities less deferred income</i>	7.7	4.4	74.4%
Quick ratio <i>current assets less inventory / short-term liabilities less deferred income</i>	2.0	1.0	91.8%
Cash ratio <i>cash and cash equivalents / short-term liabilities less deferred income</i>	1.8	0.9	107.4%

The Company and the entire Group were in good financial standing in the six-month period ended 30 June 2012. 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 2012, 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 2012	H1 2011	
Cash and cash equivalents – opening balance	380 247	434 691	(12.5)%
Net cash flow from operating activities	130 835	(89 252)	n/d
Net cash flow from investing activities	(2 230)	(24)	n/d
Net cash flows from financing activities	(39 909)	(117 969)	n/d
Cash and cash equivalents – closing balance	468 943	227 446	106.2%

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

Significant risk factors and threats to the business activity conducted by the Company and the Group in the second half of 2012 as identified by the Management Board have been presented below.

7.1. Macroeconomic factors

The macroeconomic situation significantly affects the area of operation of the Group. The Polish economy is relatively stable as compared to other European Union countries. However we are of the opinion that the development perspectives in the domestic market are significantly affected by the performance of the market in other countries within the Community. Uncertainty as to the future of euro zone countries, despite gradual GDP growth and a slight reduction in unemployment, adversely impacts the willingness of potential customers to buy apartments. Difficulties faced by the construction industry may also have a major impact on the operations of the Company.

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

There has been a significant drop in the availability of loans in foreign currencies since the beginning of 2012. Some banks abandoned extending such loans, while others tightened requirements for potential borrowers, and provide foreign currency loans at higher margins than previously.

A great deal of foreign currency loans are mortgages. This brings about the risk of borrower insolvency, and therefore more apartments seized by the banks being put on the market, where a decline in demand from potential buyers who will not be granted a mortgage, is observed.

The historic foreign currency loans that were taken at lower exchange rates than they are at the present due to PLN depreciation against EUR or CHF, sometimes exceed the real value of the properties bought that constitute security for mortgages.

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 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 and is preparing to commence the next one.

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. Capital Group 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 2012

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 2012

Grzegorz Kiełpsz, Chairman of the Supervisory Board
Markham Dumas, Vice Chairman of the Supervisory Board
Marek Moczulski – Wiceprzewodniczący Rady Nadzorczej
Michael Cronk, Member of the Supervisory Board
Mark Spiteri, Member of the Supervisory Board
Włodzimierz Bogucki, Member of the Supervisory Board
Krzysztof Grzyliński, Member of the Supervisory Board

Mr. Richard Lewis resigned from the position of Member and Chairman of the Supervisory Board of the Company on 28 November 2011, with effect on 31 March 2012. The reason for the resignation of Mr. Richard Lewis is his retirement effective on 31 March 2012.

Consequently, on 1 April 2012 Mr. Mark Spiteri was appointed as a Member of the Supervisory Board and Mr. Markham Dumas who was a Member of the Supervisory Board was appointed as the Vice Chairman 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 2012 are presented in the table below.

	Status as at the date of drafting of the report				Change in the period from publication of the report for the year ended 31.12.2011
	Shares	% of capital	Number of votes at the GSM	% of votes at the GSM	Shares
Dom Development B.V.	15 206 172	61.64	15 206 172	61.64	-
Jarosław Szanajca	1 534 050	6.22	1 534 050	6.22	-
Aviva Powszechne Towarzystwo Emerytalne Aviva BZ WBK SA *)	1 313 383	5.32	1 313 383	5.32	no data
Grzegorz Kiępsz	1 280 750	5.19	1 280 750	5.19	-

*) 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 2012 are presented in the table below.

	Status as at the date of drafting of the report			Change in the period from publication of the report for the year ended 31.12.2011	
	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	40 363	78 634	118 997	31 000	(31 000)
Janusz Stolarczyk	115 200	49 447	164 647	15 000	(15 000)
Terry Roydon	58 500	61 767	120 267	-	-
The Supervisory Board					
Grzegorz Kiępsz	1 280 750	-	1 280 750	-	-
Markham Dumas	5 000	-	5 000	-	-
Mark Spiteri	511	12 330	12 841	-	-

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 2012 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 2012 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 2012, the Company was a party to proceedings concerning liabilities and receivables, the total value of which was approx. PLN 15 912 thousand, including the total value of proceedings concerning liabilities at approx. PLN 15 384 thousand and the total value of proceedings concerning receivables at approx. PLN 527 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 7.18 to the interim condensed consolidated financial statements for the period ended 30 June 2012.