



Report of the Management Board  
on the activities  
of Dom Development S.A.  
in 2006

Warsaw, 8 March 2007

## INTRODUCTION

A joint stock company Dom Development S.A. („the Company”) is the holding company of Capital Group Dom Development S.A (the „Group”). 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).

A joint stock company Dom Development S.A. 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, which as at 31 December 2006 held 64.43% shares of the Company.

### 1. Activity of Dom Development S.A. and 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 31 December 2006.

Entity name	Country of registration	% 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. ....	Poland	100%	100%	full consolidation
Dom Development Morskie Oko sp. z o.o. ....	Poland	100%	100%	full consolidation
Dom Development – Zarządzanie Nieruchomościami sp. z o.o. ....	Poland	100%	100%	full consolidation
<b>Joint-venture</b>				
Fort Mokotów sp. z o.o. ....	Poland	49%	49%	proportionate consolidation
<b>Associated entities</b>				
Towarzystwo Ubezpieczeń Wzajemnych „Bezpieczny Dom” ....	Poland	49.26%	49.26%	Equity method
Dom Development Grunty sp z o.o. ....	Poland	46%	46%	Equity method
PTI sp. z o.o. ....	Poland	48%	48%	Equity method

The main area of activity of the Company is the construction and sale of residential real estate. Almost all development projects Dom Development S.A. are conducted directly within the Company. In 2006 only one project – Marina Mokotów – was executed by a jointly-controlled entity Fort Mokotów sp. z o.o.

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

## 2. Information on the main products of Dom Development S.A.

The main aim of the Company has always been construction of affordable flats from the so-called popular segment. The Company's offer is supplemented with upper market segment products.

Currently, the Company's product mix is as follows:

- Multi-family buildings (flats and apartments), which can be divided into the following market segments:
  - *Popular flats* – flats in residential buildings and housing estates usually located outside the Warsaw's strict city center, which normally house at least 200 flats at the price of PLN 7,000 per square meter and with the average area of 56 m<sup>2</sup>.
  - *Apartments of higher standard* – apartments in residential buildings or small groups of buildings located in the Warsaw's city center and in popular residential districts (Żoliborz, Mokotów, Śródmieście, Ochota) housing 250 apartments whose price ranges from PLN 6,000 to 15,000 per square meter and with average area of approximately 75 m<sup>2</sup>.

Flats in the popular and higher standard segments are offered in the unfinished standard and the buyers conducts the finishing work on their own. As an alternative, various „turn key” finishing options are offered, which cover the majority of finishing work.

- *Luxury apartments* – apartments in residential buildings located in the Warsaw's strict city center or in old Mokotów, adjacent to attractive green areas and parks, housing 100 apartments at the price exceeding PLN 15,000 per m<sup>2</sup>.
- *Commercial area* – mainly shops constructed by the Company as part of residential buildings. The revenues from sales of such area account for an insignificant part of the total revenue, but they enable the Company to offer residents such facilities as shops which increase the attractiveness of a given project.
- Single-family houses (detached houses, semi-detached houses and row houses).

In addition, the Company's tasks include managing the housing estates constructed as part of the development projects conducted by the Group. This management is limited in time and lasts until the housing association is formed which take over this activity from the Company.

In 2006 the Company's revenue from the sale of products and services related to real estate management were as follows:

STRUCTURE OF REVENUES	01.01- -31.12.2006 thousand PLN	01.01- -31.12.2005 thousand PLN	Change 2006/2005
Revenues from the sale of finished goods .....	546,731	312,612	74.9%
Revenues from the sale of services related to real estate management.....	19,687	14,044	40.2%
Revenues from other sales .....	14,024	15,167	(7.5%)
Total .....	580,442	341,823	69.8%

### 3. Basic economic and financial data disclosed in the annual financial statements of Dom Development S.A. for 2006.

#### Balance sheet

Structure of the Company's assets as at 31 December 2006 and changes as compared to the state as at the end of 2005

ASSETS	31.12.2006	Share in assets	31.12.2005	Change 2006/2005
	thousand PLN		thousand PLN	
Total fixed assets .....	16,549	1.9%	18,667	(11.3%)
Current assets				
Inventory .....	588,586	68.7%	340,743	72.7%
Trade and other receivables .....	60,745	7.1%	87,073	(30.2%)
Other current assets .....	13,572	1.6%	23,815	(43.0%)
Cash and cash equivalents .....	177,035	20.7%	31,492	462.2%
Total current assets .....	839,939	98.1%	483,122	73.9%
Total assets .....	856,488	100.0%	501,789	70.7%

Structure of the Company's liabilities as at 31 December 2006 and changes as compared to the state as at the end of 2005

EQUITY AND LIABILITIES	31.12.2006	Share in liability	31.12.2005	Change 2006/2005
	thousand PLN		thousand PLN	
Shareholders' equity				
Share capital .....	24,050	2.8%	21,854	10.0%
Share premium less treasury shares .....	230,371	26.9%	10,820	2,029.1%
Reserve capital, supplementary capital and accumulated, unappropriated profit (loss) .....	197,256	23.0%	79,301	148.7%
Total shareholders' equity .....	451,677	52.7%	111,976	303.4%
Liabilities				
Long-term liabilities .....	142,655	16.7%	153,907	(7.3%)
Total short-term liabilities .....	262,156	30.6%	235,907	11.1%
Total liabilities .....	404,811	47.3%	389,814	3.8%
Total equity and liabilities .....	856,488	100.0%	501,789	70.7%

#### Income Statement

Consolidated income statement of the Company for the year ended on 31 December 2006 as compared to 2005

	01.01- -31.12.2006	% of sales	01.01- -31.12.2005	Change 2006/2005
	thousand PLN		thousand PLN	
Sales revenues .....	580,442	100.0%	341,823	69.8%
Cost of sales .....	390,948	67.4%	248,403	57.4%
Gross profit on sales .....	189,494	32.6%	93,420	102.8%
Operating profit .....	126,089	21.7%	40,567	210.8%
Profit before tax .....	141,100	24.3%	32,616	332.6%
Profit after tax .....	115,939	20.0%	25,898	347.7%
Earnings per share (PLN/share)	5.20 zł	N/A	PLN 1.19	337.0%

## Cash Flow Statement

Cash as of the beginning of 2006 amounted to PLN 31,492 thousand and at the end of the year it amounted to PLN 177,035 thousand. It means that in the period 1 January - 31 December 2006 the balance of cash increased by the amount of PLN 145,544 thousand.

In 2006 the Company recorded the net cash disbursement in the amount of PLN 68,458 thousand from the operating activity. Such a result is the consequence of high financial result and significant income from sales of flats, which was accompanied by a very significant increase in the inventory, and mainly outlays for land designated for future investment projects.

In 2006 the Company recorded the net cash income in the amount of PLN 12,507 thousand from investment activity.

In 2006 the Company recorded the net cash income in the amount of PLN 201,495 thousand from the financial activity. Such a significant surplus of financial income over disbursements is mainly due to the issue of new shares of the Company during its first quotation at the Warsaw Stock Exchange.

## 4. Explanation of differences between the financial results disclosed in the annual financial statements and the forecasts for 2006 published earlier

Dom Development S.A. did not publish financial forecasts for 2006.

## 5. Managing financial resources of the Company.

Managing financial resources of Dom Development S.A. in 2006 in connection with the conducted construction of residential buildings was focused on looking for sources of financing for the projects under construction and on maintaining safe liquidity ratios. The Management Board analyses the current and plans the future optimum financing structure on a regular basis in order to achieve the anticipated ratios and financial results, and, at the same time, ensure liquidity and broadly understood financial safety of the Company. In 2006 the Company's activity generated a positive result at each level of the income statement.

According to the Management Board, the asset situation and financial standing of Dom Development S.A. at the end of 2006 confirm that the Company's financial standing is stable and the prospects for the near future are optimistic. It results from the fact that the Company has secured an established position in the housing market gaining appropriate experience and operating potential both in terms of execution of investment projects itself and the sale and financing these projects. Another reason for optimistic forecasts is the current economic boom, which directly affects the market of residential real estate in Poland. In particular, it concerns the Warsaw market, which, to a larger extent than other Polish cities, attracts both domestic and foreign investors.

## Profitability ratios

The ratios showing profitability of the activity conducted as part of the Company in 2006 are significantly better as compared to the previous year. Operating profitability ratio shows a significant appreciation, which confirms that the effectiveness of the core activity has improved. The increase of the net profit also resulted in a significant improvement of the net profitability ratio.

Also the ratios presenting the profitability of the balance sheet items – return on assets (ROA) and return on equity (ROE) are very positive. In particular ROE reached a very high level despite the two and a half-fold increase in the shareholders' equity.

PROFITABILITY RATIOS	2006	2005
Operating profit margin ratio		
<i>EBITDA / Net sales revenues</i> .....	22.0%	12.3%
Net profit margin ratio		
<i>Profit after tax / sales revenues</i> .....	20.0%	7.6%
Return on assets (ROA)		
<i>Profit after tax / total assets</i> .....	13.5%	5.2%
Return of equity (ROE)		
<i>Profit after tax / shareholders' equity</i> .....	25.7%	23.1%

#### Liquidity ratios

All the liquidity ratios remain at a very high level, even higher than in 2005. Such a state of affairs was mainly due to the good results of the Company and the sales margins achieved, as well as the Management Board's policy related to financing of the executed investment projects, including the new issue of shares and the first quotation of Dom Development S.A. at the stock exchange. The Company's reliability on the financial markets keeps strengthening, which is confirmed by a diversified structure of banks financing the Company's activity.

LIQUIDITY RATIOS	2006	2005
Current ratio		
<i>current assets / short-term liabilities</i> .....	3.20	2.05
Quick ratio		
<i>current assets – inventory) / short-term liabilities</i> .....	0.96	0.60
Cash ratio		
<i>cash / short-term liabilities</i> .....	0.68	0.13

#### Debt ratios

Thanks to appropriate operating and financial policy (financing structure), the debt ratios improved further as compared to 2005. Significant changes can be seen in all presented ratios but what deserves special attention is the improvement of the equity debt ratio and interest debt ratio. Values of the presented ratios are safe for the conducted business activity and confirm the Company's creditworthiness on the financial market.

DEBT RATIOS	2006	2005
Equity to assets ratio		
<i>Shareholders' equity / Total assets</i> .....	52.7%	22.3%
Equity debt ratio		
<i>Total liabilities / Shareholders' equity</i> .....	89.6%	348.1%
General debt ratio		
<i>Total liabilities / Total assets</i> .....	47.3%	77.7%
Interest debt ratio		
<i>Interest liabilities / Shareholders' equity</i> .....	44.5%	196.2%

6. Assessment of the possibility to execute investment plans, including capital investments, compared to the resources held, with consideration given to possible changes in the financing structure of this activity

Dom Development S.A. is fully capable of financing the currently executed investment projects. The Company, executing development projects, intends to finance them using the funds from the shareholders' equity, bank loans or issue of debt securities. The Management Board is trying to adapt the maturity structure of the bank loans it takes out and debt

securities mainly to the execution period of individual development projects, with particular consideration given to regular filling in the land bank.

Currently, almost all activity of Dom Development S.A. Capital Group is focused in the Company Dom Development S.A. However, the possibility of executing undertakings through the agency of the subsidiaries or jointly-controlled entities is not ruled out, but the financing (special purpose loans) would be acquired directly for these companies or through the agency of Dom Development S.A.

## 7. Dividend for 2006

The Management Board of the Company Dom Development S.A. intends to propose to the General Shareholders' Meeting that the dividend to be paid, in accordance with the previous announcements, accounted for 15% of the Company's net profit for the year. It means that for 2006 the Management Board will propose a dividend in the amount of PLN 0.15 per share, which reflects the profit for the period from the day the Company was quoted at the Warsaw Stock Exchange for the first time to the balance sheet date.

## 8. Information on the markets, clients and sources of supply of materials for production

In 2006, as in the previous years, the whole activity of the Company (described in point 9) was located in Warsaw and its vicinity. The significant changes which took place in 2006 include the change in the portfolio of housing products offered by the Company, i.e. a significant increase in the share of popular flats in the sales structure and in the structure of the planned investment projects.

Sales structure of Dom Development S.A. Capital Group

NUMBER OF PRODUCTS SOLD BY SEGMENT	2006	2005	Change
Popular flats .....	1,227	936	31.1%
Apartments of higher standard .....	459	437	5.0%
Luxury apartments .....	40	90	(55.6%)
Single-family houses .....	29	73	(60.3%)
Total .....	1,755	1,536	14.3%

*The sales structure which includes the sale by the Company as well as the sale of special purpose entities created for the specific development projects of the Company. Such a presentation allows for the analysis of actions and the strategy of the Company.*

The Company is not dependent on any of its clients because the sale is split between a large, varied and ever-changing group of clients buying residential and commercial premises. The majority of the Company's clients are natural persons.

The main costs incurred by the Company in connection with the developer activity are the costs of construction services provided by external entities which are not connected with the Company as part of the general contracting system and the costs of land for these investment projects.

As regards the land, despite individual transactions of significant values, the Company is not dependent on one supplier.

As regards the construction services, contractors are chosen in the process of internal tender procedures organized by the Company. The Company use the services of various construction companies operating on the Warsaw market. The biggest contractors of the Company in 2006 in terms of the value of services purchased in this period were:

SUPPLIER	01.01- -31.12.2006 thousand PLN
WARBUD S.A. ....	78,102
MOSTOSTAL WARSZAWA S.A. ....	59,878
ERBUD sp. z o.o. ....	51,427

The turnover shown above accounts for almost 65% of the sum spent by the Company on construction and design services in 2006.

## 9. Company's operations during the year

In 2006 the following material changes in the portfolio of investments under construction took place:

### Finished projects, i.e. projects for which use permits were issued:

Project	Decision on the use permit	Segment	Number of apartments
Akacje 10 phase 1B .....	I Q 2006	popular	136
Akacje 10 phase 1A .....	II Q 2006	popular	66
Derby 5 phase 2 .....	II Q 2006	popular	138
Kasztanowa Aleja II phase 2 .....	II Q 2006	popular	217
Laguna phase 3 .....	III Q 2006	single-family houses	30
Bemowo .....	IV Q 2006	popular	152
Olimpia 2 phase 1 .....	IV Q 2006	popular	205
Fort Bema .....	IV Q 2006	popular	248
Derby 7 phase 1/1 .....	IV Q 2006	popular	127

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

Project	Commencement of construction and sale	Segment	Number of apartments
Olimpia 2 phase 2 .....	I Q 2006	popular	273
Derby 7 phase 1 .....	I Q 2006	popular	254
Gdański .....	I Q 2006	apartments of higher standard	260
Bruna .....	III Q 2006	apartments of higher standard	247
Derby 8 .....	III Q 2006	popular	263
Derby 10 .....	III Q 2006	popular	364
Olimpia 2 phase 4 .....	III Q 2006	popular	282
Zawiszy phase 1 .....	IV Q 2006	popular	194
Zawiszy phase 2 .....	IV Q 2006	popular	161

Significant agreements for the business activity of Dom Development S.A. concluded in 2006

Due to the nature of the business activity conducted by the Company the significant agreements whose value exceeded 10% of the shareholders' equity were:

### *Significant agreements related to the purchase of land in 2006 – only final agreements*

SEGMENT	Planned number of flats	Value thousand PLN
Popular flats .....	1,408	61,258



*Significant agreements related to construction work whose value exceeded 10% of the Group's shareholders' equity*

SUPPLIER	Date of the agreement	Name of the project
Hochtief Polska sp. z o.o. ....	06-09-2006	Olbrachta
Unibud Bep S.A. ....	31-07-2006	Zawiszy
Karmar S.A. ....	14-06-2006	Bruna
Unibud Bep S.A. ....	03-07-2006	Olimpia 2 phase IV
ERBUD sp. z o.o. ....	01-03-2006	Olimpia 2 phase II
Kalter sp. z o.o. ....	14-06-2006	Derby 10
Henpol sp. z o.o. ....	14-06-2006	Derby 8

#### Agreements concluded between the shareholders

Dom Development S.A. has no information on possible agreements concluded between the shareholders in 2006.

#### Insurance agreements

Subject of insurance	Insurer	Insurance amount thousand PLN
Property insurance – housing estates managed by the Company .....	PZU S.A.	647,266
Property insurance – Company's registered office and sales offices .....	PZU S.A.	6,091
Third party liability insurance connected with the business activity conducted and the property owned .....	PZU S.A.	6,091

#### Cooperation agreement

In 2006, Dom Development S.A. did not conclude any significant cooperation agreements with other entities.

#### 10. Prospects for development of the business activity conducted by Dom Development S.A.

The Management Board of Dom Development S.A. anticipates further dynamic growth of the Company. Such forecasts are based on the following factors:

- good prospects for the residential real estate market in Warsaw as well as increasingly better prospects and growing potential of other big Polish cities,
- the potential of the Company's managerial staff, which is continually strengthening, as well as the know-how gained while executing the development projects,
- the land bank owned by the Company (concerns both the projects under construction and the future projects).

During the next twelve months the most important changes in the Company's operations will be:

- further concentration of operating activity in the segment of popular flats and decreasing share of other segments in the range of products offered for sale,
- bigger concentration of all operations at the Group in the Company Dom Development S.A., accompanied by the reduction of significance of other entities of the Group,
- it is also assumed that the luxury apartments will be increasingly less common in the Company's offer.

Dom Development S.A. intends to grow further by increasing the sales volume, which involves increasing its share in the Warsaw market.

The Company also analyses development projects outside the Warsaw market. Due to the fact that the execution period of development projects is long, such projects could result in the sale of flats on these markets not earlier than in 2008.

## 11. Description of significant risk factor and factors important for development of Dom Development S.A.

Significant risk factors and threats to the business activity conducted by the Company identified by the Management Board have been presented below.

*Concentration of operations on the Warsaw market* – the Company'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 this is and will be the most dynamic residential real estate market in Poland, where the Company have an established position and the possibility to further develop their operations. The Company also analyses expansion outside the Warsaw market.

*Ability to purchase land for new projects* – the source of the Company'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.

*Change of the VAT rate* – upon joining the EU, Poland adopted the regulation changing as at 1 January 2008 the VAT rate for the sale of flats and houses from 7% to 22%. Even though it is possible to keep the 7% rate for the so-called „social housing” the relevant law has not been passed in Poland yet. Since according to the draft law the definition of „social housing” would cover almost all products from the Company's offer, the Management Board believes that the impact of the above-mentioned changes on the Company's result would be insignificant.

*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, American dollars and Euro. A significant percent of foreign exchange loans, despite the limitations in obtaining them which have been introduced in 2006, 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.

*Availability of mortgage loans* – a significant increase in flat and house prices recorded recently resulted in the situation that a number of new potential flat buyers come up against the obstacle of creditworthiness. Further significant price increase, accompanied by the lack of new mortgage loan solutions, e.g. extension of the repayment period to 50 years, may lead to a visible reduction in the demand for new flats and houses.

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.

There has been a formal risk management procedure („Risk Management”) in operation within the Company since 2000. The process of management under this procedure is conducted by means of identification and assessment of risks in relation to all areas of activities undertaken by the Company and its Group. At the same time the actions necessary to reduce or eliminate such risk are set (among other things through the procedures and internal audit system). The „Risk Management” procedure is periodically updated by the Management Board with the participation of key members of the management and supervision bodies.

Additionally, pursuant to corporate governance rules adopted by the Management Board on 9 August 2006 and accepted by the Extraordinary Shareholders' Meeting, there is an Audit Committee in operation in the Company.

12. Description of transactions with related entities whose one-time or total value of transactions concluded by a given related entity within the period of 12 months is a PLN equivalent of EUR 500,000.

Counterparty	Transaction description	01.01- -31.12.2006 thousand PLN	01.01- -31.12.2005 thousand PLN
<i>Dom Development S.A. as a buyer of goods or services</i>			
Woodsford Consulting Limited.....	Consulting services as per agreement dated 1 February 2000	2,094	1,299
<i>Dom Development S.A. buying land as part of an agency agreement</i>			
Dom Development Grunty sp. z o.o. ....	Amounts transferred to Dom Development Grunty Sp. z o.o. for the purchase of land as part of specified work contracts	32,396	17,464
Dom Development Grunty sp. z o.o. ....	Value of land transferred to Dom Development S.A. as part of specified work contracts	23,191	16,578
Dom Development Grunty sp. z o.o. ....	Additional VAT payments to the invoices transferring the ownership of land to Dom Development S.A.	4,925	701
<i>Dom Development S.A. providing services (seller) – the value of services invoiced during the period</i>			
Fort Mokotów sp. z o.o. ....	General Project Execution agreement dated 15 April 2002	3,110	5,640
Fort Mokotów sp. z o.o. ....	The sales commission agreement and agreement for provision of advertising and marketing services dated 15 April 2002	6,245	6,863
Fort Mokotów sp. z o.o. ....	Other	773	231
<i>Dom Development S.A. as a party receiving a dividend</i>			
Fort Mokotów sp. z o.o. ....	Dividend (gross)	14,246	-
<i>Dom Development S.A. as a party receiving return of additional contribution to capital</i>			
Fort Mokotów sp. z o.o. ....	Return of additional contribution to capital	28,910	-
Dom Development Morskie Oko sp. z o.o. ....	Return of additional contribution to capital	16,500	-
<i>Dom Development S.A. as a party repaying the borrowings and as the payer of interest on the shareholders' borrowings</i>			
Dom Development B.V. ....	Cost of interest on the shareholders' borrowings	874	988
Dom Development B.V. ....	Capital repaid from borrowings agreements	10,149	-

Promissory agreements and sale agreements relating to the sale of apartments by the Company to management personnel and their relatives

Related entity	Date	Description	Value in thousand PLN	Cumulative payments made as at 31 December 2006
Janusz Zalewski	12.04.2006	Promissory sale agreement concerning residential facilities with the area of 242.4 sq. m, together with two utility rooms and two parking spaces	2,945	265

### 13. Information on the contracted loans, issued debt securities and borrowing agreements

#### Loans and borrowings

LOANS DUE WITHIN	31.12.2006	31.12.2005
	thousand PLN	thousand PLN
1 year .....	98,915	103,278
More than 1 year less then 2 years .....	22,200	67,451
More than 2 years less then 5 years .....	-	3,528
More than 5 years .....	-	-
Total loans .....	121,115	174,257
including: long-term .....	22,200	70,979
short-term .....	98,915	103,278

BORROWINGS DUE WITHIN	31.12.2006	31.12.2005
	thousand PLN	thousand PLN
1 year .....	-	3,757
More than 1 year less then 2 years .....	-	3,677
More than 2 years less then 5 years .....	-	3,677
More than 5 years .....	-	-
Total borrowings .....	-	11,112
including: long-term .....	-	7,354
short-term .....	-	3,757

In 2006 the Company paid off all borrowings from the Shareholders.

The detailed data concerning loans and borrowings have been described in Note 15 to the financial statements of the Company for the year ended on 31 December 2006.

#### Bonds

BONDS	31.12.2006	31.12.2005
	thousand PLN	thousand PLN
Nominal value of the issued bonds .....	80,000	50,000

On 19 June 2006 the Company issued 300 A series bonds with the nominal value of PLN 100,000 each and the total nominal value of PLN 30,000,000 on the basis of the agreement on servicing and guaranteeing the issue of bonds with Powszechna Kasa Oszczędności Bank Polski S.A. The bonds are secured with a capped mortgage on the Group's real properties up to the amount of PLN 60,000,000.

The detailed data concerning loans and borrowings have been described in Note 17 to the financial statements of the Company for the year ended on 31 December 2006.

#### 14. Description of the manner in which Dom Development S.A. used revenue from the issue of securities in the period covered by the report

In 2006 the Company conducted the public issue of new series F shares. The revenue from the issue of shares amounted to PLN 229,999,970. The costs of issue amounted to PLN 9,471,131.65.

In accordance with the previous announcements (published in the Company's prospectus dated 14 September 2006), the funds from the issue of shares were used to increase the working capital of the Company and to repay the borrowings from the shareholders. Before 31 December 2006, the revenue from the issue of shares was used in the following manner:

- Payment for land (under final or preliminary agreements) in the amount of PLN 106,147 thousand,
- Repayment of borrowings from the shareholders (including interest) in the amount of PLN 11,106 thousand.

#### 15. Changes in the basic management principles of the Company.

In 2006 there were no major changes in the basic principles of management. The development of the organization calls for improvement of the management procedures in force in Dom Development S.A.

Pursuant to Good Practice Rules of the Warsaw Stock Exchange (as well as Directive 2006/43/WE of the European Parliament and Council) and as a part of executing the positions of the Articles of Association of Dom Development S.A., the following bodies were established in 2006:

##### - Audit Committee

The Audit Committee consists of at least three members appointed by the Supervisory Board of the Company from among its own members. At least two members of the Audit Committee must be independent members of the Supervisory Body in accordance with the criteria specified in point 7.7 of the Company's Articles of Associations. The Audit Committee is responsible for the supervision of the Company's financial matters.

On 29 December 2006 the Supervisory Body adopted a resolution under which the following people were appointed to the Audit Committee:

- Włodzimierz Bogucki – Chairman of the Audit Committee
- Stanisław Plakwicz – Member of the Audit Committee
- Richard Reginald Lewis – Member of the Audit Committee
- Michael Cronk - Member of the Audit Committee

##### - Remuneration Committee

The Remuneration Committee consists of at least three members appointed by the Supervisory Board of the Company from among its own members. At least one member of the Audit Committee must be an independent member of the Supervisory Body in accordance with the criteria specified in point 7.7 of the Company's Articles of Associations. The Remuneration Committee is particularly responsible for setting the amount of remuneration of the Members of the Management Board and the introduction of incentive plans which entitle to take up the shares of the Company.

On 29 December 2006 the Supervisory Board adopted a resolution under which the following people were appointed to the Remuneration Committee:

- Stanisław Plakwicz – Chairman of the Remuneration Committee
- Richard Reginald Lewis – Member of the Remuneration Committee
- Markham Dumas – Member of the Remuneration Committee.

## 16. The Management Board and the Supervisory Board of Dom Development S.A.

### The Management Board

Composition of the Management Board as at 31 December 2006:

Jarosław Szanajca – President of the Management Board

Grzegorz Kiełpsz – Vice-President of the Management Board

Janusz Zalewski – Vice-President of the Management Board

Terry Roydon – Member of the Management Board

Janusz Stolarczyk – Member of the Management Board

On 29 December 2006, pursuant to point 11.2 and in conjunction with 6.2.2 of the Articles of Association, on account of the expiration of the term of office of the current members of the Management Board of Development Spółka Akcyjna, the shareholder controlling over 50.1 % of the Company's shares appointed Mr. Jarosław Szanajca President of the Management Board of the Company, Mr. Janusz Zalewski Vice-President of the Management Board of the Company, Mr. Terry Roydon Member of the Management Board of the Company and the Supervisory Board of Dom Development Spółka Akcyjna appointed Mr. Grzegorz Kiełpsz Vice-president of the Management Board of the Company and Mr. Janusz Stolarczyk Member of the Management Board of the Company. Pursuant to point 6.2.3 of the Articles of Association, all members of the Supervisory Board were appointed for a joint three-year term.

In comparison with the composition of the Management Board in 2005, Mr. Terry Roydon became the new member, whilst Mr. Richard Reginald Lewis was removed from the Management Board and appointed Member of the Supervisory Board of the Company.

### The principles of appointing and removing the Members of the Management Board

The principles of appointing and removing the Members of the Management Board from office are governed by the provisions of the Code of Commercial Companies and Partnerships and the Articles of Association.

The shareholder holding at least 50.1% of the shares of the Company is entitled to appoint and remove half of the Members of the Management Board, including the President of the Management Board and the Vice-President who is responsible for the Company's finances under the Company Foundation Deed. If there is an uneven number of the Members of the Management Board, the shareholder holding at least 50.1% of the shares of the Company is entitled to appoint (respectively): 3 (if the Management Board consists of 5 Members) or 4 (if the Management Board consists of 7 Members) Members of the Management Board. The rest of the Members of the Management Board are appointed and removed by the Supervisory Board. The Members of the Management Board are appointed for a joint, three-year term of office.

Entitlements of the Management Board, particularly the right to adopt a resolution on the issue or redemption of shares.

The Code of Commercial Companies and Partnerships and the Articles of Association govern the rights of the members of management and supervisory bodies.

The Management Board is the executive body of the Company. It manages the current activities of the Company and represents it in outside contacts. The Management Board adopts resolutions with respect to all matters, which under the Law, these Articles of Association or a resolution of the General Shareholders' Meeting do not fall within the scope of competence of the General Shareholders' Meeting and the Supervisory Board. The Management Board represents the Company in and outside the court. Two Members of the Management Board or one Member and a proxy must act jointly in order to make declarations of will and sign documents on behalf of the Company.

The Management Board performs its activities according to the By-laws adopted by the Supervisory Board.

*Resolutions on the issue and redemption of shares:*

Resolutions on the issue and redemption of shares are adopted pursuant to the Code of Commercial Companies and Partnerships and the Articles of Association.

After the Supervisory Board issues a positive opinion, the Management Board is entitled to increase the share capital by means of the issue of new shares within the target capital. Following the Supervisory Board's consent, the Management Board may deprive the shareholders in whole or in part of their pre-emptive right with respect to the shares issued within the target capital, unless otherwise stipulated by the Code of Commercial Companies and Partnerships and the Management Board decides about all matters connected with the increase of the share capital within the target capital.

The Supervisory Board must give its approval with respect to the resolutions of the Management Board concerning the issue price of the shares within the target capital or issue of shares in return for in-kind contributions. Moreover, the following activities require the approval by the Supervisory Board:

- concluding agreements for the investment underwriting or service underwriting or other agreement guaranteeing the success of an issue, as well as concluding agreements pursuant to which the depositary receipts for shares would be issued outside the territory of the Republic of Poland,
- under taking activities to dematerialise the shares and concluding agreements with Krajowy Depozyt Papierów Wartościowych S.A. (National Depositary for Securities joint-stock company) on the shares registration, taking activities to issue shares by means of public offering or applying for admitting shares for trading on the regulated market.

The Supervisory Board

Composition of the Supervisory Board of the Company as at 31 December 2006:

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

Włodzimierz Bogucki - Member of the Supervisory Board

On 29 December 2006, pursuant to point 11.2 and in connection with point 7.3, 7.4 of the Articles of Association of the Company, on account of the expiration of the term of office of the current members of the Supervisory Board of Development Spółka Akcyjna, the shareholder controlling over 50.1 % of the Company's shares appointed Mr. Richard Lewis Vice-Chairman of the Supervisory Board, Mr. Markham Dumas Member of the Supervisory Board of the Company and Mr. Michael Cronk Member of the Supervisory Board and the Extraordinary General Shareholders' Meeting of „Dom Development” Spółka Akcyjna with its registered seat in Warsaw appointed Mr. Zygmunt Kostkiewicz Chairman of the Supervisory Board of the Company, Mr. Stanisław Plakwicz Member of the Supervisory Board of the Company and Mr. Włodzimierz Bogucki Member of the Supervisory Board of the Company. Pursuant to point 7.9 of the Articles of Association, all members of the Supervisory Board were appointed for a joint three-year term.

In comparison with the composition of the Supervisory Board in 2005, the new Members are Mr. Richard Lewis, Mr. Michael Cronk, Mr. Markham Dumas, and Mr. Włodzimierz Bogucki. At the same time, Mr. Terry Roydon was removed from the Supervisory Board (and appointed Member of the Management Board) whilst Mrs. Teresa Rogoźnicka resigned from the post in the Supervisory Board.

17. The amount of outstanding borrowings granted by the Company to the members of the management and supervisory bodies and their relatives as well as the amount of guarantees and sureties granted to the said people.

As at 31 December 2006 there were no outstanding borrowings, guarantees and sureties granted by the Company to the members of the management and supervisory bodies and their relatives.

18. The agreements concluded between the Company and the members of the management and supervisory bodies under which the compensation would be awarded in the event of their resignation or removal from the post.

There are no agreements between the Company and the members of the management and supervisory bodies under which the compensation would be awarded in the event of their resignation or removal from the post.

The following Members of the Management Board of the Company: Jarosław Szanajca, Janusz Zalewski, Grzegorz Kiełpsz and Janusz Stolarczyk are employed in the Company on the basis of the employment contracts. Pursuant to the provisions of those employment agreements, the termination of employment relationship with a given Member of the Management Board entitles them to receive remuneration in the notice period.

19. The amount of remuneration, bonuses and grants received by individual members of the management and supervisory bodies.

In 2006 the members of the management and supervisory bodies of Dom Development S.A. obtained remuneration from the Company and remuneration for holding the positions in the management and supervisory bodies of the subsidiaries, jointly-controlled and affiliated entities:

	In the Company thousand PLN	In other entities of the Group thousand PLN
1. The Management Board		
Remuneration		
Jarosław Szanajca .....	1,127	379
Grzegorz Kiełpsz.....	906	164
Janusz Zalewski .....	704	379
Janusz Stolarczyk .....	748	-
Terry Roydon .....	-	-
Richard Lewis.....	-	-
In this remuneration from profit.....		
Jarosław Szanajca .....	-	75
Grzegorz Kiełpsz.....	-	100
Janusz Zalewski .....	-	75
Janusz Stolarczyk .....	-	-
Richard Lewis.....	-	-
2. The Supervisory Board:		
Zygmunt Kostkiewicz.....	72	-
Richard Lewis.....	30	-
Markham Dumas .....	30	-
Włodzimierz Bogucki .....	26	-
Michael Cronk .....	26	-
Stanisław Plakwicz .....	48	-
Teresa Rogoźnicka .....	18	-
Terry Roydon.....	18	-



Report of the Management Board on the activities  
of Dom Development S.A.  
in 2006

Additionally, on 6 December 2006 the allocation of the options for the Company's shares took place as part of the II Management Options Programme. The share options were allocated to the following Members of the Management Board:

	Date of allotting a share option	Number of shares	Option period	Purchase price per 1 share/ PLN
The Management Board				
Janusz Zalewski .....	06.12.2006	40,588	from 06.12.2009 to 06.12.2013	114.48
Terry Roydon .....	06.12.2006	50,000	from 06.12.2009 to 06.12.2013	114.48
Janusz Stolarczyk .....	06.12.2006	5,850	from 06.12.2009 to 06.12.2013	114.48
The Management Board .....	06.12.2006	96,438	from 06.12.2009 to 06.12.2013	114.48
The Supervisory Board .....	-	-	-	-
Total Members of the Management Board and the Supervisory Board: .....	06.12.2006	96,438	from 06.12.2009 to 06.12.2013	114.48

20. Total number and nominal value of all of the Company's shares and shares and stocks in the entities of the Group held by the members of the management and supervisory bodies of the Company.

The ownership structure of shares and options for the Company's shares among the Members of the Management Board and the Supervisory Board as at 31 December 2006 was as follows:

	Shares		Share options	Total
	Number	Nominal value PLN	Number	Number
The Management Board				
Jarosław Szanajca .....	1,759,050	1,759,050	-	1,759,050
Grzegorz Kiełpsz .....	1,410,750	1,410,750	-	1,410,750
Janusz Zalewski *	399,600	399,600	40,588	440,188
Janusz Stolarczyk *	106,200	106,200	5,850	112,050
Terry Roydon *	58,500	58,500	50,000	108,500
The Supervisory Board				
Zygmunt Kostkiewicz .....	90,000	90,000	-	90,000

\* The number of shares listed in the table above also includes the H, I, J series of the Company's shares which were subscribed prior to 31 December 2006 but registered by the competent Registry Court on 14 February 2007. The proportion of shares is as follows:

- Janusz Zalewski:	318.000 shares
- Janusz Stolarczyk:	72.200 shares
- Terry Roydon:	22.500 shares

The Members of the Management Board and the Supervisory Board of the Company did not hold any shares in other entities of the Group.

21. The shareholders of Dom Development S.A. who as at 31 December 2006 held, both directly and indirectly through the subsidiaries, at least 5% of the total number of votes at the General Shareholders Meeting.

As at 31 December 2006 the holding entity Dom Development S.A. was controlled by Dom Development B.V., which held 64.43% of the Company's shares. Other shareholders holding more than 5% of the Company's shares as at 31 December 2006 were Jarosław Szanajca - 7.31% of the shares and Grzegorz Kiełpsz - 5.87% of the Company's shares.

22. Data concerning the contracts known to the Company and concluded in the last accounting year which may result in future changes in the proportions of shares held by the previous shareholders

There are Management Options Programmes in the Company according to which the options for the Company's shares are allocated. The execution of those options will result in future changes in the proportions of shares held by the previous shareholders:

- I Management Options Programme  
413,100 options for the Company's shares were allocated under this programme. As at 31 December 2006 all the shares resulting from options allocated under this programme were subscribed. The shares were registered on 14 February 2007.
- IB Management Options Programme  
96,750 options for the Company's shares were allocated under this programme. As at 31 December 2006 all the shares resulting from options allocated under this programme were subscribed and entrusted with CDM PKO S.A. acting as a depositary in this programme. The shares were registered on 14 February 2007.
- II Management Options Programme  
234,538 options for the Company's shares were allocated under this programme. The options under this programme may be exercised between 6 December 2009 and 6 December 2013.

Aside from the foregoing share options allocated under the Management Options Programme, the Management Board of Dom Development S.A. is not aware of any other agreements resulting in the future changes in the proportions of shares held by the previous shareholders. Detailed description of Management Options Programmes has been presented in Note 37 to the consolidated financial statements of the Company.

23. Holders of any securities, which grant special controlling rights in relation to the issuer.

The shareholder holding at least 50.1 % of the Company's shares, i.e. Dom Development B.V., controls the issuer primarily thanks to possessing the majority of votes at the General Shareholders' Meeting of the issuer. Additionally, pursuant to the Articles of Association, Dom Development B.V., being the entity holding 50.1% or more of the Company's shares has the following personal rights with respect to appointing members of the Company's bodies:

- pursuant to point 6.2.2 of the Articles of Association – it is entitled to appoint and remove half of the Members of the Management Board, including the President of the Management Board and the Vice-President who is responsible for the Company's finances under the Company Foundation Deed. If there is an uneven number of the Members of the Management Board, the shareholder holding at least 50.1% of the shares of the Company is entitled to appoint (respectively): 3 (if the Management Board consists of 5 Members) or 4 (if the Management Board consists of 7 Members) Members of the Management Board.
- pursuant to point to 7.4 of the Articles of Association, it is entitled to appoint and remove half of the Members of the Supervisory Board, including the Vice-Chairman of the Supervisory Board. If there is an uneven number of the Members of the Supervisory Board, the shareholder holding at least 50.1% of the shares of the Company is entitled

to appoint (respectively): 3 (if the Supervisory Board Consists of 5 Members) or 4 (if the Supervisory Board consists of 7 Members) or 5 (if the Supervisory Board consists of 9 Members) Members of the Supervisory Board.

- Pursuant to point 8.2.4 of the Articles of Association, the Supervisory Board or the shareholder holding at least 50.1% of the shares have the right to convene the Ordinary General Shareholders' Meeting, if the Management Board does not convene such a meeting within the deadline specified in these Articles of Association, and to convene the Extraordinary General Shareholders' Meeting should they deem such action necessary on condition that the Management Board fails to convene the General Shareholders' Meeting within two weeks from the day the Supervisory Board or the shareholder holding at least 50.1% of the Company's shares submits a relevant request.
- It is entitled to appoint the Chairman of the Supervisory Board if the Supervisory Board is elected on the basis of voting by separate groups as specified in Article 385 of the Code of Commercial Companies and Partnerships.

#### 24. Notification on the control system of the employee options programme

The Management Options Programmes, which are effective in the Company, are adopted by the Supervisory Board on the basis of authorization given as a part of the resolution issued by the General Shareholders' Meeting.

- IB Management Options Programme

Pursuant to IB Management Options Programme, the Supervisory Board of the Company adopts a resolution naming the people entitled to acquire the options. It is also entitled to set the condition or conditions which must be met by the participants before they submit the statement stating their will to conclude the shares sale agreement. If the Supervisory Board comes to the conclusion that the condition or conditions have not been met or that the transfer of the shares will not be legal, it will adopt a resolution concerning such a situation. This resolution shall act as a basis for issuing a refusal to conclude the shares sale agreement under which the shares would be sold to the participant of IB Programme.

As at 31 December 2006 all share options under IB Programme had been allocated and the said Programme was closed.

- II Management Options Programme

Pursuant to II Management Options Programme, the Supervisory Board of the Company adopts a resolution naming the people entitled to participate in the Programme. It is also entitled to set the condition or conditions, which must be met by the participants before they execute the subscription rights. On 10 August 2006 the Extraordinary General Shareholders' Meeting entitled the Management Board to increase the share capital of the Company and to issue warrants allowing for the execution of subscription rights by the participants of the II Programme. After the Supervisory Board gives its consent, the Management Board is entitled to adopt the resolution concerning the increase of the share capital

II Management Options Programme covers 726,000 shares of Dom Development S.A., subject to a limit allowing for the allocation of maximum of 242,000 shares within any one period of 12 consecutive months. 234,538 share options were allocated as at 31 December 2006.

#### 25. Restrictions concerning the transfer of ownership rights to the Company's securities and restrictions concerning the execution of voting rights attributed to the Company's shares

##### Contractual restrictions

Pursuant to „Shareholders' support and subordination agreement" dated 19 March 2003, concluded by EBRD and the Issuer, Dom Development B.V., Jarosław Szanajca and Grzegorz Kiełpsz, the parties undertook not to sale, transfer, encumber or dispose of without prior written agreement of EBRD more than 50% of shares held in the Company within 12 months from the day of public offering of new F and A series shares offered by Dom Development B.V., aside from the sale or transfer of shares between Dom Development B.V., Jarosław Szanajca and Grzegorz Kiełpsz.

On 13 August 2006 Development B.V., Jarosław Szanajca, Grzegorz Kiełpsz, Janusz Zalewski, Janusz Stolarczyk and Terry Roydon promised Centralny Dom Maklerski PEKAO S.A. not to sale the Company's shares held by them without

first obtaining consent from Centralny Dom Maklerski PEKAO S.A. within 12 months from the day of allocation of F series shares offered under public offering of new F and A series shares by Dom Development B.V. This commitment also covered those Company's shares that they can acquire from another shareholder of the Company within 12 months after the date of allocation of F series shares.

On 16th October 2006 Janusz Zalewski, Janusz Stolarczyk and Terry Roydon undertook towards Centralny Dom Maklerski PEKAO S.A. not to sell H series shares or I series shares or L series shares of the Company without prior consent of Centralny Dom Maklerski PEKAO S.A. for the period of 12 months after the allocation of F Series Shares offered as part of the public offering of new F series shares and A series shares, offered by Dom Development B.V. This commitment also covered those shares of the Company that they can acquire from another shareholder of the Company within 12 months after the date of allocation of F series shares.

Limitation resulting from the binding legal regulations:

Limitations resulting from legal regulations relate to the so-called „closed periods” specified in the Act on Trading in Financial Instruments.

## 26. Acquisition of treasury shares for the purpose of redemption

On 2 August 2006, acting on the basis of item 4 and item 5 of the Resolution of the Extraordinary Shareholders' Meeting of the Company no. 1 of 2n August 2006 on redemption of part of the shares, the Company acquired for the purpose of voluntary redemption against remuneration, according to the shares purchase agreements of 2 August 2006:

From Janusz Zalewski: 77,700 registered E series shares against the remuneration of PLN 2.80/share  
92,700 registered G series shares against the remuneration of PLN 2.38 /share

From Janusz Stolarczyk: 72,000 registered E series shares against the remuneration of PLN 2.80/share

From Terry Roydon: 22,500 registered E series shares against the remuneration of PLN 2.80/share

On the day of passing the said resolution the above shares constituted about 1.21% of the initial capital of Dom Development S.A.. On the basis of the above-mentioned Resolution of the General Shareholder's Meeting of the Company on redemption of part of the shares, the said shares were voluntarily redeemed against remuneration.

On 29 December 2006 the Extraordinary Shareholders' Meeting of the Company passed a resolution concerning the issue of 172,200 H series ordinary bearer shares, 92,700 I series bearer ordinary shares, 96,750 J series ordinary bearer shares and 148,200 L series ordinary bearer shares.

From among these Janusz Zalewski, Janusz Stolarczyk and Terry Roydon were allocated shares in the amounts and at the prices that were corresponding to the amounts and prices of the shares that were previously reacquired for the purpose of redemption, i.e.:

From Janusz Zalewski: 77,700 H series bearer shares against the remuneration of PLN 2.80/share  
92,700 I series bearer shares against the remuneration of PLN 2.38/share

From Janusz Stolarczyk: 72,000 H series bearer shares against the remuneration of PLN 2.80/share

From Terry Roydon: 22,500 H series bearer shares against the remuneration of PLN 2.80/share

Moreover:

- 148,200 L series bearer shares were allocated to Janusz Zalewski against the remuneration of PLN 2.58/share as part of exercising of share options held by him and allocated on 29 January 2001,

- CDM PEKAO S.A. took up 96,750 J series bearer shares against the remuneration of PLN 6.10/share (the said shares concern the IB Management Options Programme, and CDM PEKAO S.A., on the basis of the finding agreement of 26 October 2006, performs the function of fiduciary in this programme).

27. Notification on the agreement on the audit and review of the financial statements and the consolidated financial statements concluded with the entity authorized to conduct audits

On 27 October 2006 Dom Development S.A. concluded an agreement on the audit and review of the standalone and consolidated financial statements with BDO Numerica Sp. z o.o. (entity authorized to conduct audits).

The agreement covers the audit of the financial statements submitted by the Company and the Group for the year ended on 31 December 2006 and review of mid-year financial statements submitted by the Company and the Group for the period of six months ended on 30 June 2006. The total amount of remuneration on account of the audit of the annual financial statements amounts to PLN 125 thousand. The total amount of remuneration on account of the audit of mid-year financial statements amounted to PLN 75 thousand.

The total amount of remuneration on account of the audit of the annual financial statements submitted for the comparative, previous year amounted to PLN 135 thousand. There were no audits of the mid-year financial statements in that period, because the Company was not obliged to prepare them at that time.

Additionally, in 2006 the Company paid BDO Numerica Sp. z o.o the remuneration in the total amount of PLN 194 thousand on account of work provided during the preparation of the Company's prospectus which was approved by the Polish Securities and Exchange Commission on 14 September 2006.

*Warsaw, 8 March 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