

Dear Ladies and Gentlemen, Dear Shareholders,

It is with great satisfaction that I present to you, on behalf of the Management Board of Dom Development S.A. and myself, the Annual Report of Dom Development S.A. Group for the year 2011. This document is addressed to our Shareholders, Investors, Capital Market Participants, Customers and all other Stakeholders.



It is difficult to sum up in one sentence the condition of the residential property sector in 2011. In our opinion, in comparison to the previous years, signs of recovery were visible in that market, on the supply and demand sides alike. Households in Warsaw – the principal market for our operations – saw an improvement in their situation, relative to 2010¹. Customers enjoyed a wide choice and could take advantage of favourable financing opportunities and Government subsidies. Apartments were bought primarily for their own use, rather than for investment purposes. During the last 12 months, market transactions were invariably dominated by sales of small flats. At the same time, it should be recalled that the year 2011 was a time of numerous changes in the mortgage market. Especially important in this context were two recommendations of the Financial Supervision Authority: Recommendation T, which was effectively implemented in 2011, capping individual credit instalments at 50% of net income, and the amended Recommendation S II, entailing, among other things, the need for a new method of calculation of creditworthiness, which is less advantageous to the borrower. A continual tightening of credit policy by banks, the backing out from lending in foreign currency, accompanied by a steady increase in the share of zloty-denominated loans in bank portfolios, visible over the last 12 months, significantly restricted debt financing options for the Polish borrower. Moreover, the modification of the "Rodzina na Swoim" (Family's own Home) scheme reduced the purchasing power of the potential housing buyer. Since operating in such a tough economic environment was a big challenge, the success of financial products implemented by the Company, such as "Start", "Student na swoim" (Student's own home), „Singiel na swoim" (Single's own home), "Part Exchange", and "Mój własny dom" (My own home) afforded us even greater satisfaction. These actions helped to improve the financial potential of our Customers, while making our offer more competitive.

In summing up the past year, it needs to be stressed first of all that Dom Development consistently pursued its strategic objectives during the year. First, it maintained, and even strengthened its position as the leading residential developer in the Warsaw market, with its estimated share in that market reaching

¹ Own calculations of Dom Development S.A. on the basis of macroeconomic data showing how many sq.m. of an apartment could be bought for the average salary in the city of Warsaw in a given month.



14.2%². Second, the Company took care to secure an appropriate level of financing, allowing for the implementation of its operating activity plans and business growth. Third, the Management Board and management effectively identified and strived to limit risks that could adversely affect the achievement of the Company's business goals. And finally, the Company focused on increasing the scale and improving the efficiency of operations in the popular flat segment. We also consistently pursued the land bank strategy, aiming to secure enough land for at least four years of operation (at a similar scale of operation).

Following the pattern of previous years, in 2011 the Company operated primarily in Warsaw, which is the most attractive market where we continue to perceive a great potential for increasing our revenue and the scale of operations. As the projects carried out by Dom Development were very attractive and in good locations, Customers were eager to buy apartments even at a very preliminary stage of construction. We entered the new year with an inventory of finished products representing less than 13% of the Company's offer.

In reviewing our operational activities during the past months, I must draw your attention to three projects of particular importance to us. In the second quarter of 2011, Dom Development began to deliver apartments at the Saska residential estate, the sales of which had commenced at the end of 2009 and which was the largest residential project in the Company's history to date, comprising 1585 units. The Saska residential estate was the first large investment in Poland launched after the latest global economic and financial crisis. In turn, the largest project under construction by Dom Development at present is the Wilno residential estate, where – in line with the local development and zoning plan – 5000 apartments are planned. On this site, the Company began to construct 2000 apartments, as provided in the plan. And lastly, in maintaining its interest in Bemowo and recognizing Żoliborz as an attractive investment direction, in 2011 the Company acquired land along Powązkowska Street, where it intends to build more than 1700 apartments under a multi-stage project. These are huge challenges, but also our satisfaction is even greater as we are able to carry them out independently.

Entry into markets of other Polish cities is a secondary business goal for Dom Development, which we began to be implement during the past year, with the start of construction of two stages of the Oaza residential estate in Wrocław. The Company is investigating and considering the viability of developing operations in further cities, but no such activities are planned in the immediate future.

We entered 2011 with the conviction that we are on the right track and the operations we had planned would allow us to strengthen the Company's market position. We have achieved much more than we set out to do. Thanks to an attractive offer and a consistent sales policy based on a flexible response to market needs (which included the redesigning of some projects with a view to provide an offer for Customers with lower credit scores), Dom Development secured for itself stable sales at the level of 1735 housing units. Both the operating results and total assets at the year-end were satisfactory. Dom Development generated revenue of 584.3 million zloty, surpassing the 2010 revenue by 70.6 million zloty. The Company registered a significant improvement in consolidated net profit by 103%, which reached 82.1 million zloty. This very strong performance was primarily due to the beginning of delivery of the first post-crisis projects in the middle of the year. We delivered 1282 apartments, thus exceeding the original targets. It should be added that Dom Development entered the new year with 1619 apartments sold but not

² „Monitoring sprzedaży lokali w inwestycjach wybranych deweloperów warszawskich – IV kwartał 2011” [Monitoring of apartment sales under projects of selected Warsaw developers, Q4 2011], RedNet Consulting Sp. z o.o.



delivered. We believe that it is an exceptionally comfortable situation, which guarantees us new revenue during the next several quarters.

Allowing for the cash transaction carried out in September 2011 and involving land acquisitions for more than 170 million zloty, we maintained the Company's liquidity position at a level satisfactory to us, as confirmed by the value of net debt as of the last day of December, at 106.9 million zloty. Owing to the conservative but flexible methods of financial management, the Group had at the year-end cash amounting to 380.2 million zloty. The most recent quarters also witnessed a steady reduction in the Company's net debt to equity ratio, which stood at 12.8% at the year end. I am pleased to say that last year's results make it possible for us to look assuredly into the future with. A consistently implemented budget along with the actions put in place to increase our operational efficiency allowed us to generate financial results that surpassed the expectations of the market, enabling the Management Board to continue the policy of yearly dividend distribution.

Our successes – whether those discernible in our economic performance or those that are intangible – are a result of the well-designed business strategy, which the Management Board adopted and has consistently put into practice since the stock market debut in 2006. Another confirmation that decisions taken by us are correct is provided by numerous awards and prizes conferred on the Company, which are a great honour to us and the crowning achievement of our daily efforts. In 2011, CIJ Journal, an English-language real estate magazine published the ranking of the 50 best developers in Central and Eastern Europe, in which we were recognized as the best real estate development company of the last decade!³ In addition, Dom Development received the Perła Polskiej Gospodarki (Pearl of the Polish Economy), an award conferred by the Polish Market monthly and the Institute of Economic Sciences of the Polish Academy of Sciences. Our Company also came second in the Residential Brand of the Year ranking. It is worth mentioning here that in 2011 we celebrated two anniversaries: the 15th anniversary of the commencement of Dom Development's operations and the 5th anniversary of our debut on the Warsaw Securities Exchange. We are happy that our operations and products invariably meet with such huge interest.

Looking ahead, 2012 seems to be a year of challenges and trials not only for the property development sector but also for the entire economy. Success in the residential construction market will depend in the first place on the condition of the Polish economy since weaker growth and resulting uncertainty in the labour market may influence consumer decisions regarding apartment purchases. Other factors affecting the developments in the housing construction market in 2012 have their roots in the initiatives undertaken during the past year. As a result of lower credit ranking and the scaling down of Government's financial support under the "Family's own Home" scheme (which is to be retired in December 2012), some Poles will be forced to choose a smaller apartment or to postpone its purchase.

In addition to this, property development companies are required to adjust, as from April 2012, their operations to the new requirements imposed on them under the Property Development Act. Towards the end of 2011 we saw a record number of new apartments being offered in the primary market, and since the new rules will apply to projects for which sales begin after that legislation comes into force, a further increase in supply, motivated by the desire to complete investment projects under the previous conditions, should be expected. A steady widening of the gap between supply and demand may translate in the

³ The complete ranking is available on: http://www.cijjournal.com/e_shots/e_cij/2011/July/Cij_Summer_2011.pdf



upcoming period into intensified price competition among the developers. However, given the positive growth of the Polish economy and the social and economic trends in our country, as a Management Board we remain deeply convinced that both the mid- and long-term prospects of the real estate market are promising.

In anticipating opportunities and threats in the periods ahead, Dom Development enters the new year with a broad and varied offer of apartments, tailored to the financial possibilities of Poles, with the number of projects planned or under construction that is in line with the situation in the residential property market and with an attractive land bank, which will ensure further growth of the Company in the upcoming years. Nevertheless, we will continue to source attractive properties for new housing projects, all the more so that the Company has considerable funds set aside for prospective acquisitions. New challenges lie ahead of us, including that of increasing our share in the market. Against the performance of the property development sector, as measured by the number of housing units sold, the position we have achieved so far gives grounds for an optimistic outlook for the future. I am convinced that the actions pursued by Dom Development will translate positively into new successes, resulting in an increased goodwill of the Company. I wish to assure you that I shall make every effort to ensure that the Company continues its dynamic growth, benefiting its Employees and present and future Shareholders. We promise to maintain a clear and transparent information policy, which guarantees the high quality of our relations with our Shareholders and the market, and keep informing you of all events material to the Company, affecting the valuation of its worth.

On behalf of the Management Board and in my own name, I wish to express our gratitude to all those who make it possible for Dom Development to continue to grow and to set ever more ambitious goals for itself. My warmest, heartfelt thanks go to Employees and Independent Partners of Dom Development S.A. Group – if it had not been for their enormous effort and commitment, achieving such strong results in 2011 would not have been possible. I also wish to thank our Shareholders and Customers for their confidence in our ability to fulfil our corporate vision and Members of the Supervisory Board – for their support in the process of the creation of value.

With kind regards,

A handwritten signature in blue ink, reading "Jarosław Szanajca".

Jarosław Szanajca
President of the Management Board of Dom Development S.A.