Management Board's Report of activities of

DOM DEVELOPMENT S.A. CAPITAL GROUP

in the first half of 2013

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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 2013

This Management Board's report of activities of Dom Development S.A. Capital Group in the first half of 2013 was drafted and approved by the Management Board of the Company on 20 August 2013.

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 S.A. 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 2013 the Company was controlled by Dom Development B.V. which held 61.46% 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 2013 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%	equity method

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 2013:

- 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 prepared 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 prepare 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 prepared 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 2012, except for the following amendments to existing standards and new interpretations that are effective for annual periods beginning on 1 January 2013 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 2013

3.1. Selected data from the consolidated income statement

	(in thousand PLN)		Change
	H1 2013	**H1 2012**	
Sales revenue	340 190	308 047	10.4%
Gross profit on sales	78 721	82 875	(5.0)%
Selling costs	(21 175)	(19 130)	10.7%
General administrative expenses	(20 856)	(23 611)	(11.7)%
Operating profit	34 854	37 603	(7.3)%
EBITDA / sales revenue ratio	10.7%	12.7%	(15.5)%
Net profit	27 350	30 219	(9.5)%
Earnings per share (PLN)	1.11	1.23	(9.8)%

3.2. Selected data from the consolidated balance sheet, assets

	(in thousand PLN)		Change
	30.06.2013	**31.12.2012**	
Total assets	1 658 362	1 759 690	(5.8)%
Fixed assets	8 312	8 236	0.9%
Current assets, including:	1 650 050	1 751 454	(5.8)%
Inventory	1 261 886	1 305 568	(3.3)%
Trade and other receivables	32 570	27 980	16.4%
Other current assets	5 079	7 219	(29.6)%
Cash and cash equivalents and Short-term financial assets	350 515	410 687	(14.7)%

3.3. Selected data from the consolidated balance sheet, liabilities

	(in thousand PLN)		Change
	30.06.2013	31.12.2012	
Total equity and liabilities	1 658 362	1 759 690	(5.8)%
Share capital	24 741	24 715	0.1%
Shareholders' equity	829 123	892 401	(7.1)%
Total liabilities	829 239	867 289	(4.4)%
Long-term liabilities	487 724	452 686	7.7%
Short-term liabilities	341 515	414 603	(17.6)%

4. MATERIAL EVENTS AND DESCRIPTION OF GROUP'S ACTIVITIES IN THE FIRST HALF OF 2013

In the six-month period ended 30 June 2013 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 2013 the following material changes in the portfolio of the Group's investments under construction took place:

Projects commenced in the first half of 2013:

Project	Standard	Number of apartments
Saska I, phase 3/3	Popular	170
Żoliborz Artystyczny, phase 1	Popular	223
Saska I, phase 3/4	Popular	178
Żoliborz Artystyczny, phase 2	Popular	152
Derby 14, phase 4	Popular	188

Projects ended (completed) the first half of 2013:

Project	Standard	Number of apartments
Regaty, phase 6	Popular	160
Wilno, phase 3	Popular	132
Oaza, phase 2	Popular	130

5. CURRENT AND FUTURE DEVELOPMENT PROJECTS

As at 30 June 2013, the projects under development account for 2 612 apartments in total. The new development projects for 6 311 apartments in total are defined and planned by the Group.

6. FINANCE MANAGEMENT

6.1. Assets financing structure

	(in thousand PLN)		Change
	30.06.2013	**31.12.2012**	
Total assets	1 658 362	1 759 690	(5.8)%
Shareholders' equity	829 123	892 401	(7.1)%
Total liabilities	829 239	867 289	(4.4)%
Long-term liabilities	487 724	452 686	7.7%
Short-term liabilities	341 515	414 603	(17.6)%
Long-term loans and bonds	447 000	397 000	12.6%
Short-term loans and bonds	33 000	33 000	-%
Leverage ratios			
Equity ratio *shareholders' equity / total assets*	50.0%	50.7%	(1.4)%
Debt to equity ratio *total liabilities / shareholders' equity*	100.0%	97.2%	2.9%
Debt ratio *total liabilities / total assets*	50.0%	49.3%	1.5%
Interest bearing debt ratio *interest bearing liabilities (including accrued interest) / shareholders' equity*	58.5%	48.7%	20.3%
Net interest bearing debt ratio *interest bearing liabilities (including accrued interest) less cash and cash equivalents, and bank deposits with a maturity of over 3 month / shareholders' equity*	16.2%	2.6%	513.8%
Liquidity ratios			
Current ratio *current assets / short-term liabilities less deferred income*	9.80	9.86	(0.5)%
Quick ratio *current assets less inventory / short-term liabilities less deferred income*	2.31	2.51	(8.1)%
Cash ratio *cash and cash equivalents / short-term liabilities less deferred income*	2.08	2.31	(9.9)%

The Company and the entire Group were in good financial standing in the six-month period ended 30 June 2013. 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 2013, 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 2013	**H1 2012**	
Cash and cash equivalents – opening balance	175 918	380 247	(53.7)%
Net cash flow from operating activities	(17 768)	130 835	na.
Net cash flow from investing activities	231 449	(2 230)	na.
Net cash flows from financing activities	(40 543)	(39 909)	na.
Cash and cash equivalents – closing balance	349 056	468 943	(25.6)%

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 2013 as identified by the Management Board are presented below.

7.1. Macroeconomic factors

The Group's business activities are significantly affected by global developments, and in particular by their impact on the Polish economy. The business activities of the Group are affected by the following macroeconomic factors, which have an impact on the state of the Polish economy: GDP, level of investments, household income, interest rates, inflation, unemployment and the condition of the real estate development and construction industries, and the real estate market.

The operations of the Group may be favourably affected by the historically low interest rates in Poland, and in turn by the lower cost of capital. In H2 2013 a key macroeconomic factor that will affect the performance of the Group is the situation in the labour market. New jobs and an increase in the security of employment may significantly improve willingness to buy a real property and take out a mortgage.

7.2. Availability of mortgages

The drop in interest rates has favourably impacted the creditworthiness of customers. As compared to H1 2012, a mortgage instalment fell by ca. PLN 150 per each one hundred thousand PLN borrowed for a period of 30 years. This notably improved the creditworthiness of customers.

On the other hand, uncertainty in the construction and development market has translated into lending obstructions for the purchase of an apartment from an investor who is negatively rated by a bank, in particular in the early stages of the development.

7.3. Foreign exchange risk

There has been a significant drop in the availability of loans in foreign currencies in 2013. Some banks have abandoned extending such loans, while others have 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 of potential buyers who are not able to obtain such loans is observed.

Past foreign currency loans that were taken at lower exchange rates than they are at present due to PLN depreciation against EUR or CHF, sometimes exceed the real value of the properties bought that constitute security for the 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 has 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 is currently running its first project in the Wrocław market and is preparing to commence another 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 at competitive prices. This will allow the generation of satisfying project contributions.

7.6. Administrative decisions

The nature of real estate development projects requires a number of licenses, permits and arrangements to be obtained by the Company at every stage of the development process. Despite significant caution applied in the project execution schedules there is always a risk of delay in their obtainment, challenges to decisions which have already been issued (also due to appeals with no consequences for appellants) or even failure 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 this 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 2013

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 2013

Grzegorz Kiełpsz, Chairman of the Supervisory Board
Markham Dumas, Vice Chairman of the Supervisory Board
Marek Moczulski, Vice Chairman of the Supervisory Board
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

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 2013 are presented in the table below.

	Status as at the date of drafting of this 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	61.46	15 206 172	61.46	-
Jarosław Szanajca	1 534 050	6.20	1 534 050	6.20	-
Aviva Powszechne Towarzystwo Emerytalne Aviva BZ WBK SA *)	1 313 383	5.31	1 313 383	5.31	no data
Grzegorz Kiełpsz	1 280 750	5.18	1 280 750	5.18	-

*) 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 preparing of this Management's Report of Activities of the Group in the first half of 2013 are presented in the table below.

	Status as at the date of drafting of this report			Change in the period from publication of the report for the year ended 31.12.2012	
	Shares	**Share options**	**Total**	**Shares**	**Share options**
The Management Board					
Jarosław Szanajca	1 534 050	-	1 534 050	-	-
Janusz Zalewski	300 000	103 534	403 534	-	-
Jerzy Ślusarski	5 363	78 634	83 997	-	-
Janusz Stolarczyk	105 200	49 447	154 647	-	-
Terry Roydon	58 500	61 767	120 267	-	-
The Supervisory Board					
Grzegorz Kiełpsz	1 280 750	-	1 280 750	-	-
Markham Dumas	-	-	-	(5 000)	-
Mark Spiteri	711	12 330	13 041	-	-

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 2013 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 2013 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 2013, the Company was a party to proceedings concerning liabilities and receivables, the total value of which was approx. PLN 17 685 thousand, including the total value of proceedings concerning liabilities at approx. PLN 15 890 thousand and the total value of proceedings concerning receivables at approx. PLN 1 794 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 2013.