



**The Management Commentary on  
J.W. Construction Holding S.A in 2013.**



Ząbki, 19 March 2014



The Management Commentary on the Company of Construction Holding S.A.  
for the period from 01 January 2013 to 31 December 2013.

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## 1. Introduction

### Basic Information

J.W. Construction Holding S.A., a joint-stock company domiciled in Ząbki (the "Company"), registered with the Register of Companies of the National Court Register under number 0000028142, whose registration files are kept by the District Court for the Capital City of Warsaw, 14th Business Division of the National Court Register, is the parent company of the Capital Group of J.W. Construction Holding S.A. (the "Capital Group").

The history of the Company begins in 1993. The Company was formed from transformation of Towarzystwo Budowlano - Mieszkaniowe Batory Sp. z o.o. domiciled in Ząbki, established ( Company's agreement conclusion) on 10 February 1994 and registered by the Court on 7 March 1994. The transformation of a limited liability company into a joint stock company, executed under a notarial deed of 28 December 2000, was registered by the District Court for the Capital City of Warsaw, 16th Business and Registry Division on 15 January 2001.

The Company was entered into the Register of Companies of the National Court Register on 16 July 2001, when a change in the name of the Company was registered – from the then-current "Towarzystwo Budowlano - Mieszkaniowe Batory S.A." to the present "J.W. Construction Holding S.A."

Share capital of the Company amounts to PLN 10,814,656 and is divided into 54,073,280 A-and-B-class ordinary bearer with a par value of PLN 0.20 each.

## 2. Key economic and financial figures on J.W. Construction Holding S.A.

### Income Statement

Key items of the income statement for the years 2013 and 2012 in thousand of PLN, translated into EUR

| Consolidated income statement item                       | from 01-01-2013 to 31-12-2013 |               | from 01-01-2012 to 31-12-2012 |               |
|--|-------------------------------|---------------|-------------------------------|---------------|
|  | TPLN                          | TEUR          | TPLN                          | TEUR          |
| Net revenues from sales of products, goods and materials | 291,473                       | 69,217        | 282,961                       | 67,952        |
| Costs of products, goods and materials sold              | 235,344                       | 55,888        | 211,798                       | 50,863        |
| <b>Gross profit (loss) on sales</b>                      | <b>56,129</b>                 | <b>13,329</b> | <b>71,162</b>                 | <b>17,089</b> |
| Selling expenses   | 27,394                        | 6,505         | 24,691                        | 5,929         |
| Overhead expenses  | 13,263                        | 3,150         | 23,332                        | 5,603         |
| Profit (loss) on sales                                   | 31,362                        | 7,448         | 44,495                        | 10,685        |
| Operating profit (loss)                                  | 34,092                        | 8,096         | 51,883                        | 12,460        |
| <b>Gross profit (loss)</b>                               | <b>14,171</b>                 | <b>3,365</b>  | <b>11,224</b>                 | <b>2,695</b>  |
| Income tax   | 2,295                         | 545           | 3,163                         | 760           |
| <b>Net profit (loss)</b>                                 | <b>11,876</b>                 | <b>2,820</b>  | <b>8,061</b>                  | <b>1,936</b>  |



The Management Commentary on the Company of Construction Holding S.A.  
for the period from 01 January 2013 to 31 December 2013.

Structure and dynamics of changes in key items of the income statement

| Consolidated income statement item                       | from 01-01-2013<br>to 31-12-2013 |            | from 01-01-2012<br>to 31-12-2012 |                       |
|--|----------------------------------|------------|----------------------------------|-----------------------|
|  | PLN                              | % of sales | PLN                              | Dynamics<br>2013/2012 |
| Net revenues from sales of products, goods and materials | 291,472,964                      | 100%       | 282,960,791                      | 3%                    |
| Costs of products, goods and materials sold              | 235,344,186                      | 81%        | 211,798,400                      | 11%                   |
| Gross profit on sales                                    | 56,128,777                       | 19%        | 71,162,391                       | -21%                  |
| Operating profit   | 34,091,639                       | 12%        | 51,883,010                       | -34%                  |
| Gross profit   | 14,171,028                       | 5%         | 11,223,745                       | 26%                   |
| Net profit   | 11,876,418                       | 4%         | 8,061,064                        | 47%                   |

The company's revenue for 2013 amounts to PLN 291.5 million, the result is higher by 3% in comparison to the previous year.

**The Company's income structure in 2013**

The main item of income for 2013 are definitely the revenues from sales of products (83 % of revenues), revenues from sales of services constitute 16% and revenues from sales of goods around 1%, which is presented in the following table.

| OPERATING INCOME                | from 01-01-2013<br>to 31-12-2013 | % share     | from 01-01-2012<br>to 31-12-2012 | % share     |
|---------------------------------|----------------------------------|-------------|----------------------------------|-------------|
| Revenues from sales of products | 243,137,030.06                   | 83%         | 245,606,338.19                   | 87%         |
| Revenues from sales of services | 46,208,347.36                    | 16%         | 33,556,146.81                    | 12%         |
| Revenues from sales of goods    | 2,127,586.31                     | 1%          | 3,798,305.55                     | 1%          |
| <b>Total income</b>             | <b>291,472,963.73</b>            | <b>100%</b> | <b>282,960,790.55</b>            | <b>100%</b> |

**Statement of financial position**

The balance of assets, equity and liabilities as at 31 December 2013 and 31 December 2012 in PLN '000 and EUR '000

| Issuer's balance sheet item         | 31-12-2013       |                | 31-12-2012       |                |
|-------------------------------------|------------------|----------------|------------------|----------------|
|                                     | PLN              | EUR            | PLN              | EUR            |
| <b>Total Assets</b>                 | <b>1,288,027</b> | <b>310,578</b> | <b>1,452,050</b> | <b>355,181</b> |
| Non-current assets                  | 801,365          | 193,230        | 826,527          | 202,174        |
| Current assets                      | 486,662          | 117,347        | 625,523          | 153,007        |
| <b>Total Equity and Liabilities</b> | <b>1,288,027</b> | <b>310,578</b> | <b>1,452,050</b> | <b>355,181</b> |
| Equity                              | 533,665          | 128,681        | 521,788          | 127,633        |
| Non-current liabilities             | 459,263          | 110,741        | 554,927          | 135,739        |
| Current liabilities                 | 295,099          | 71,156         | 375,335          | 91,809         |



The Management Commentary on the Company of Construction Holding S.A.  
for the period from 01 January 2013 to 31 December 2013.

The structure and dynamics of changes in assets, equity and liabilities as at 31 December 2013 and 31 December 2012 are in PLN '000

| Issuer's balance sheet item         | 31-12-2013              |             | 31-12-2012              |                         |
|-------------------------------------|-------------------------|-------------|-------------------------|-------------------------|
|                                     | PLN                     | % of assets | PLN                     | Change 2013/2012        |
| <b>Total Assets</b>                 | <b>1,288,027,272.90</b> | <b>100%</b> | <b>1,452,049,731.61</b> | -11%                    |
| Non-current assets                  | 801,365,154.60          | 62%         | 826,527,139.72          | -3%                     |
| Current assets                      | 486,662,118.30          | 38%         | 625,522,591.89          | -22%                    |
|                                     |                         | % of assets |                         | <b>Change 2013/2012</b> |
| <b>Total Equity and Liabilities</b> | <b>1,288,027,272.90</b> | <b>100%</b> | <b>1,452,049,731.60</b> | -11%                    |
| Equity                              | 533,664,752.40          | 41%         | 521,788,333.53          | 2%                      |
| Non-current liabilities             | 459,263,300.61          | 36%         | 554,926,742.56          | -17%                    |
| Current liabilities                 | 295,099,219.89          | 23%         | 375,334,655.51          | -21%                    |

Structure of the balance sheet as at 31.12.2013 is as follows: assets are approximately 62 % of total assets and current assets are approximately 38% of assets. In comparison to 2012, the total balance sheet decreased by 11%.

#### Financial Ratios

##### Liquidity ratios

|  | 2013 | 2012 | 2011 |
|--|------|------|------|
|--|------|------|------|

##### Liquidity ratios I

|  |     |     |     |
|--|-----|-----|-----|
| $\frac{\text{total current assets}}{\text{current liabilities}}$ | 1.9 | 2.2 | 2.2 |
|--|-----|-----|-----|

##### Liquidity ratios II

|   |     |     |     |
|---|-----|-----|-----|
| $\frac{\text{total current assets- inventories}}{\text{current liabilities}}$ | 1.7 | 2.1 | 2.1 |
|---|-----|-----|-----|

##### Activity ratios

##### Receivables turnover in days

|  |    |    |    |
|--|----|----|----|
| $\frac{\text{average trade receivables *) x 365}}{\text{Revenues from sales}}$ | 42 | 64 | 63 |
|--|----|----|----|

##### Inventories turnover in days

|  |     |     |     |
|--|-----|-----|-----|
| $\frac{\text{average inventories *) x 365}}{\text{cost of products, goods and services sold}}$ | 689 | 917 | 826 |
|--|-----|-----|-----|

##### Return ratios

##### Net profit margin on sales

|   |      |      |      |
|---|------|------|------|
| $\frac{\text{Net profit/loss}}{\text{Revenues from sales}}$ | 4.1% | 2.8% | 7.6% |
|---|------|------|------|



The Management Commentary on the Company of Construction Holding S.A.  
for the period from 01 January 2013 to 31 December 2013.

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**Return on sales**

|  |       |       |       |
|--|-------|-------|-------|
| $\frac{\text{operating income}}{\text{Revenues from sales}}$ | 19.3% | 25.1% | 24.0% |
|--|-------|-------|-------|

**ROA**

|  |      |      |      |
|--|------|------|------|
| $\frac{\text{Net profit/loss}}{\text{total assets}}$ | 0.9% | 0.6% | 2.0% |
|--|------|------|------|

**ROE**

|  |      |      |      |
|--|------|------|------|
| $\frac{\text{Net profit/loss}}{\text{Equity}}$ | 2.2% | 1.5% | 4.9% |
|--|------|------|------|

**Debt ratios**

**Payables turnover in days**

|  |     |     |    |
|--|-----|-----|----|
| $\frac{\text{average trade payables *) x 365 days}}{\text{cost of products, goods and services sold}}$ | 118 | 150 | 98 |
|--|-----|-----|----|

**Debt ratio**

|   |       |       |       |
|---|-------|-------|-------|
| $\frac{\text{liabilities and provisions for liabilities}}{\text{total equity and liabilities}}$ | 58.6% | 64.1% | 58.7% |
|---|-------|-------|-------|

**Efficiency of shares**

**BVPS in PLN**

|   |      |      |      |
|---|------|------|------|
| $\frac{\text{Equity}}{\text{number of shares}}$ | 9.87 | 9.65 | 9.40 |
|---|------|------|------|

**Net profit/loss per share in PLN**

|  |      |      |      |
|--|------|------|------|
| $\frac{\text{Net profit/loss}}{\text{number of shares}}$ | 0.22 | 0.15 | 0.47 |
|--|------|------|------|

In the current accounting year gross profit margin on sales at lower level in comparison to the previous year, however it is still on a satisfactory level. Net profit margin on sales increased in comparison to the previous year. Liquidity ratios are at slightly lower level than in the previous year. Debt ratio, average payables and receivables payment period ratios improved in comparison to the previous year.

**3. Significant risk factors and uncertainties**

The risks recognised by the Company include interest rate risk, liquidity risk, currency risk, credit risk, administrative risk and competition risk.

**Interest rate risk**

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The Management Commentary on the Company of Construction Holding S.A.  
for the period from 01 January 2013 to 31 December 2013.

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The Company raises funds for implementation of its projects based on floating interest rate loans. Those are mainly loans incurred for the period of the construction of a given investment project – approximately from 2 to 3 years. The Company also has bonds with floating market rate interest. Significant reductions in base rates in the last year will positively influence the level of financial costs.

#### **Credit Risk**

A great part of the Company's clients purchase with bank loans. Risks connected with the offered loans are secured with insurance of particular debts on behalf of Clients. There is no significant credit risk concentration in any group of Clients. Moreover, the Company systematically evaluates payments made by the Clients, as well as their financial standing.

#### **Liquidity risk**

The Company pays special attention to keeping the balance between financing its investment activities and timely payment of its liabilities. The liquidity is dependent on the banks' credit policy, both mortgage and investment. The lack of banks' financing, developers and individual Clients may have impact on beginning new investments, the demand for apartments, regularity of payments and, thus, on cash flows.

#### **Administrative risk**

The developer activity is based on administrative decisions required in connection with the present or future projects. The lack of licenses, permits or concession or late obtainment of the same way may have adverse effect on the ability to commence, conduct or complete present and new developer projects by the Company. All those factors may have impact on financial flows and overall operations.

#### **Untypical circumstances having effect on earnings**

In 2013 there were no untypical circumstances and events having effect on earnings for the accounting year.

### **4. Development perspectives of the Company**

#### **Aims of J.W. Construction Holding S.A**

- To start the biggest number of new residential projects offering faster, current cash flow and return on investment from previously purchased plots.
- To intensify works related to the preparation of project documentation and to obtain building permits.
- The acquisition of the leader position both among developers in Warsaw and across the country, due to its expansion into other areas of Poland– Tri-City market, Łódź, Katowice, Poznań - on the basis of still owned extensive land bank in Warsaw and above mentioned cities as well,
- Reduction and postponement of commercial and hotel projects, acquisition of partners for implementing these projects is being considered
- The commencement of new projects within SPVs.
- Active actions toward non-performing assets



The Management Commentary on the Company of Construction Holding S.A.  
for the period from 01 January 2013 to 31 December 2013.

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#### The planned Investments in 2014:

In 2014, the Company plans capital investments in SPVs, which will be responsible for particular housing investments, both in Warsaw and other big agglomerations of Poland, among others in Katowice, Gdynia and Łódź. The Company of J.W.Construction Holding S.A will hold 100% of shares in SPVs. The company will supply, for remuneration, administrative services, and on the part of some investments, development services to the SPVs. The company will also be responsible for marketing and premises sale.

J. W. Construction Holding S.A already decided to launch new projects within established special purpose vehicles. The investment will be financed from its own funds, inflows from the Clients in the case of the escrow account and from a bank loan. The Company at the initial stage of the investment project will make land sale transactions and other related expenses incurred, inter alia, project documentation and preparation of investment. Within SVPs, the Company plans to launch new residential projects in Warsaw, among others in Białoleka District, at Zdziarska Street, Lewandów Street and Berensona Street and will continue next stages of constructions at Kasprzaka Street - "Bliska Wola."

Simultaneously, there are some works in progress on commencing the investment in Łódź, at Tymienieckiego Street. In H1 2014, the construction and sale of the stage 3 of the investment will begin, the stage will include 95 units.

Moreover, the Company is working on the commencement in 2014 of next residential projects in Katowice at Bałtycka Street and at Tysiąclecia Street - further stages and in Gdynia, at Spokojna and Sochaczewska Street.

The housing investments planned to be run within SPVs in 2014 will include about 2,300 premises.

| The planned housing investments in 2014         | City/ District     | Number of units/houses: |
|---|--------------------|-------------------------|
| Bliska Wola - Stage B1                          | Wola, Warsaw       | 673                     |
| Bliska Wola - Stage B2                          | Wola, Warsaw       | 291                     |
| Osiedle Zielona Dolina II – at Zdziarska Street | Warsaw / Bialoleka | 549                     |
| Osiedle Berensona                               | Warsaw / Bialoleka | 263                     |
| Osiedle Lewandów IV                             | Warsaw / Bialoleka | 90                      |
| Osada Wiślana IV                                | Warsaw / Bialoleka | 21                      |
| Katowice, Bałtycka Street, Stage I              | Katowice           | 71                      |
| Gdynia, Spokojna Street, stage I                | Gdynia             | 196                     |
| Gdynia, Sochaczewska/Płocka Street              | Gdynia             | 51                      |
| Osiedle Tymienieckiego III                      | Łódź               | 95                      |

#### Market condition:

The analysis of the real estate market and own recognition of the buyers' preferences indicate the usefulness of the current strategy, consisting primarily on meeting the needs of middle-income Customers, and also a skilful adjustment to the demands of the wealthy Clients. In recent period, the Company has noticed an inflow of such Clients, who, seeing that the rate of return on bank deposits is not at a satisfactory level, invest in real estates. On the other hand, there are growing needs of middle-income Poles. Many of them, especially in working age, have



The Management Commentary on the Company of Construction Holding S.A.  
for the period from 01 January 2013 to 31 December 2013.

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great housing needs which are blocked by the lack of government support and the stringent requirements of institutions financing the purchase of real estates.

From a macroeconomic point of view, people in Poland still lack about 0.7 million flats. In addition, there are many existing residential buildings which are in very poor condition and require either a major renovation or even demolition. Eurostat data say that probably in such a situation there may be over 1.5 million flats, may translate into the actual increase in the level of demand in the nearest future.

In 2013, despite the unrelenting demand and low supply in the market, we had to deal with the increasing restriction support for buyers and developers by the government. In the past year, customers due to the absence of the government's program which supports pro-family policy did not benefit from any subsidies dedicated to the purchase of real estate, as it was previously in the case of "Family on its own". Many people in this situation have decided to suspend the decision on the purchase an apartment for the next year in which the government program "The apartment for the Young" will be run. Developers had to not only agree for the long-term process of obtaining the necessary administrative decisions for current and planned projects, but also the had to adjust the introduction of new housing projects to the requirements of the Act on Protection of Rights of Buyers of Residential Units and Single-Family Houses, ie. The Developers Act. In turn, it was also connected with operating a separate trust account or thorough prospectus for each project. As a result, the market has braced financing new projects because not all banks did not run escrow accounts specified by provisions of the Act.

In this situation, a quite satisfactory level of demand guaranteed low mortgage interest rates and relaxation of, so far, very restrictive rules for granting loans. In the analysed period, the stabilization on the mortgage market (number of concluded loan agreements in the fourth quarter of 2013 increased by 2.48 % in comparison to the third quarter of 2013).

Due to introduction of the program "The apartment for the Young", plans of commencing "Housing Action Trust" and the persistent low interest rates, the Company is not worried about their sale plans. This year, the Company plans to introduce the next stage of the investment in the city center - Bliska Wola II. In addition to this investment, there are also other investment which are planned to run not only in Warsaw but also in other Polish cities, what should translate into sale result achievement.

**Business prospects:**

The priority for the Company are still development projects that, as opposed to commercial projects, bring a quick return on investment. The Company primarily dedicates its residential offer to middle-income group, hence the planning and implementation of cost-effective investments, in attractive locations - tailored to the financial capacity of potential buyers, such as the investment in the City Centre - "Bliska Wola", and in Białołęka district - "Zielona Dolina". The Company offers its help in acquisition of mortgage credits. Within the financing offer, some programs adjusted to the financial capacities of the buyers can be offered. The Company, thanks to its successful





The Management Commentary on the Company of Construction Holding S.A.  
for the period from 01 January 2013 to 31 December 2013.

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cooperation with major banks, have diversified the offer of credits based on preferential terms and dedicated only to the clients of the Company.

The Company plans to increase sales in the coming year and later. This will be possible mainly due to introduction of more than two thousand new premises, primarily due to the popular investment of Bliska Wola, Warsaw (2 subsequent stages with 964 units). A good predictor of the rate of sales is the fact that from the beginning of the year, the governmental program "The flat for the Young", which through subsidies helps young people to buy their first apartment in the primary market. The Company is also probably one of the first developers which is ready to allocate entire buildings for the government program "Housing Action Trust." The Company plans that even six buildings on the investment Zielona Dolina will be fully allocated for sales within this program.

Despite of attitude primarily focused on developer activity, the Company intends to continue already commenced diversification of its revenues in previous years, through participation in the hotel industry branch on a national scale utilizing its potential and possibilities of obtaining financing (special funds). The company has launched the hotel project "Stara Dana", involving the revitalization of the existing building. The investment will be co-financed with European funds, i.e loans within the initiative of JESSICA. Similarly to residential investments, the project "Stara Dana" will be implemented within SPVs as well. In order to perform this, the Company of Dana Invest Sp. z o.o was established.

To sum up, the Company regardless of the situation on the market diversifies risk through:

- implementation of commenced new investments,
- preparations to run a new investment in the capitol and other, various part of Poland,
- continuation of hotel activity.

## **5. Main products of the Company of J.W. Construction Holding S.A.**

### **Developer activity**

In the scope of developer activity, the Company is currently offering premises, which can be divided into the following market segments:

- Popular flats: flats located in communities which are located mainly outside the city centre of urban areas such as for example Warsaw, etc, usually comprising of not less than 200 hundreds flats with an average area of 50m<sup>2</sup>. Examples of such popular flats are the following investments: Osiedle Lewandów Park (Warsaw-Białoleka), Villa Campina (Ożarów Mazowiecki), Osiedle „Zielona Dolina I” (Warsaw-Białoleka).
- Flats with higher standard: flats which are located close to the city centre and in popular districts, situated in buildings with higher architecture standard. The example of such projects is e.g Oaza



The Management Commentary on the Company of Construction Holding S.A.  
for the period from 01 January 2013 to 31 December 2013.

Piątkowo in Poznań, Górczewska Park - Warsaw, Wola as well as Rezydencja Redłowo in Gdynia - implemented within SPV and Bliska Wola (Warsaw, Wola) - implemented within SPV.

Flats are offered both in shell unit and turnkey standard. The offer includes 2 interior design programs: Smart and Optima, which have been selected as the most popular among buyers of our flats. Programs include a choice of a wide range of finishing materials from the catalogue of products dedicated to the offer.

In 2013. The Company directly, or within SPVs implemented seven developer projects: Oaza Piątkowo in Poznań, Zielona Dolina Stage I, Osiedle Światowida in Warsaw, Rezydencja Redłowo in Gdynia (within SPV of Seahouse Sp. z o.o.), Osiedle Nowe Tysiąclecie in Katowice (within SPV of Nowe Tysiąclecie Sp. z o.o.) and Bliska Wola Stage A (within SPV of J.W. Group Sp. z o.o. 1 SKA) and the development of single-family houses Villa Campina near Ożarów Mazowiecki. The Company also obtained a building permit for the following investments: Łódź III, at Tymienieckiego Street, 2 stages of the development of Nowe Tysiąclecie and for the development at Bałtycka Street in Katowice, one of which (at Tysiąclecia Street) was already introduced to sale.

In parallel to the residential investments, The Company started revitalization of the hotel venue of "Stara Dana". Stara Dana is a five-storey building and according to the project the investment will perform the functions of the hotel venue.

The hotel will include about 107 rooms, a restaurant, a multi-functional room and mini SPA. The planned total net ground area is 4,326 m<sup>2</sup>. The investment will be implemented within SPV of Dana Invest Sp. z o.o.

The following investment projects were being implemented in 2013:

| No. | Housing investments   | Number of units |
|-----|---|-----------------|
| 1   | Zielona Dolina I, Warsaw                                    | 596             |
| 2   | Osiedle Światowida - Warsaw                                 | 184             |
| 3   | Oaza Piątkowo, Poznań                                       | 183             |
| 4   | Bliska Wola - Stage A, Warsaw - J.W. Group Sp. z o.o. 1 SKA | 156             |
| 5   | Nowe Tysiąclecie, Katowice – Nowe Tysiąclecie Sp. z o.o.    | 149             |
| 6   | Rezydencja Redłowo – Gdynia – Seahouse Sp. z o.o.           | 52              |
| 7   | Villa Campina - houses, Ożarów                              | 2               |

| No. | Hotel and commercial investments                             | Usable Space |
|-----|--|--------------|
| 1   | Stara Dana – Szczecin – revitalization of the existing venue | 4,326        |
| 2   | "Hanza Tower" - Szczecin - zero level                        | 36,328       |

From shown above projects, the Company commenced construction works in a residential estate of Bliska Wola, at Kasprzaka Street, Warsaw and Nowe Tysiąclecie in Katowice. Both investments are implemented within SPVs. In December 2013, the investment of Osiedle Oaza Piątkowo in Poznań was completed. The Company obtained the use permit for the following residential investments: Villa Campina in Ożarów Mazowiecki (single-family houses), Zielona Dolina I in Warsaw and Osiedle Światowida in Warsaw.

In 2013, the Company received the following decision on permission:

- a) Building permission



The Management Commentary on the Company of Construction Holding S.A.  
for the period from 01 January 2013 to 31 December 2013.

---

On 3 April 2013, the Company from the group - J.W. Group Sp. z o.o received a building permit for the first stage of a multifamily community " Bliska Wola" at Ordon/Kasprzaka Street in Warsaw. The permit is final.

On 12 August 2013, the Company received a building permit for the 1st stage of the multifamily estate at Bałtycka street in Katowice. The permit is final.

On 18 October 2013, the Company received building permits for 6 single-family houses in Villa Campina estate in Ożarów Mazowiecki. The permits are final.

On 3 December 2013, the Company received a building permit for the multifamily estate Łódź Tmienieckiego III at Tymieckiego street in Łódź. The permit is final.

b) Occupancy permits

On 12 March 2013, the Company received the occupancy permit for the multi-family real estate "Osiedle Światowida" at Światowida Street in Warsaw. The permit is final.

On 14 March 2013, the Company received the occupancy permit for the multi-family real estate " Zielona Dolina" at Zdziarska Street in Warsaw. The permit is final.

On 05 December 2013, the Company received the use permit for 8 single-family houses - show houses in Villa Campina Investment near Ożarów Mazowiecki. The permits are final.

c) The investment implementation commencement

On 12 December 2013, the entry on the completion of the construction of a multi-family housing estate "Oaza Piątkowo" at Jaroczyńskiego street, Poznań was made in the Construction Logbook.

### **Hotel activity**

In 2013, the Company continued its hotel activity. Currently, the hotel infrastructure includes 4 stable prosperous Hotels 500 located in Zegrze, close to Warsaw (as the operator), Tarnowo Podgórne, Stryków, Cieszyn and luxurious, open in 2012, venue - "Czarny Potok Resort & SPA" in Krynica Zdrój.

Revenues from the sale of hotel services in 2013 amounted to PLN 23.304.132,94. In 2013, there was an increase in revenues from hotel operations in comparison to the previous year by 31%. In 2013, the average number of occupied hotel beds within the whole chain was on the level of 31% and maintained at the same level like in the previous year. Owing to the established position of the Hotel 500 chain, the hotel guest structure remained unchanged. The primary hotel guests are still corporations and organised tourist groups.

### **Real estate management activity**

The Company also takes care for correct tenant moving-in procedure, from the day of handing particular apartments over, through transferring the ownership right to the same, to commissioning the real estate to appointed housing communities. The Company usually acts as a real estate administrator up to 12 months from the project completion date. This time is required for appointment, constitution and implementation the proper functioning of the Community Housing. Currently we provide services in terms of administrative support for 19 properties with a total usable area of the property of 609,000 m<sup>2</sup> of which the monthly revenue for the administration services amounts to PLN 360,000.



The Management Commentary on the Company of Construction Holding S.A.  
for the period from 01 January 2013 to 31 December 2013.

---

In 2013, revenues from sales of the Company were as follows:

| Revenues from sales of products and services per business segment | from 01-01-2013 to 31-12-2013 | from 01-01-2012 to 31-12-2012 | change % |
|---|-------------------------------|-------------------------------|----------|
|   | 289,345,377.42                | 279,162,485                   | 4%       |
| - developer activity  | 259,613,208.70                | 255,768,124                   | 2%       |
| - hotel activities  | 23,304,132.93                 | 17,389,134                    | 34%      |
| - property management   | 6,428,035.79                  | 6,005,227                     | 7%       |

## 6. Information about the market

Presently the biggest and the main market for the business of the Company is the Warsaw market where more than 80% of sales volume is executed. According to the Company, the Warsaw market is the largest and most stable housing market in Poland, with the highest prices per square meter of living space, and implemented investments have the highest levels of profitability.

Taking advantage of its stable position in the developer market and its offer competitiveness, the Company successfully continues a development of projects in other big agglomerations such as Gdynia, Poznań, Łódź, Katowice.

## 7. Suppliers and recipients of the Company

Among the Company's suppliers there is no single counterparty with which the turnover would exceed 10% of the Company's equity.

It is impossible to distinguish one main contractor among the recipients of the Company. The majority of the recipients of the Company are individual buyers of flats.

## 8. Significant agreements for the business of the Company

### 8.1 Construction contracts

There are no contracts of which value exceeds 10% of the Company's equity.

### 8.2 Insurance agreements

The Company enters into various insurance agreements, being both obligatory and optional insurance, connected with the nature of its business.

Under the building projects, the Company holds insurance policies for construction sites, covering possible losses which may occur during implementation of investments, including third party liability insurance for conducted works. Insurance agreements are concluded for the term of implementation of particular investments.

The Company holds insurance agreements for non-current assets owned by the same. The value of policies is established based on the replacement value of such assets, in PLN or EUR, depending on the currency of purchase of a given asset. Insurance policies are concluded for the term of one year.



The Management Commentary on the Company of Construction Holding S.A.  
for the period from 01 January 2013 to 31 December 2013.

The company has a separate agreement on the Third Party Insurance for its business, including developer, property management, and hotel business activity.

Upon completion of investments and expiry of insurance on building works, the Company enters into insurance agreements for the constructed buildings. Rights under such agreements are transferred, by way of annexes, to housing communities managing the insured real estate, after such communities have been established.

As at 31 December 2013, the Company held the following policies.

| Coverage  | Insurer  | Sum insured in PLN   |
|---|--|--|
| Insurance connected with business activity of real estate management and performing the function of a real state manager              | Towarzystwo Ubezpieczeń ALLIANZ  | PLN 1,200,000  |
| Business public liability   | Sopockie Towarzystwo Ubezpieczeń ERGO HESTIA S.A.  | PLN 10,000,000   |
| Third Party Insurance for the hotel activity of Czarny Potok Resort and Spa.  | Towarzystwo Ubezpieczeń ALLIANZ S.A.   | PLN 10,000,000   |
| Insurance connected with all other risks and accidents connected with implemented contracts including third party liability insurance | (HDI) Towarzystwo Ubezpieczeń i Reasekuracji WARTA S.A.  | PLN 34 583 333 +<br>Third Party Insurance in<br>the amount of PLN<br>3,000,000 |
| Property insurance including the assets held in connection with hotel activity.   | Towarzystwo Ubezpieczeń ALLIANZ S.A.<br>ACE EuropeanGroup Limited<br>Sp. z o.o. Branch in Poland<br>Compensa TU S.A. | PLN 317,528,509  |

### 8.3 Financial agreements concluded and terminated during the accounting year

#### 8.3.1 Loans terminated

Both in 2013 and in the period from the balance sheet date until the date of this Management Commentary for 2013 none of the credit agreements was terminated.

#### 8.3.2 Loans contracted

**In 2013, the Company entered into a credit agreement as follows:**

On 29 January 2013, the Company concluded an investment credit agreement in the amount of PLN 10,955,252 with PKO BP SA for refinancing the construction costs of a part of flats built within the development of "Lewandów Park II" in Warsaw. The repayment date was set for December 31, 2014 - the credit was repaid ahead of schedule.

On 29 June 2013, the Company concluded a non-revolving credit agreement with Invest Bank SA in the amount of PLN 10 million dedicated to finance a current activity. The repayment date was set on 31 October 2014.

**In 2013, the Company repaid the following credits:**



The Management Commentary on the Company of Construction Holding S.A.  
for the period from 01 January 2013 to 31 December 2013.

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On 09 May 2013, the Company repaid the revolving working capital loan granted by Invest Bank S.A to co-finance the commercial investment of "Łódź Tymienieckiego II" at Tymienieckiego Street in Łódź.

On 19 December 2013, the Company repaid an investment credit in the amount of PLN 10,955,252 which was dedicated to refinance the construction costs of flats built within the development of Lewandów Park II real estate in Warsaw.

On 25 November 2013, the Company fully repaid the loan which was granted in order to co-finance the development of the hotel facility - Hotel 500 Wygoda in Cieszyn, in the amount of PLN 2,600,000.

**In 2013, the following changes occurred in credit agreements that were concluded in the previous years:**

On 21 January 2013, the Company signed the Annex to the overdraft facility agreement with Millennium Bank S.A . By virtue of the Annex, the repayment term of the credit was set on 22 January 2014.

On 15 February 2013, the Company concluded the Annex to the revolving loan granted by Millennium Bank S.A to co-finance the investment of "Oaza Piątkowo" in Poznań. Pursuant to the Annex, the amount of the given credit was reduced from PLN 21 milion to PLN 20 milion and the final repayment date with credit use period was postponed. The final repayment date is set on 30 June 2015.

On 25 April 2013, the Company concluded an Annex to the working capital credit granted by Bank Polskiej Spółdzielczości S.A in the amount of PLN 10 million, dedicated to finance a current activity. By virtue of the Annex, the credit use period and repayment date was postponed. The final repayment date is set on 25 April 2014.

On 25 April 2013, the Company concluded an overdraft facility agreement with Invest Bank S.A in the amount of PLN 15 million. By virtue of the Annex, the credit use period and repayment date was postponed. The new final repayment date is set on 25 April 2014.

On 26 April 2013, the Company concluded an Annex to the overdraft credit with PKO BP S.A in the amount of PLN 10 million. By virtue of the Annex, the credit use period and repayment date was postponed. The new final repayment date is set on 27 April 2014.

On 27 September 2013, the Company concluded the Annex to the revolving loan granted by Bank BOŚ S.A to co-finance the investment of "Zielona Dolina - substage 1" in Warsaw. By virtue of the Annex, the repayment term of the credit was set on 31 October 2014.

On 25 October 2013, the Company concluded the Annex to the revolving loan granted by Bank BOŚ S.A. to co-finance the development of "Zielona Dolina - substage 1" in Warsaw. By virtue of the Annex, the repayment term of the credit was set on 31 March 2015.

Detailed information about liabilities under loans as at 31 December 2013 is presented under Note 12 to the financial statements.

### 8.3.3 Cash loans contracted

During the reporting period none of the financial agreements was terminated.

### 8.4.3 Cash loans granted

During the reporting period the Company granted the following cash loans:

| Borrower            | Granted on | Amount and currency | Interest rate     | Maturity date |
|---------------------|------------|---------------------|-------------------|---------------|
| Seahouse Sp. z o.o. | 25/02/2013 | PLN 110.000         | WIBOR 3M + margin | 31/12/2015    |



The Management Commentary on the Company of Construction Holding S.A.  
for the period from 01 January 2013 to 31 December 2013.

|                                       |            |             |                   |                   |
|---------------------------------------|------------|-------------|-------------------|-------------------|
| Seahouse Sp. z o.o.                   | 07/03/2013 | PLN 50.000  | WIBOR 3M + margin | 31/12/2014        |
| Seahouse Sp. z o.o.                   | 21/03/2013 | PLN 653.000 | 6 %               | 31/05/2013 repaid |
| YAKOR HOUSE                           | 24/01/2013 | PLN 135.000 | WIBOR 3M + margin | 31/12/2015        |
| YAKOR HOUSE                           | 05/04/2013 | PLN 110.000 | WIBOR 3M + margin | 31/12/2015        |
| YAKOR HOUSE                           | 15/07/2013 | PLN 135.000 | WIBOR 3M + margin | 31/12/2015        |
| YAKOR HOUSE                           | 23/09/2013 | PLN 120.000 | WIBOR 3M + margin | 31/12/2016        |
| YAKOR HOUSE                           | 05/11/2013 | PLN 153.000 | WIBOR 3M + margin | 31/12/2016        |
| J.W. Construction Bulgaria Sp. z o.o. | 31/12/2013 | EUR 80,000  | LIBOR 3M + margin | 31/12/2017        |

#### 8.4. Agreements between its shareholders which could be significant for the activity of the Company

The Company is not aware of any agreements concluded between its shareholders which could be significant for its activity.

#### e) The issue of bonds

On 24 January 2013, the Board Management passed a resolution, on the basis of which has changed the terms of the issue of bonds, issued pursuant to the Resolution of 26 April 2012 in the number of 9,500 units with a nominal value of PLN 10,000 each and a total value of PLN 95 million identified in the NDFS system as PLJWC0000043 in respect of: (i) the maturity of the bond, which was changed from 27 April 2015 to 25 January 2016, (ii) supplementing interest table with three new interest periods falling respectively on the date from 24 April 2015 to 24 July 2015, from 24 July 2015 to 23 October 2015 and from 23 October 2015 to 25 January 2016; (iii) the interest by an increase margin by 0.75% binding from 25 January 2013, the Company obtained the approval of all bondholders to change the above mentioned terms of the issue.

On 25 January 2013, the Company issued a total number of 1,057 pieces of secured bonds with a par value PLN 100,000 each and a total value of PLN 105,700,000, of which the issue price corresponds to the par value, and the interest rate was based on WIBOR 3M plus margin (the "Bonds"), with a final maturity of 25 January 2016. The purpose of the Bonds issue was a partial debt repayment of repayment of the Series A bonds issued by the Company pursuant to the Resolution No. 1 of the Management Board of 18 June 2010, registered in the The National Depository for Securities S.A in Warsaw under ISIN code of PLJWC0000035. The bonds were paid with series A Bonds. In consequence of the Bonds issuance, 1057 series A bonds marked with ISIN code of PLJWC0000035 were deregistered from depository of securities held by the National Depository for Securities S.A, 243 bonds of the above-mentioned series remained. The bonds entitle bondholders to be given a redemption installment in the amount of 10% of a par value on 25 April 2014 and 25 April 2015. The redemption installment, referred to above, reduces the amount of the redemption of the Bonds attributable to pay on the final maturity date. Interest is paid quarterly. The bonds are secured by the establishment of:

(1) joint mortgage in the amount of PLN 135,000,000 on:





The Management Commentary on the Company of Construction Holding S.A.  
for the period from 01 January 2013 to 31 December 2013.

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(a) real estate ownership right built with an office building located in Warsaw, in Aleje Jerozolimskie 216 Street, entitled to the Company. The property is comprised of a plot of land No. 62/2 with an area of 3,999m<sup>2</sup>, for which the District Court for Mokotów Warsaw XIII Division of Land Registry maintains land and mortgage register No. WA1M/00149632/9 (a value of the above-mentioned property is according to the evaluation prepared by certified property appraiser which was estimated at the amount of PLN 36,365,800 net) (the Company provides a collateral);

(b) right of perpetual usufruct of property, entitled to the Company, which consists of a parcel of land located in Krynica-Zdrój at Czarny Potok Street with No. 163/1, 164/1, 164/4, 174/4, 146, 172, 173, 174/8, 174/9, with a total area of 29,491 m<sup>2</sup>, and the right of ownership of buildings built on the property and are under separate ownership, for which the District Court in Nowy Sącz, X Branch Land Registry in Muszyna maintains the Land and Mortgage Register No. NS1M/00007069/8 (a value of the above-mentioned property is according to the evaluation prepared by certified property appraiser which was estimated at the amount of PLN 200,268,000,000) (the Company provides a collateral);

(c) undeveloped real estate ownership right entitled to the company of Lokum Spółka z o.o with its seat in Warsaw ( a subsidiary):

(i) comprising of plots of land No. 86/2 i 86/4, with a total area of 15,066 m<sup>2</sup>, located in Konstancin - Jeziorna, at Bielwska Street, for which the District Court in Piaseczno, IV Land Registry maintains the Land and Mortgage Register No. WA1I/00006117/5 and

(ii) comprising of a plot of land with No. 84/27 with an area of 29m<sup>2</sup> located in Konstancin-Jeziorna at Bielwska Street, for which the District Court in Piaseczno, IV Land Registry maintains the Land and Mortgage Register No. WA1I/00006116/8,(which the value is according to the evaluation prepared by certified property appraiser which was estimated at the amount of PLN 4,212,000) (Lokum Spółka z o.o provides a collateral); and

(2) property mortgage in the amount of PLN 75,000,000 which ownership right is entitled to the Company and which is located in the municipality of Ożarów Mzaowiecki, in the area of Sochaczewska and Żyzna Street, consisting of plots of land with a total area of 141,497 m<sup>2</sup>, for which the District Court in Pruszkow, VI Land Registry maintains Land and Mortgage Register No. WA1P/00105675/5 (a value of the above-mentioned property is according to the evaluation prepared by certified property appraiser which was estimated at the amount of PLN 86,152,000) (the Company provides a collateral).

The mortgages were written in favour of bondholders, whose rights and obligations of the encumbrancer are performed by Biedeki Biedeki and Partners Legal Advisers, as an administrator of the mortgage.

On 24 April 2013, the Company issued a total number of 9,120 bearer bonds with a par value of PLN 10,000 each and the total nominal value of PLN 91.2 million, the issue price equals par value,and the interest rate was





The Management Commentary on the Company of Construction Holding S.A.  
for the period from 01 January 2013 to 31 December 2013.

determined and based on WIBOR 3M plus margin. The Company is required to fully redeem the bonds at the date of January 26, 2016, through the payment of bonds redemption amount which equals the par value plus interest due. Interest will be paid annually. Bonds are in the form of the document. The purpose of this issue is to finance the redemption of promissory notes in the amount of PLN 91.2 million. The bonds are unsecured, but the Company committed itself to bring to registration by the competent district court within three months from the issue date, ie on 24 April 2013, the security of the Bonds in the form of a mortgage on the developed property perpetual usufruct located in Warsaw, Kasprzaka 29/31 Street including plots 3/3 and 3/1 with a total area of 81,185 m<sup>2</sup>, marked with the land register no WA4M/00162186/5, which is owned by the State Treasury, and the perpetual lessee till December 5, 2089, is J.W Group Sp. z o.o 1 SKA with its seat in Ząbki - a subsidiary of the Company. J.W. Group Spółka z o.o 1 SKA with its seat in Ząbki z o.o grants and establishes the collateral. Under the terms of the bond issue, a part of the property constituting the collateral of the bonds will be exempt from the collateral, after approval to such an exemption given to the administrator of a mortgage by all bondholders. The mortgage was written in favour of bondholders, whose rights and obligations of the encumbrancer are performed by Biedecki Biedecki and Partners Legal Advisers, as an administrator of the mortgage.

#### Redemption of bonds

On 25 January 2013, the Company redeemed a part of the 1,300 A-series of unsecured bonds issued by the Company pursuant to the Resolution of the Board of the Company dated on 18 June 2010, registered with the Central Securities Depository S.A in Warsaw under ISIN code PLJWC0000035. 1,057 bonds with a par value of PLN 100,000 each and a total value of PLN 105.7 million were subject to redemption.

On 25 June 2013, the Company redeemed part of the 1300 bonds of unsecured A series, issued by the Company pursuant to Resolution of the Board of the Company dated on 18 June 2010, registered with the National Depository for Securities S.A. in Warsaw under ISIN code of PLJWC0000035. 1,057 bonds subject to redemption with a nominal value of PLN 100,000 each and a total value of PLN 24.300.000.

Furthermore, the Company in the reporting period made the following uses of bonds:

- A) bonds issued on June 25, 2012, in the total number of 1,300 units with a par value of PLN 100,000 and a total value of PLN 130 million, where the Company made a withdrawal and carried out their redemption.
- B) bonds issued on April 27, 2012, in the total number of 9,500 units with a par value of PLN 10,000 and a total value of PLN 95 million, where the Company withdrew interest quarterly.

The Company held, as at 31.12.2012, bills of exchange amounting to PLN 32.4 million.

#### 8.6. Information about guarantees and warranties granted and received

In 2013 the following guarantees were granted by the Company:

| Beneficiary of the guarantee  | Guarantee value |
|---|-----------------|
| Guarantees to the benefit of Bank Zachodni WBK on the investment credit of the Company of Seahouse Sp. z o.o. | 25,500,000.00   |
| Guarantees to the benefit of TBS "Marki" Sp z o.o.  | 22,400,000.00   |
| Guarantees to the benefit of J.W. Construction Sp. z o.o.   | 7,000,000.00    |
| Guarantees to the benefit of Capital City of Warsaw   | 151,300.00      |



The Management Commentary on the Company of Construction Holding S.A.  
for the period from 01 January 2013 to 31 December 2013.

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|  |            |
|--|------------|
| Guarantees to the benefit of Alliance Silesia II | 341,697.60 |
|--|------------|

The list of warranties and guarantees granted within the Company, year-to-date as at 31 December 2013, is presented in Note 26 to the financial statements.

#### **8.7 Employee share plan control system**

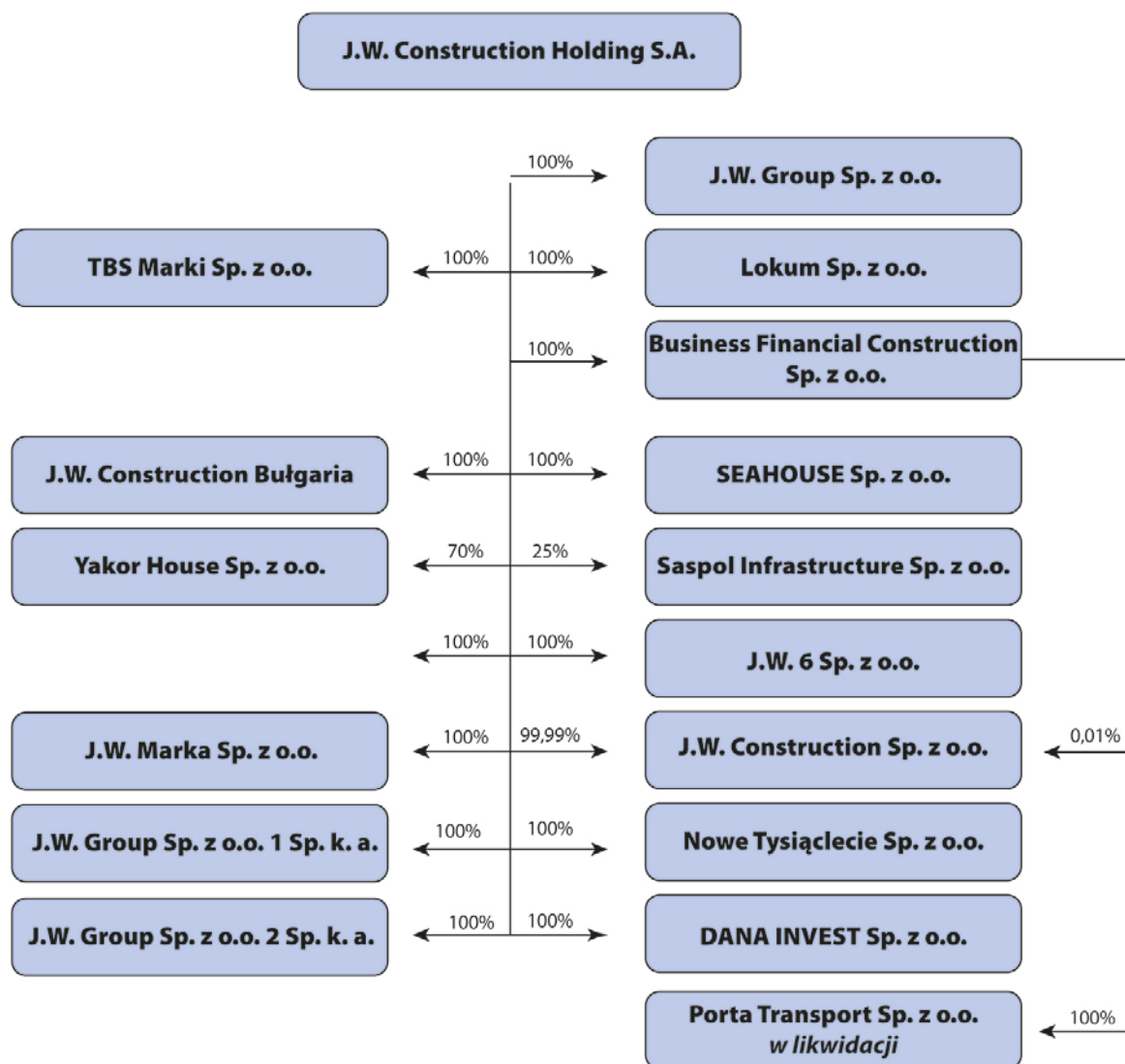
The Company does not have any employee stock ownership plans.

#### **8.8 Other relevant agreements**

On 24 September 2013, the Company sold the property situated in Katowice at Tysiąclecia street, Katowice constituting plot no 43/5 and 43/6 of the total area of 0.7054 hectares in the amount of PLN 2,912,000 net (ie PLN 3,581,760 gross) to a subsidiary operating under the name of the Nowe Tysiąclecie with its seat in Ząbki. The building project was sold altogether with the property. Within the Capital Group of the Company, the Buyer will be implementing the residential investment which is dedicated to be sold within a separate project.

#### **9. Organisational and capital relations of the Company with other entities as at 31/12/2013.**

Shares in other subsidiaries with description



Shares in other subsidiaries with description

#### J.W. Construction Sp. z o.o.

The Company of J.W. Construction Sp. z o.o with its seat in Ząbki entered in the register of entrepreneurs of the National Court Register under KRS number 300959. The Company holds 99.99% of its shares. Share capital of the Company amounts to PLN 27.021.650 and is divided into 540,433 shares with a par value of PLN 50 each. The main business activity of J.W. Construction Sp. z o.o is building construction and production of building prefabricated units.

#### TBS Marki Sp. z o.o.

TBS Marki Sp. z o.o., a limited liability company domiciled in Warsaw entered in the register of entrepreneurs of the National Court Register entered in the register of entrepreneurs of the National Court Register 65232 on 28



The Management Commentary on the Company of Construction Holding S.A.  
for the period from 01 January 2013 to 31 December 2013.

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November 2001. The Company holds 100% of its shares. Share capital of TBS Marki Sp. z o.o. amounts to PLN 13,360,000 and is divided into 26,720 shares with a par value of PLN 500 each. TBS Marki Sp. z o.o. was established as a social building society, within the meaning of the Act on Some Forms of Supporting Housing Building Projects. TBS Marki Sp. z o.o. is an investor responsible for implementation of four projects i.e. "Lisi Jar", "Marki V", "Warszawa Białoleka" and "Sochaczew, ul. Piłsudskiego".

Lokum Sp. z o.o.

Lokum Sp. z o.o., a limited liability company domiciled in Warsaw entered in the register of entrepreneurs of the National Court Register entered in the register of entrepreneurs of the National Court Register 170570 on 20 August 2003. The Company holds 100% of its shares. Share capital of Lokum Sp. z o.o. amounts to PLN 3,778,500 and is divided into 7,557 shares with a par value of PLN 500 each. Lokum Sp. z o.o. is a special purpose vehicle. An investment project – "Willa Konstancin" in Konstancin-Jeziorna was implemented under its structures.

Porta Transport Sp. z o.o. in liquidation

Porta Transport Sp. z o.o., a limited liability company domiciled in Szczecin entered in the register of entrepreneurs of the National Court Register entered in the register of entrepreneurs of the National Court Register KRS 177420. Share capital of Porta Transport Sp. z o.o. is divided into 258,308 shares with a par value of PLN 100 each. The business of the company was transport services provided to Porta Szczecińska Nowa Sp. z o.o. in the territory of the Szczecin shipyard and forwarding services in the country and abroad., currently in liquidation. The Company holds 100% of its share capital.

Yakor House Sp. z o.o.

Yakor House Sp. z o.o., a limited liability company domiciled in Sochi, Russian Republic. The Company holds 70% of its share capital amounting or RBL 10,500,000. Yakor House Sp. z o.o. owns real estate in the territory of Sochi on which it prepares a housing and commercial investment project.

Business Financial Construction Sp. z o.o.

Business Financial Construction Sp. z o.o., a limited liability company domiciled in Warsaw entered in the register of entrepreneurs of the National Court Register entered in the register of entrepreneurs of the National Court Register 114675 on 24 May 2002. The Company holds 99.99% of its shares. Share capital of Business Financial Construction Sp. z o.o. amounts to PLN 4,347,000 and is divided into 8,694 shares with a par value of PLN 500 each. The business of Business Financial Construction Sp. z o.o. is to serve sales of apartments built by the Company and other companies of the Group.

J.W. Construction Bulgaria EOOD



The Management Commentary on the Company of Construction Holding S.A.  
for the period from 01 January 2013 to 31 December 2013.

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J.W. Construction Bulgaria EOOD was registered by the Municipal Court for Sofia (Bulgaria) on 8 October 2007 under name J.W. Construction Bulgaria EOOD domiciled in Sofia (a Bulgarian law company – equivalent to a Polish limited liability company). Currently, J.W. Construction Bulgaria EOOD has a seat in Warna, in which the Company holds 500 (five hundred) shares with a par value of BGN 10 (ten) each and the total value of BGN 5,000 (five thousand) in J.W. Construction Bulgaria EOOD. J.W. Construction Bulgaria EOOD has a property in the area of Golden Sands.

J.W. Marka Sp. z o.o. (previously Interim D Sp. z o.o.)

J.W. J.W. Marka Sp. z o.o. with its seat in Ząbki entered in the register of entrepreneurs of the National Court Register on 20 December 2010 under KRS number 373684 with its share capital of PLN 155,838,000 divided into 3,116,760 shares with a nominal value of PLN 50.00 each. The Company holds 100% of shares in J.W. Marka Sp. z o.o. The subject of activity of J.W. Marka Sp. z o.o. is to conduct service activities in the field of advertisement, marketing and lease of trade marks.

J.W. Group Sp. z o.o.

J.W. Group Spółka. z o.o. with its seat in Ząbki entered in the register of entrepreneurs of the National Court Register on 29 April 2008 under KRS number 304684 with its share capital of PLN 50.000 divided into 1.000 shares with a nominal value of PLN 50.00 each. The Company holds 100% of shares in J.W. Group Sp. z o.o. The Company acquired a 100% share capital of J.W. Group Sp. z o.o on 23 February 2012. The business of J.W. Group Sp. z o.o. is the management of other entities.

J.W. Group Sp. z o.o. 1 Partnership limited by shares

J.W. Group Spółka. z o.o. 1 Partnership limited by shares with its seat in Ząbki entered in the register of entrepreneurs of the National Court Register on 26 March 2012 under KRS number 415469 with its share capital of PLN 50.000 divided into 50 shares with a nominal value of PLN 1.000 each. The Company holds 100% of shares in J.W. Group Sp. z o.o. 1 Partnership limited by shares Through J.W. Group Sp. z o.o. 1 Partnership limited by shares The company is realizing the investment in Warsaw, at Kasprzaka Street\*

J.W. Group Sp. z o.o. 2 Partnership limited by shares

J.W. Group Spółka. z o.o. with its seat in Ząbki entered in the register of entrepreneurs of the National Court Register on 26 March 2012 under KRS number 00000415464 with its share capital of PLN 50.000 divided into 50 shares with a nominal value of PLN 1.000 each. The Company holds 100% of shares in J.W. Group Sp. z o.o. 2 Partnership limited by shares Through J.W. Group Sp. z o.o. 2 Partnership limited by shares the Company intends to implement selected investments.



The Management Commentary on the Company of Construction Holding S.A.  
for the period from 01 January 2013 to 31 December 2013.

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SEAHOUSE Sp. z o.o.

SEAHOUSE Spółka. z o.o. with its seat in Ząbki entered in the register of entrepreneurs of the National Court Register on 11 July 2008 under KRS number 309998 with its share capital of PLN 11.400.000 divided into 175,000 shares with a nominal value of PLN 50.00 each. The Company holds 100% of shares in SEAHOUSE Sp. z.o.o. Through SEAHOUSE Sp. z o.o, the Company is implementing the investment in Gdynia at Powstania Wielkopolskiego Street.

J.W. 6 Sp. z o.o.

J.W. 6 Spółka. z o.o. with its seat in Ząbki entered in the register of entrepreneurs of the National Court Register on 17 July 2008 under KRS number 309501 with its share capital of PLN 50.000 divided into 1.000 shares with a nominal value of PLN 50.00 each. The Company holds 100% of shares in J.W. 6 Sp. z o.o.. The Company acquired a 100% share capital of J.W. 6 Sp. z o.o on 16 November 2012. Through J.W. 6 Sp. z o.o. the Company intends to implement selected investments.

Saspol Infrastructure Sp. z o.o.

Saspol Infrastructure Sp. z o.o. a limited liability company domiciled in Warsaw, entered in the register of entrepreneurs of the National Court Register on 21 February 2008 under KRS number 0000335059. The company holds 25% in Saspol Infrastructure Sp. z o.o. Share capital of the Company amounts to PLN 5.000 and is divided into 15.057 shares with a par value of PLN 50 each. Saspol Infrastructure Sp. z o.o is a SPV established with foreign partners, through which the Company together with these partners intend to participate in tenders for the execution of works related to infrastructure.

Nowe Tysiąclecie Sp. z o.o.

Nowe Tysiaclecie Spółka. z o.o. with its seat in Ząbki entered in the register of entrepreneurs of the National Court Register on 06 August 2013 under KRS number 472229 with its share capital of PLN 3,275,000 and divided into 65.500 shares with a nominal value of PLN 50.00 each. The Company holds 100% of shares in Nowe Tysiąclecie Sp. o.o. Through Nowe Tysiąclecie Sp. o.o. the Company is implementing the investment in Katowice at Tysiąclecia Street.

Dana Invest Sp. z o.o.

Dana Invest Spółka. z o.o. with its seat in Ząbki entered in the register of entrepreneurs of the National Court Register on 30 December 2013 under KRS number 492262 with its share capital of PLN 5,000 divided into 100 shares with a nominal value of PLN 50.00 each. The Company holds 100% of shares in Dana Invest Spółka. z o.o Through Dana Invest Sp. z o.o, the Company intends to implement the investment in Szczecin - the revitalization of Stara Dana building.



The Management Commentary on the Company of Construction Holding S.A.  
for the period from 01 January 2013 to 31 December 2013.

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## **10. The Company's investments in shares**

On 11 June 2013, the company of Nowe Tysiaclecie Sp. z o.o was established with a basic capital of PLN 5,000 - 100% and then on 21 August 2013 the increase in the capital by the amount of PLN 3.27 million (65.400 shares at nominal value of PLN 50) was made.

The capital of Seahouse Sp. z o.o was increased by the amount of PLN 2,200,000 (44,000 new shares at nominal value of PLN 50).

Increases in J.W. Group Sp. z o.o. 1 SKA capital -

- 1) by PLN 1,000,000 through an increase in nominal value of shares;
- 2) by PLN 1,000,000 through an increase in nominal value of shares;
- 3) by PLN 30,012,000 with agio PLN 30,012,000 through the issue of 732 shares.

Information about capital investments of the Company is presented in the financial statements – Note 4 and Note 8.

## **11. Significant transactions entered into by the Company or its subsidiary with related parties otherwise than on an arm's length basis**

All transactions with related parties entered into by the Company are arm's length transactions and they are described under Note 27 to the financial statements.

## **12. Explanation for differences between financial results disclosed in the annual report and earlier published projections.**

In the reporting period the Company did not draw up or publish any projected results.

## **13. Cash management of the Company**

Cash management of J.W. Construction Holding S.A is based on guaranteeing liquidity in all business segments, including mainly the developer activity. The supreme objective of the Company's business is to provide sources offinancing for all implemented projects, while maintaining safe liquidity ratios. Turnovers in the Company and the structure of financing are analysed on a day to day basis to guarantee optimum current and future liquidity. In 2013, the Company generated profits at a satisfactory level. By controlling daily turnovers the Company repays numerous loans incurred for implementation of developer projects. Economic and financial situation is secured in the form of inflows from investments which were completed or are planned to hand over in 2014 and in the form of other assets. In addition, the Company has cooperated with various banks for many years in order to provide financing for both business and current investment. In addition, in 2013 the Company decided to implement projects within the SPV on a basis of the "project finance" with maintaining greater transparency in the settlement of the investment.

## **14. Ability to implement investment projects planned by the Company**

The Company is preparing to implement new residential projects. However, it may face legal and formal problems connected mainly with administrative decisions. The lack of licences, permits or concessions or late obtainment of the same may have an adverse effect on the Company's ability to launch new developer projects. The activity of the Company will be still financed with own funds, prepayments made by clients and bank loans basing on a new



The Management Commentary on the Company of Construction Holding S.A.  
for the period from 01 January 2013 to 31 December 2013.

---

developer ordinance. Still, the loans will be mainly in the form of safe revolving lines with use of the escrow accounts, where the balance of lacking funds in the period is financed or the escrow accounts, where all costs connected with an investment above the required by the bank level of the Company's own contribution are financed. Acquisition of financing is based on very good and long-term co-operation with banks, where lending formulas have been developed on the basis of mutual experience, taking account of characteristics of the building sector.

### **15. Factors with significant effect on the activity of the Company in 2013**

**The most important factors influencing the financial results recognized by the Company are:**

- still restrictive policy of banks in terms of lending, which resulted in a marked decline in mortgage loans in 2013. The total value of new housing loans in 2013 amounted to PLN 36.48 billion, which represents a decrease by 6.73% y/y. The number of new credits fell down by 10.02% to 176,866 units (data from AMRON-SARFIN).
- no new governmental program after completion the program "Family on its own" (till the date of entry into force of the new governmental program "The apartment for the Young",
- a high level of supply in the market (including the completed units).
- drops on the market of building material prices;
- formal and legal factors, administrative decisions, licences, permits, etc.
- shortage of new flats amounting to 0.7 – 1.8 million estimated pursuant to various sources and in consequence still unsatisfied housing needs of an active group of clients coming from the baby boom of the 80's;
- high maintenance costs of investment loans with escrow account under the Developers Act.

**Internal factors with effect on dynamics of income:**

- wide offer including ready flats,
- continually extended offer of apartments including investments beyond Warsaw,
- constant marketing actions,
- introduction of demonstration flats and houses with i ready interior designs,
- flexible approach to the customer – the possibility of negotiating the prices depending on the payment amount and schedule
- free of charge credit counselling and continuous cooperation with banks aiming to provide customers with the best conditions of the Company's financing the purchase of flats
- the best use of the land bank hold consisting of adapting the process of launching new investments to the existing demand

Projections for development of the core business of the Company for 2014 assume that the said factors will prevail in the future. The threat to the market is seen in the fact that access to sources of purchase financing





The Management Commentary on the Company of Construction Holding S.A.  
for the period from 01 January 2013 to 31 December 2013.

---

continues to be hampered. At the same time, the estimations regarding the housing shortage require to be optimistic about the prospects of the Company's operations in the future.

#### **16. Changes in the basic principles of managing the enterprise of the Company**

In the reporting period there were no changes in the basic principles of managing the enterprise of the Company.

#### **17. Number and par value of all shares of the Company and shares in related parties of the Company, held by members of the Management Board and Supervisory Board of the Company**

As at 31.12.2013

| Shareholder         | Company                        | Number of shares held | Share par value | Total par value of shares held | % of the total number of shares |
|---------------------|--------------------------------|-----------------------|-----------------|--------------------------------|---------------------------------|
| Józef Wojciechowski | J.W. Construction Holding S.A. | 15.413.713            | PLN 0.20        | PLN 3.082.742,60               | 28.51 %                         |

#### **18. Procedures pending before a court, arbitration tribunal or public administration authority**

The Company is a party to the proceedings, the value of which exceeds 10% of equity. On 26 April 2012, the Company filed against the Capital City of Warsaw ("Defendant") a petition for commitment of the Defendant to submit a declaration of intent for the acquisition from the Company right of perpetual use of the plot no 2/6 with the area of 3,2605 ha for which the District Court for Warsaw- Mokotów, X Division of Land Registry maintains a land and mortgage registry no WA4M/00413015/1 KW ("Property") for a net price of PLN 91,130,975 together with interest from the date of 8 January 2010. The company filed a petition according to the Article 36.1 point. 2) of the Act of 27 March 2003 on spatial planning and development (Journal of Laws 2003.80.717) in connection with the adoption by the Respondent of the area development plan area of Olbrachta Street (approved by the resolution of the City of Warsaw No. LVI/1669/2009, which entered into force on 3 August 2009) ("Plan"). The property has been earmarked for the N-S Route. In the period when the Company acquired the Property, the zoning plan of the property was not obligatory. With the adoption of the Plan and as a result of this adoption, there has been a significant restriction on the use of the Property by the Company, therefore the Company has the right to request to redeem to purchase/buy out the Property by the Defendant. The Company applied to the Defendant with a request to take steps to voluntary purchase of the Property by the Respondent but the request was refused. The Company believes the claim is fully justified and deserves the judgement in accordance with the petition of the Company.

As at 31 December 2013 the total value of the proceedings against the Company did not exceed 10% of the equity of the Company .

#### **19. Agreements concluded between the Company and the Management Board members, providing for compensation in the case of their resignation or dismissal from their offices**

The members of the Management Board of the Company have not concluded any specific agreements providing for compensation in the case of their resignation or dismissal from their offices.

The members of the Management Board are subject to the prevailing regulations of the Labour Law.

#### **20. Salaries, bonuses and benefits for members of the Management Board and Supervisory Board of the Company.**



The Management Commentary on the Company of Construction Holding S.A.  
for the period from 01 January 2013 to 31 December 2013.

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Salaries, bonuses and benefits for members of the Management Board and Supervisory Board of the Company are presented under Note 25 to the financial statements.

**21. Agreements known to the Company which may cause future changes in proportions of shares held by the current shareholders.**

The Company is not aware of any agreements that may cause future changes in proportions of shares held by the current shareholders.

**22. Information on the agreement with the entity authorized to audit the financial statements and review of financial statements**

On 15 July 2013, the Company concluded an agreement, with BDO Sp. Ltd., a company authorized to perform audits of financial statements, on performing the interim review and audit of financial statements for the year 2013.

The remuneration of the auditor for auditing the unitary financial statements for the financial year ended 31.12.2013 amounted to PLN 125 thousand, of which PLN 40 thousand for an interim unitary review, and PLN 85 thousand for an annual unitary audit of the financial statement. The given amounts are net amounts.

The remuneration of the auditor for auditing the unitary financial statements for the previous year that ended 31.12.2011 amounted to PLN 140 thousand, of which PLN 50 thousand for an interim unitary review, and PLN 90 thousand for an annual unitary audit of the financial statement. The given amounts are net amounts.

**23. Statement on corporate governance of J.W. Construction Holding S.A. in 2013**

**a. Rules of corporate governance of the Company**

In 2013 the Company observed the rules provided under the Best Practices of WSE Listed Companies (Dobre Praktyki Spółek Notowanych na Giełdzie Papierów Wartościowych w Warszawie S.A.).

The collection of Best Practices of WSE Listed Company is available at:

[http://www.corp-gov.gpw.pl/assets/library/polish/regulacje/dobre\\_praktyki\\_16\\_11\\_2012.pdf](http://www.corp-gov.gpw.pl/assets/library/polish/regulacje/dobre_praktyki_16_11_2012.pdf)

**b. Corporate governance rules waived by the Company, their specification and justification for such waiver**

The Company of J.W. Construction Holding S.A. did not apply the following resolutions:

II 9a) on placing on its website materials such as recordings of the proceedings of the general meeting, in the form of audio or video, as it could be affecting the interests and image of the shareholders who are present at the Meeting.

V 10 on providing the shareholders with possibility to participate in the General Meeting with using means of electronic communication through:

1) transmission of the General Meeting in real time,



2) two-way communication in real time within which the shareholders may speak during the general meeting from a location other than the place of the meeting.

The Articles of Association do not provide the possibility of participation in the General Meeting by two-way communication in real time, and to this day the Shareholders of the Company did not report need for transmission of the real-time or two-way communication in real time. The costs of the introduction of such possibilities would result in an increase in maintenance costs of the General Meeting by over 400%. The Company is considering amending the Articles of Association in order to provide such possibility. Such possibility to conduct two-way communication depends on the interest of Shareholders in such a possibility.

**c. Main characteristics of internal control and risk management systems applied in the Company, with reference to the process of preparing financial statements and consolidated financial statements**

Observing the recommendations for fairness and accuracy of financial statements, in particular the requirements of the regulation of the Minister of Finance of 19 February 2009 on current and periodic filings of issuers of securities, J.W. Construction Holding S.A. applies the following control mechanisms:

**Authorities and responsibilities of particular management lines**

The supreme body approving financial documentation in the Company is the Management Board. Materials are prepared by organizational units of accounting and business departments. Financial materials are reviewed and approved by junior management of financial and accounting divisions and then accepted by the Chief Accountant or the Director of the Economic Division.

**Specialist accounting and financial divisions separated in the organizational structure**

Due to the definition of the sequence of activities approving and monitoring the financial processes it was necessary to separate specialised divisions in the organizational structures of the enterprise. Therefore, the following organizational units were separated in the Company: investment budgeting department, financial accounting department, controlling department, financial liquidity management department, internal control department.

**Consistent instructions and procedures connected with data collection, processing and presentation under the Quality Management System**

The main document describing the rules of handling financial documents is the "Company instruction of circulation and control of documents", as amended, introduced with a resolution of the President of the Company in November 2005. Among the most important documents governing financial records and projections are procedures of "Creating and Managing the Company's Budget".

**Implementation of the SAP R/3 integrated IT system**



The Management Commentary on the Company of Construction Holding S.A.  
for the period from 01 January 2013 to 31 December 2013.

SAP R/3 integrated IT system was implemented in the Company. That IT tool covered the area of logistics, warehouse administration, investment project preparation and implementation, accounting and controlling. Books of accounts are kept with SAP R/3 and at the same time the system keeps records of economic events correct by running the process from planning, through filing a demand for a material or service, placing an order with the supplier, to settling the purchase invoice.

**Commissioning the control over periodic reports to an independent external auditor**

The annual financial statements, prepared by the Company, are audited by an independent certified auditor, while semi-annual reports are subject to a review. The audit consists of verifying the presented figures and checking the compliance of data collection and processing methodology with the principles of accounting.

**d. Shareholders holding directly or indirectly significant stakes in the Company**

As at 31.12.2013

| Shareholder  | Number of shares held                         | % of share capital | Number of votes | % of total number of votes in the General Meeting |
|--|---|--------------------|-----------------|---|
| Józef Wojciechowski  | 15.413.713                                    | 28.51 %            | 15.413.713      | 28.51 %   |
| EHT S.A.   | 18.568.300                                    | 34.34 %            | 18.568.300      | 34.34 %   |
| Investment funds managed by PKO TFI S.A.                       | Between 5 and 10% of the shares <sup>x</sup>  |                    |                 |   |
| Pioneer Open-End Investment Fund owned by Pioneer Pekao TFI SA | Between 5 and 10% of the shares <sup>xx</sup> |                    |                 |   |

<sup>x</sup> on 9 April 2010, the Company received a notification on exceeding a 5% threshold of the share capital of the Company by the Funds managed by PKO TFI S.A, as at 9 April 2010 it was 3,245,668 shares representing 5.93% of the share capital of the Company entitling to 3,245,668 votes at the General Meeting of the Company and representing 5.93% of the total number of votes. In accordance with applicable law, a shareholder have to notify the Company of exceeding the threshold of 5% and 10% of the total number of shares of the Company. To date, the Company has not received any notice from a shareholder, which would include information about reducing the number of shares held less than 5% or increase above 10% of the share capital of the Company.

<sup>xx</sup> on 22 November 2011, the Company received a notification on a decrease below a 10 % threshold of the share capital of the Company by the Pioneer Open\_End Investment Fund managed by Pioneer Pekao TFI S.A, as at that day it was 5.382.182 shares representing 10.008 % of the share capital of the Company entitling to 5.411.843 votes at the General Meeting of the Company representing 9.95% of the total number of votes. In accordance with applicable law, a shareholder have to notify the Company of exceeding the threshold of 5% and 10% of the total number of shares of the Company. To date, the Company has not received any notice from a shareholder, which would include information about reducing the number of shares held less than 5% or increase above 10% of the share capital of the Company.

Mr. Józef Wojciechowski controls EHT S.A. domiciled in Luxemburg (indirectly through Famhold S.A. domiciled in Luxemburg)

**e. Securities with special controlling rights, holders of such securities and their rights**

In accordance with Article 14.2 of the Articles of Association of the Company the shareholder holding more than 50% of shares of the Company is entitled to personal rights to appoint and recall half of membership of the Management Board, including the President of the Management Board. In the case of an odd number of members of the Management Board the said shareholder is entitled to personal rights to appoint and recall two members of the Management Board (when the Management Board is composed of three members), three members of the Management Board (when the Management Board is composed of five members) and four members of the Management Board (when the Management Board is composed of seven members), respectively. The said rights are exercised by way of a written representation served upon the Company, on appointing or



The Management Commentary on the Company of Construction Holding S.A.  
for the period from 01 January 2013 to 31 December 2013.

---

recalling a given Management Board member, or on appointing or recalling the President of the Management Board.

As at 31 December 2013 Mr. Józef Wojciechowski was entitled to the aforesaid rights. In the case of any event resulting in not holding more than 50% of shares in the Company by the eligible shareholder, the personal rights expire and the regulations of the Code of Commercial Companies are applied accordingly, with the reservation that the same is not applicable when Mr. Józef Wojciechowski holds at least one share of the Company and together with his subsidiaries, within the meaning of the Act on Public Offering, or companies controlled by the same, within the meaning of the Act on Accounting of 29 September 1994 (Journal of Laws of 2013 No. 76, Item 694, as amended), applicable on the day of registration of the amendment to the Articles of Association, introduced with Resolution No. 2 of the General Meeting of 16 February 2007, he holds the total of over 50% of the Company's shares, whether directly or indirectly.

In accordance with Article 16.2 of the Articles of Association of the Company, the shareholder holding more than 50% of shares of the Company is entitled to personal rights to appoint and recall half of members of the Supervisory Board, including the Chairman of the Supervisory Board. In the case of an odd number of members of the Supervisory Board the said shareholder is entitled to personal rights to appoint and recall three members of the Supervisory Board (when the Supervisory Board is composed of five members), four members of the Supervisory Board (when the Supervisory Board is composed of seven members), and five members of the Supervisory Board (when the Supervisory Board is composed of nine members), respectively. The said rights are exercised by way of a written representation served upon the Company, on appointing or recalling a given Supervisory Board member, or on appointing or recalling the Chairman of the Supervisory Board.

As at 31 December 2013 Mr. Józef Wojciechowski was entitled to the aforesaid rights. In the case of any event resulting in not holding more than 50% of shares in the Company by the eligible shareholder, the personal rights expire and the regulations of the Code of Commercial Companies are applied accordingly, with the reservation that the same is not applicable when Mr. Józef Wojciechowski holds at least one share of the Company and together with his subsidiaries, within the meaning of the Act on Public Offering, or companies controlled by the same, within the meaning of the Act on Accounting of 29 September 1994 (Journal of Laws of 2013 No. 76, Item 694, as amended), applicable on the day of registration of the amendment to the Articles of Association, introduced with Resolution No. 2 of the General Meeting of 16 February 2007, he holds the total of over 50% of the Company's shares, whether directly or indirectly.

**f. Limitations on voting rights and regulations providing that – in co-operation with the Company – capital rights under securities are separated from shareholding**

There are no statutory or contractual limitations on voting rights, while capital rights under securities are not separated from shareholding.

**g. Limitations on the transfer of ownership rights to securities of the Company**

There are no statutory or contractual limitations on the transfer of ownership rights to securities, any limitations are provided under the applicable laws.



**h. Rules of appointing and recalling the management staff and their rights, in particular the right to decide on an issue or redemption of shares of the Company**

In accordance with the Company's Articles of Association the Management Board of the Company is composed of three to eight Members, including the President of the Management Board. The number of members of the Management Board is established by the Supervisory Board. The shareholder holding more than 50% of shares of the Company is entitled to personal rights to appoint and recall half of membership of the Management Board, including the President of the Management Board. In the case of an odd number of members of the Management Board the shareholder holding more than 50% of shares of the Company is entitled to appoint: three members of the Management Board (when the Management Board is composed of five members) and four members of the Management Board (when the Management Board is composed of seven members), respectively. The said rights are exercised by way of a written representation served upon the Company, on appointing or recalling a given Management Board member. Other members of the Management Board are appointed and recalled by the Supervisory Board. Management Board members are appointed for a common three-year term of office. The Management Board represents the Company at and out of court. Declarations of will and signatures for the Company are valid if made by two members of the Management Board acting jointly.

**Issue of shares**

The Company's shares may be issued according to the general principles under the Code of Commercial Companies and require resolutions of the General Meeting of Shareholders.

**i. Amendments to the Articles of Association of the Issuer**

In accordance with Article 430.1 of the Code of Commercial Companies, any amendment to the Articles of Association of the Company must be resolved by the General Meeting and registered with the register of companies. An amendment to the Articles of Association is filed with the court of registration by the Management Board of the Company. The General Meeting of the Company may authorise the Supervisory Board to resolve a consolidated text of the amended Articles of Association or to introduce other editorial changes resolved by the General Meeting.

**j. Rules of the General Meeting and its principal rights, shareholders' rights and the manner of exercising the same, in particular as provided under the Regulations of the General Meeting**

The General Meeting is held as an Annual General Meeting or an Extraordinary General Meeting and, being a Company body, it operates in accordance with the Code of Commercial Companies of 15 September 2000 (Journal of Laws of 2000 No. 94, Item 1037, as amended), the Articles of Association of the Company and the Regulations of the General Meeting of 16 February 2007 approved with Resolution No. 6 of the Extraordinary General Meeting of the Company.

General Meetings of the Company, convened by the Management Board, are held in the registered office of the Company (Ząbki) or in Warsaw. Annual General Meetings are held within six months of the end of an accounting year.



The Management Commentary on the Company of Construction Holding S.A.  
for the period from 01 January 2013 to 31 December 2013.

---

Management Board and Supervisory Board members attend General Meetings with no need to be invited to the same. The Management Board may invite other persons to the General Meeting or any part of the same, in particular certified auditors and experts, if their presence is justified with a need to present an opinion on considered issues to participants of the General Meeting. A certified auditor should be present in the General Meeting considering finances of the Company.

The GM is convened in the manner and conditions specified in the principles generally applicable. It means that the announcement of convening the GM is made in the current report and posted on the Company's website (at: [www.jwconstruction.com.pl](http://www.jwconstruction.com.pl)) no later than 26 days before the general meeting. Participants who are entitled to attend the general meeting, are these shareholders who hold shares of the Company in 16 days prior to the meeting, this record date is also the day when all shareholders should be registered in the list of participants. The basis of approval to participate in the general meeting of shareholders is to register in the list that is made available to the Company by the NDS, not later than one week before the general meeting.

Resolutions are taken with an absolute majority of votes cast, unless the regulations of the Code of Commercial Companies or the Articles of Association provide otherwise. Voting may be held with the use of an electronic vote cast and calculation system.

A resolution on removing or withdrawing any items from the agenda of the General Meeting, included in the agenda on request of shareholders, is not valid unless approved with the majority of  $\frac{3}{4}$  of votes cast, upon prior consent of all present shareholders to have made such request.

After signing and checking the attendance roll the Chairman orders voting over the agenda. The General Meeting may approve the agenda as proposed, change the order of items on the agenda or remove any items from the same, subject to the provisions of the Articles of Association. The Chairman of the General Meeting may not remove or change any items on the agenda, unless upon consent of the General Meeting.

Each participant of the General Meeting may take the floor on items included in the agenda, being currently considered. Each participant of the General Meeting may raise a point of order. For points of orders the Chairman may give the floor out of turn. Motions on the procedure of the meeting and voting are considered as points of order.

The General Meeting passes resolutions on items included in the agenda upon voting. The voting is open, subject to relevant provisions of the Articles of Association and the Code of Commercial Companies.

Texts of resolution passed by the General Meeting are presented in the Internet on the Company's website at: [http://inwestor.jwconstruction.com.pl/pl/walne\\_zgromadzenia/](http://inwestor.jwconstruction.com.pl/pl/walne_zgromadzenia/)

**k. Membership, changes in membership made over the last accounting year and rules of the management, supervisory and administrative bodies of the Issuer and their committees**

Management Board

Composition of the Management Board

As at 31/12/2013 the Management Board of the Company was composed of:

Mr. Wojciech Rajchert - Member of Management Board

Ms. Irmina Łopuszyńska - Member of Management Board

Ms. Magdalena Starzyńska - Member of the Management Board

Ms. Małgorzata Ostrowska - Member of Management Board





The Management Commentary on the Company of Construction Holding S.A.  
for the period from 01 January 2013 to 31 December 2013.

---

During 2013 the composition of the Management Board of the Company was changed as follows:

On 07 February 2013, the Company received a statement from Mr. Robert Wójcik - the Member of the Management Board on his resignation from the membership in the Management Board on 09 February 2013.

On April 17, 2013, the Company received a statement, of an authorized Shareholder, on the appointment of Ms. Małgorzata Ostrowska to the Management Board, the appointment was based on the personal rights granted by the Articles of Association.

On April 17, 2013, the Company received a statement, of an authorized Shareholder, on the appointment of Ms. Anna Konkkel to the Management Board, the appointment was based on the personal rights granted by the Articles of Association.

On 20 December 2013, the Company received a statement from Ms. Anna Konkkel - the Member of the Management Board on her resignation from the membership in the Management Board from 20 December 2013.

#### Rules of the Management Board

The Management Board of the Company acted in accordance with the regulations of the Code of Commercial Companies, the Articles of Association of the Company and the Regulations of the Management Board approved with a resolution of the Supervisory Board, as well as the Best Practices of WSE Listed Companies. Corporate documents providing for the rules of the Management Board are available on the websites of the Company.

The Management Board is an executive body of the Company, manages its current business and represents the same before third parties. The Management Board resolves any matters not reserved for the authority of the General Meeting or the Supervisory Board under the applicable laws, the Articles of Association or a resolution of the General Meeting.

The Management Board may be composed of three to eight Members who are appointed for a 3-year joint term. Declarations of will and signatures for the Company are valid if made by two members of the Management Board acting jointly. Resolutions of the Management Board are passed with an absolute majority of votes cast. In the case of a draw, the vote of the President of the Management Board is decisive.

When establishing strategic and current objectives for the Company the Management Board followed the supreme interest of the Company, observed the applicable laws and took account of interests of the shareholders, employees and creditors of the Company.

Aiming at transparency and effectiveness of the management system, the Management Board observed the principles of professional business within the reasonable economic risk, taking account of a broad range of available information, analyses and opinions.

#### Supervisory Board

##### Composition of the Supervisory Board

As at 31.12.2010, the Supervisory Board consisted of:

Mr. Józef Wojciechowski - Chairman of Supervisory Board

Mr. Józef Oleksy – Vice Chairman of Supervisory Board





The Management Commentary on the Company of Construction Holding S.A.  
for the period from 01 January 2013 to 31 December 2013.

---

Mr. Andrzej Podsiadło – Member of Supervisory Board  
Mr. Jarosław Król – Member of Supervisory Board  
Mr. Marek Samarcew - Member of Supervisory Board

During 2013 there were no changes in the composition of Supervisory Board of the Company.

Rules of the Supervisory Board

The Supervisory Board acted in accordance with the regulations of the Code of Commercial Companies, the Articles of Association of the Company and the Regulations of the Supervisory Board resolved by the General Meeting, available on the websites of the Company, providing for its organisation and rules, as well as the Best Practices of WSE Listed Companies.

The Supervisory Board is a standing supervisory body of the Company in all areas of its business.

The Supervisory Board is composed of five to nine members, the number of members is established by the General Meeting, while such number may be changed during the term of office of the Supervisory Board.

The Supervisory Board may appoint the Audit Committee and Remuneration Committee from among its members, however, in connection with the provisions of the Best Practices of WSE Listed Companies and the fact that the Supervisory Board acted with the minimum number of its members under applicable laws there were Committees appointed within Supervisory Board and in all cases provided for the competence of the Committee, the Supervisory Board debated in full composition.

The Supervisory Board satisfied the condition of having at least two Independent Members, in accordance with the criteria of independence provided under the Articles of Association of the Company.

Resolutions of the Supervisory Board are passed with an absolute majority of votes cast, and in the case of a draw the vote of the Chairman of the Supervisory Board is decisive. However, any resolutions on:

- a/ approval of any performance to the benefit of a member of the Management Board by the Company,
  - b/ approval of execution of a significant agreement by the Company, of the value over PLN 10,000,000.00 (ten million Polish zlotys) and over PLN 15,000,000.00 (fifteen million Polish zlotys) for construction contracts, with a member of the Capital Group of the Company, a member of the Supervisory Board or the Management Board, or their close relatives (within the meaning of § 16.5 of the Articles of Association of the Company),
  - c/ appointment of a certified auditor to audit the financial statements of the Company,
- are not valid unless approved by at least one Independent Member of the Supervisory Board, provided that any Independent Member is attending the meeting of the Supervisory Board.

## **24. Corporate events**

The Annual General Meeting

On 12 March 2013, the Extraordinary General Meeting, which made amendments to the resolution fixing the amount of additional remuneration for the Supervisory Board Member on the exercise of supervisory activities, the change was to decrease the amount of additional compensation.

On 25 June 2013 the Annual General Meeting was held, which approved unitary financial statements, consolidated financial statements for 2012, reports on activities of the Management Board of the Company and its Capital Group and gave discharge to the members of the Company, appropriated the profit by allocating it entirely



The Management Commentary on the Company of Construction Holding S.A.  
for the period from 01 January 2013 to 31 December 2013.

---

for a supplementary capital of the Company. The General Meeting repealed the resolution No. 27 of the Annual General Meeting of 18 May 2010 on the issue of convertible bonds in connection of not performing this issuance. The Annual General Meeting also made changes to the Articles of Association of the Company involving the deletion of the records of the conditional share capital increase and the target share capital increase.

## **25. Significant events after the balance sheet date**

### Occupancy permits

On 20 January 2014, the Company notified the Poviát Construction Supervision Inspectorate on the use of two single-family houses in Villa Campina estate in Ożarów Mazowiecki. The submissions were accepted without any reservations by the PCSI on February 5, 2014.

On 30 January 2014, the Company received the occupancy permit for the multi-family real estate "Oaza Piątkowo" at Jaroczyńskiego street in Poznań. The permit is final.

### Credit Agreements

On 29 January 2014, the Company entered into the investment credit agreement with BOS Bank SA for the financing of activities related to environmental protection - refinancing costs connected with the implementation of water- sewerage systems and wastewater treatment plants in Ożarów Mazowiecki in the amount of PLN 13.874 million zł. The repayment date was set on 31 December 2017.

### The annex to the credit agreement

On 19 February 2014, the Company signed the Annex to the overdraft facility agreement with Millenium Bank S.A. . By virtue of the Annex, the repayment term of the credit was set on 21 August 2014.

### Credit Repayment

On February 27, 2014, the Company repaid the investment credit in the amount of PLN 20 million dedicated to refinance the cost of production of 292 residential units in Villa Campina in Ożarów Mazowiecki which was granted by Getin Noble Bank S.A.

### The registration of new SVPs

#### Bałtycka Invest Spółka z o.o.

Bałtycka Invest Spółka. z o.o. with its seat in Ząbki entered in the register of entrepreneurs of the National Court Register on 23 January 2014 under KRS number 495612 with its share capital of PLN 5,000 divided into 100 shares with a nominal value of PLN 50.00 each. The Company holds 100% of shares in Bałtycka Invest Sp. z o.o through Bałtycka Invest Sp. z o.o. The Company intends to implement the project in Katowice at Bałtycka street.

#### Berensona Invest Spółka z o.o.



The Management Commentary on the Company of Construction Holding S.A.  
for the period from 01 January 2013 to 31 December 2013.

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Berensona Invest Invest Spółka. z o.o. with its seat in Ząbki entered in the register of entrepreneurs of the National Court Register on 28 January 2014 under KRS number 496087 with its share capital of PLN 5,000 divided into 100 shares with a nominal value of PLN 50.00 each. The Company holds 100% of shares in Berensona Invest Sp. z.o.o. The Company intends to implement the developer project in Warsaw in the area of Berensona street through Berenson Invest Sp. z o.o.

Zdziarska Invest Spółka z o.o.

Zdziarska Invest Spółka. z o.o. with its seat in Ząbki entered in the register of entrepreneurs of the National Court Register on 22 January 2014 under KRS number 495351 with its share capital of PLN 5,000 divided into 100 shares with a nominal value of PLN 50.00 each. The Company holds 100% of shares in Zdziarska Invest Spółka. z o.o. The Company intends to implement the developer project in Warsaw in the area Zdziarska street through Zdziarska Invest Sp. z o.o.

Łódź Invest Spółka z o.o.

Łódź Invest Spółka. z o.o. with its seat in Ząbki entered in the register of entrepreneurs of the National Court Register on 22 January 2014 under KRS number 495145 with its share capital of PLN 5,000 divided into 100 shares with a nominal value of PLN 50.00 each. The Company holds 100% of shares in Łódź Invest Spółka. z o.o. The Company intends to implement the developer project in Łódź in the area of Tymienieckiego street ("Centrum III) in Łódź through Łódź Invest Sp. z o.o.

Bliska Wola 1 Spółka z o.o.

Bliska Wola 1 Spółka. z o.o. with its seat in Ząbki entered in the register of entrepreneurs of the National Court Register on 22 January 2014 under KRS number 495392 with its share capital of PLN 5,000 divided into 100 shares with a nominal value of PLN 50.00 each. The Company holds 100% of shares in Bliska Wola 1 Sp. o.o. The Company intends to implement one of stages of developer project in Warsaw in the area of Kasprzaka street ("Bliska Wola") in Warsaw through Bliska Wola 1 Sp. z o.o.

Bliska Wola 2 Spółka z o.o.

Bliska Wola 2 Spółka. z o.o. with its seat in Ząbki entered in the register of entrepreneurs of the National Court Register on 29 January 2014 under KRS number 495680 with its share capital of PLN 5,000 divided into 100 shares with a nominal value of PLN 50.00 each. The Company holds 100% of shares in Bliska Wola 2 Sp. o.o. The Company intends to implement one of stages of developer project in Warsaw in the area of Kasprzaka street ("Bliska Wola") in Warsaw through Bliska Wola 2 Sp. z o.o.

Bliska Wola 3 Spółka z o.o.

Bliska Wola 3 Spółka. z o.o. with its seat in Ząbki entered in the register of entrepreneurs of the National Court Register on 23 January 2014 under KRS number 495616 with its share capital of PLN 5,000 divided into 100 shares with a nominal value of PLN 50.00 each. The Company holds 100% of shares in Bliska Wola 3 Sp. o.o. The Company intends to implement one of stages of developer project in Warsaw in the area of Kasprzaka street ("Bliska Wola") in Warsaw through Bliska Wola 3 Sp. z o.o.



The Management Commentary on the Company of Construction Holding S.A.  
for the period from 01 January 2013 to 31 December 2013.

Bliska Wola 4 Spółka z o.o.

Bliska Wola 4 Spółka. z o.o. with its seat in Ząbki entered in the register of entrepreneurs of the National Court Register on 24 January 2014 under KRS number 495669 with its share capital of PLN 5,000 divided into 100 shares with a nominal value of PLN 50.00 each. The Company holds 100% of shares in Bliska Wola 4 Sp. o.o. The Company intends to implement one of stages of developer project in Warsaw in the area of Kasprzaka street ("Bliska Wola") in Warsaw through Bliska Wola 4 Sp. z o.o.

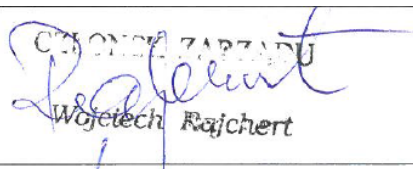
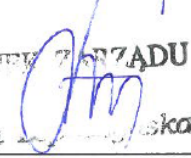


Bliska Wola 5 Spółka z o.o.

Bliska Wola 5 Spółka. z o.o. with its seat in Ząbki entered in the register of entrepreneurs of the National Court Register on 29 January 2014 under KRS number 495118 with its share capital of PLN 5,000 divided into 100 shares with a nominal value of PLN 50.00 each. The Company holds 100% of shares in Bliska Wola 5 Sp. o.o. The Company intends to implement one of stages of developer project in Warsaw in the area of Kasprzaka street ("Bliska Wola") in Warsaw through Bliska Wola 5 Sp. z o.o.

Corporate Affairs

On 13 March 2014 the Company published an announcement on convening the Extraordinary General Meeting dated 09 April 2014 regarding the adoption of the resolution on the issue of series C shares and the share capital increase. The proposed resolution assumes a capital increase from PLN 0,60 to PLN 8,110,992 by the issue of 3 to up to 40,554,960 shares. The shares are to be issued with pre-emptive rights for existing shareholders where four shares held will entitle to subscribe for three shares of a new series.

Signatures of Board Members

|   |   |
|---|---|
| Wojciech Rajchert<br>Członek Zarządu    | Podpis<br>CZŁONEK ZARZĄDU<br><br>Wojciech Rajchert    |
| Irmina Łopuszyńska<br>Członek Zarządu   | Podpis<br>CZŁONEK ZARZĄDU<br><br>Irmina Łopuszyńska   |
| Magdalena Starzyńska<br>Członek Zarządu | Podpis<br>Członek Zarządu<br><br>Magdalena Starzyńska |
| Małgorzata Ostrowska<br>Członek Zarządu | Podpis<br>CZŁONEK ZARZĄDU<br><br>Małgorzata Ostrowska |

Ząbki, 19 March 2014.



The Management Commentary on the Company of Construction Holding S.A.  
for the period from 01 January 2013 to 31 December 2013.

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