

**The Management Commentary on  
J.W. Construction Holding S.A in 2011.**



## 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 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."

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.

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 2011 and 2010 in thousand of PLN, translated into EUR

Consolidated income statement item	1 January 2011 - 31 December 2011		1 January 2010 - 31 December 2010	
	TPLN	TEUR	TPLN	TEUR
Net revenues from sales of products, goods and materials	333,214	80,484	576,657	144,007
Costs of products, goods and materials sold	253,189	61,155	426,108	106,411
<b>Gross profit (loss) on sales</b>	<b>80,024</b>	<b>19,329</b>	<b>150,548</b>	<b>37,596</b>
Selling expenses	27,865	6,730	27,413	6,846
Overhead expenses	23,858	5,763	16,127	4,027
Profit (loss) on sales	49,505	11,957	117,200	29,268
Operating profit (loss)	52,929	12,784	126,927	31,697
<b>Gross profit (loss)</b>	<b>32,993</b>	<b>7,969</b>	<b>101,790</b>	<b>25,420</b>
Income tax	7,621	1,841	22,389	5,591
<b>Net profit (loss)</b>	<b>25,372</b>	<b>6,128</b>	<b>79,401</b>	<b>19,829</b>

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

Consolidated income statement item	1 January 2011 - 31 December 2011		1 January 2010 - 31 December 2010	
	PLN	% of sales	PLN	Dynamics 2011/2010
Net revenues from sales of products, goods and materials	333,213,676	100%	576,656,529	58%
Costs of products, goods and materials sold	253,189,455	76%	426,108,183	59%
Gross profit on sales	80,024,221	24%	150,548,345	53%
Operating profit	52,928,763	16%	126,927,254	42%
Gross profit	32,992,724	10%	101,790,452	32%
Net profit	25,371,586	8%	79,401,046	32%

In 2011, the Company achieved revenues of PLN 333,2 million, which is lower by 42% in comparison to the previous year. The level of revenues was influenced by the lower number of transferred units in 2011 in comparison to 2010. Despite a decline in the profitability of projects sold the profitability was maintained. In 2011 the Company achieved net profitability of 8%.

**The Company's income structure in 2011**

The main item of income for 2011 are definitely the revenues from sales of premises (87% of revenues), revenues from sales of services constitute 12% and revenues from sales of materials around 1%, which is presented in the following table.

OPERATING INCOME	1 January 2011 - 31 December 2011	% share	1 January 2010 - 31 December 2010	% share
Revenues from sales of products	289,767,645	87%	540,313,327	94%
Revenues from sales of services	39,871,731	12%	30,304,024	5%
Revenues from sales of goods	3,574,300	1%	6,039,177	1%
<b>Total income</b>	<b>333,213,676</b>	<b>100%</b>	<b>576,656,529</b>	<b>100%</b>

**Statement of financial position**

The balance of assets, equity and liabilities as at 31 December 2011 and 31 December 2010 in PLN '000 and EUR '000

Issuer's balance sheet item	31 -12 -2011		31 -12 -2010	
	TPLN	TEUR	TPLN	TEUR
<b>Total Assets</b>	<b>1,261,108</b>	<b>285,525</b>	<b>1,271,914</b>	<b>321,166</b>
Non-current assets	575,207	130,232	457,394	115,495
Current assets	685,901	155,294	814,520	205,671
<b>Total Equity and Liabilities</b>	<b>1,261,108</b>	<b>285,525</b>	<b>1,271,914</b>	<b>321,166</b>
Equity	520,732	117,898	495,339	125,076
Non-current liabilities,	341,272	77,267	256,399	64,742
Current liabilities	399,103	90,360	520,176	131,348

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The structure and dynamics of changes in assets, equity and liabilities as at 31 December 2011 and 31 December 2010 are in PLN '000

Issuer's balance sheet item	31 -12 -2011		31 -12 -2010	
	PLN	% of assets	PLN	Change 2011/2010
<b>Total Assets</b>	<b>1,261,107,535</b>	<b>100%</b>	<b>1,271,914,058</b>	<b>-0.8%</b>
Non-current assets	575,206,739	46%	457,394,258	25.8%
Current assets	685,900,795	54%	814,519,800	-15.8%
		% of assets		Change 2011/2010
<b>Total Equity and Liabilities</b>	<b>1,261,107,535</b>	<b>100%</b>	<b>1,271,914,058</b>	<b>-0.8%</b>
Equity	520,731,630	41%	495,338,654	5.1%
Non-current liabilities,	341,272,444	27%	256,399,108	33.1%
Current liabilities	399,103,461	32%	520,176,296	-23.3%

Structure of the balance sheet as at 31.12.2010 is as follows: assets are approximately 46% of total assets and current assets are approximately 54% of assets. The increase of fixed assets is connected with managing investment projects Czarny Potok and Badylarska. In comparison to 2010 total balance sheet slightly decreased.

#### Financial Ratios

##### Liquidity ratios

	2011	2010	2009
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##### Liquidity ratios I

$\frac{\text{total current assets}}{\text{current liabilities}}$	2.2	2.2	1.8
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##### Liquidity ratios II

$\frac{\text{total current assets- inventories}}{\text{current liabilities}}$	2.1	2.2	1.8
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##### Activity ratios

##### Reveivables turnover in days

$\frac{\text{average trade receivables *) x 365}}{\text{Revenues from sales}}$	63	32	16
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##### Inventories turnover in days

$\frac{\text{average inventories *) x 365}}{\text{cost of products, goods and services sold}}$	826	647	805
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##### Return ratios

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**Net profit margin on sales**

$\frac{\text{Net profit/loss}}{\text{Revenues from sales}}$	7.6%	13.8%	14.1%
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**Return on sales**

$\frac{\text{operating income}}{\text{Revenues from sales}}$	24.0%	26.1%	25.7%
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**ROA**

$\frac{\text{Net profit/loss}}{\text{total assets}}$	2.0%	6.2%	5.6%
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**ROE**

$\frac{\text{Net profit/loss}}{\text{Equity}}$	4.9%	16.0%	19.6%
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**Debt ratios**

**Payables turnover in days**

$\frac{\text{average trade payables *) x 365 days}}{\text{cost of products, goods and services sold}}$	98	76	101
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**Debt ratio**

$\frac{\text{liabilities and provisions for liabilities}}{\text{total equity and liabilities}}$	58.0%	60.2%	70.4%
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**Efficiency of shares**

**BVPS in PLN**

$\frac{\text{Equity}}{\text{number of shares}}$	9.40	8.74	7.19
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**Net profit/loss per share in PLN**

$\frac{\text{Net profit/loss}}{\text{number of shares}}$	0.47	1.47	1.41
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In the current accounting year net profit margin on sales is lower in comparison to the previous year, however it is still on a high level. The liquidity ratios are on a similar level in comparison to 2010. They prove safe financial flows and at the same time reflect good ability of the Company to serve current liabilities.

**3. Significant risk factors and uncertainties**

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

**Interest rate risk**

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.

### **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. However, some tighten credit conditions should be taken into consideration, which largely result from the regulations made by the Recommendation S. As a result, the above conditions may result in reduced demand for flats.

### **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 may have impact on the demand for apartments 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 2011 there were no untypical circumstances and events having effect on earnings for the accounting year.

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

### **Strategic objectives of J.W. Construction Holding S.A. comprise:**

- dynamic entry in the commercial segment by continuing the implementation of further office - service - hotel projects,
- strengthening of the leading position among developers both in Warsaw and in the whole country owing to intended expansion into other areas of Poland,
- carrying on the works connected with preparing new investment projects by drawing up the documents, including project documentation, and applying for building permits, which will allow to smoothly commence further investment projects in the future.

In 2012, the Company plans to launch new investments, both in Warsaw and other regions of Poland. The Company signed a preliminary contract on a purchase of land at Kasprzaka Street (the Company disclosed this information in current reports). In the case of fulfilment of conditions precedent in 2012, the largest investment in the Company's history - at Kasprzaka Street, will be prepared to implement. The investment area comprise 81,185 m<sup>2</sup> of area, which it is planned to build about 3,000 housing premises on.

In the near future - in the spring - the Company will begin implementation of the first building in Poznan - Osiedle Oaza Piątkowo. The subject investment will contain 183 premises. The investment project will contain apartments

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of various sizes and functional systems, with the majority of 2 and 3 - room apartments. One of the greatest value of the investment is its perfect location - just 5.5 km from the Old Town and main railway station in Poznań.

Moreover, there are also 3 investments with a total number of 547 premises which are planned to be commenced in Gdynia. The investments will be located in attractive areas of the city, in the neighbourhood of nature reserves and landscape parks.

Simultaneously, there are some works on a commencement of next investment in Katowice, in the one of the biggest estate in the city- Osiedle Tysiąclecia.

In Ozarów Mazowiecki near Warsaw it is planned to start a construction of next single-family houses - Villa Campina, which will be erected at requested customer demand .

The housing investments planned to be launched in 2012 and include nearly 1,400 premises.

<b>The planned housing investments in 2012</b>	<b>City/ District</b>	<b>Number of units/houses:</b>
Słoneczny Park, Ożarów Mazowiecki	Ożarów Mazowiecki	29 houses
Poznań, Jaroczyńskiego Street	Poznań	183 premises
Gdynia Sochaczewska Street	Gdynia	55 premises
Gdynia Powstania Wielkopolskiego Street	Gdynia	52 premises
Gdynia Spokojna Street	Gdynia	440 premises
Katowice, Tysiąclecia	Katowice	585 premises

The analysis of the real estate market and the recognition of the preferences of the Company's customers prove the necessity of the current strategy, which consists mainly of meeting the needs of middle-income clients. According to a document which was recently adopted by the Polish Sejm "The main problems, objectives and directions of the supporting program of housing development to 2020" in Poland, there are still 1.5 million homes lacking. It should be also kept in mind, that many premises are in very bad technical condition, which will result in actual increase in supply in the near future. Meeting the housing needs of the Poles may last at least 10 years. However it does not mean, that the Company may rest on its laurels, just the opposite, at the moment the property market, particularly a housing one, is at the stage of intense changes. The amendment to the Recommendation S was effective with the beginning of 2012, which reduced the creditworthiness of many flats' buyers, therefore the banks have begun to assess the creditworthiness of potential customers much more strictly than they used to do it so far. The entry into force of the so-called The Developer Act, which aims to protect the interests of customers purchasing flats and houses, introduces a series of new rules, which the developer will have to face to. Adapting to new requirements will translate into an increase in investment costs, which in the case of smaller developers it may be a impassable barrier. Thanks to an established position in the market and long-term experience, the Company is prepared for the changes, which include property development market in the near future.

According to a document "The main problems, objectives and directions" of the supporting program of housing development to 2020" the average salary in Poland enables to purchase 0.8 m<sup>2</sup> of living space, while in Western Europe it is 2-3 m<sup>2</sup>. Accordingly, the Company's activities within housing construction will be continuously developed by launching new investments from the segment of popular flats. The activity of the Company will be based on attractively priced locations, as well as on adjusting the size of apartments sold to demand reported by the Buyers. The most often purchased units are two-bedroom ones. Taking above assumptions into consideration, and still difficult situation in the mortgage credits market, the Company offers its customers a flexible solution to purchase flats. The proposed offer of financing programs are adjusted to different target groups of the offer. The Company, thanks to long-term and fruitful cooperation with major banks, has a diversified loan

offer prepared on the basis of the preferential arrangements, dedicated only to customers of the Company. In addition, in the Company there are still ongoing works on further new programs that will allow the Company to obtain financing for its customers.

The Company intends to continue a diversification, commenced in the previous years, of its revenues through dynamic entry in the commercial segment on a national scale, what in the current situation in the property market turned out to be deliberate and the right direction. Currently the Company is preparing for the implementation of further commercial projects e.g in Wroclaw and Warsaw. Currently, there are some works connected with designing and obtaining appropriate permits and decisions which allow to commence these investments.

At the end of 2011, the Company completed the construction of the first commercial investment "Jerozolimskie Point" in Warsaw, at Al.Jerozolimskie/Badylarska Street. The building is designed with the highest standards (A class) and attention to work comfort. The building was located in a close proximity to business districts of the Capital such as Mokotów and Ochota. This location enables easy access to the city centre, on the other hand, the location offers its potential tenants more attractive prices per square meter than in the strict city center.

On 22 February 2011, the Company received the decision on building permit for a building of Hanza Tower with its commercial spaces at Wyzwolenia Street in Szczecin. Currently, building works of the underground part are being conducted.

In 2012, the Company intends to launch next projects of a commercial nature. An office-hotel investment with the area of 7,697 m<sup>2</sup> of usable space will be raised at Pileckiego Street. In the case of successful negotiation and conclusion of a final agreement on the purchase of land at Kasprzaka Street, Warsaw, it is planned to build a large retail sales and service complex with a total area of 72.055 m<sup>2</sup> of usable space, which will be part of the aforementioned residential investment. The Company is intensively developing a hotel segment through developing and modernization of "Czarny Potok" hotel in Krynica Górska. The works were commenced in the previous years and will be finished in the first half of 2012. To date, revenues from the hotel activity have not had a significant impact on the overall turnover of the Company. Commissioning of a luxury resort in Krynica Górska undoubtedly will contribute to a significant increase in revenues and importance of the hotel segment for the Company's activity.

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

- introducing the sale of office and commercial spaces to the offer
- implementing undergoing housing investment projects and preparing to launch new ones, also those in various areas of Poland
- a broad commercial offer – including apartments ready for immediate move-in.

## **5. Main products 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:



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- Standard apartments – apartments in housing buildings and housing estates located beyond town centres (mainly in Białołęka district), for the average price of PLN 6,000 - 6,400/m<sup>2</sup>.
- Above-average-standard suites – suites in housing buildings or small groups of buildings located in such districts as Mokotów and Wola, for the average price of PLN 7,250/m<sup>2</sup>.

The apartments are offered with or without interior finish. The interior finish programme offers three sets of materials: Silver, Gold and Platinum. The Customers who acquire premises on investments: Lewandów Park I, Lewandów Park II and Słoneczny Park may opt for the following interior finishings: Orange, White, Black.

J.W. Construction Holding S.A in 2011 was still consistently strengthening its position among developers both in Warsaw and throughout the country. In 2011, the Company commenced construction of 3 new housing investments in Warsaw: Zielona Dolina, Osiedle Światowida, Lewandów buildings 3-6 and one commercial investment - Hanza Tower in Szczecin. In 2011, the Company realised 6 residential investments with a total number of 1 619 premises and 12 single-family houses comprising 79,003 square metres of UFS.

Simultaneously with residential investments, the Company realised commercial investments: Hanza Tower in Szczecin with the area of 36,328 sqm of usable space, in Warsaw, at Badyłarska Street with the area of 4,157 sqm of usable space and a hotel investment "Czarny Potok" in Krynica Górská with the area of 20,500 sqm of usable space.

The following investment projects were being implemented in 2011:

No.	Housing investments	Number of units
1	„Osiedle Centrum II”, Łódź	255
2	„Słoneczny Park”, Ożarów	376
3	"Villa Campina" - houses, Ożarów	12
4	"Zielona Dolina I" , Warsaw	596
5	„Osiedle Światowida”, Warsaw	184
6	„Osiedle Lewandów build. 3-6, Warsaw	208

No.	Commercial and hotel investments	Usable Space
1	„Jerolimskie Point” Badyłarska - Warsaw	4,157
2	„Czarny Potok” – Krynica Zdrój	20,500
3	"Hanza Tower" - Szczecin	36,328

Out of the aforesaid projects, in 2011 the Company completed the construction and obtained a occupancy permit for the fcommercial investment "Jerolimskie Point".:

In 2011, the Company received the following decision on building permission:

- On 22 February 2011, the Company received the decision on building permit for an office-service-residential building of Hanza Tower with an underground garage at Wyzwolenia / Odzieżowa Street in Szczecin. The permit is final.

- On 04 March 2011, the Company received the decision on building permit for a multif-family residential building at Jaroczyńskiego Street in Poznań. The permit is final.
- On 15 April 2011, the Company received the decision on building permit for 3 multi-family buildings at Światowida Street in Warsaw. The permit is final.
- On 10 May 2011, the Company received the decision on building permit of a multi-family housing estate - "Zielona Dolina I" in the area of Zdziarska and Ostródzka Street in Warsaw. The permit is final.
- On 09 August 2011, the Company received the decision on building permit for 4 multi-family buildings "Lewandów I", at Lewandów Street in Warsaw. The permit is final.
- On 06 July 2011, the Company received the decision on building permit of single-family houses in Kręczi Kaputy in a commune of Ożarów Mazowiecki. The permit is final.

#### Hotel activity

Hotel activity, even though it has an insignificant effect on the earnings of the Company, was continued as in the previous year.

Revenues from sales of hotel services in 2011 amounted to PLN 15,465,402. In 2011, the income from hotel activity noted a slight decrease by 1.63% in comparison to the previous year. The average number of occupied hotel beds within the whole chain was on the level of 34% and increased by 2% in comparison to 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. The company has in its resources some of Housing Communities, which have been managed for a number of years. These are e.g Osiedle Łucka -since 2006, Victoria, Radzymin -since 2007, or Górczewska 200 and Bukowińska 8, 12 since 2008.

In 2011, revenues from sales of the Company were as follows:

	1 January 2011 - 31 December 2011	1 January 2010 - 31 December 2010	change %
<b>Revenues from sales of products and services per business segment</b>	<b>329,639,376</b>	<b>570,617,351</b>	<b>-42.2%</b>
- developer activity	306,196,995	552,541,616	-44.6%
- hotel activities	15,465,402	15,217,893	1.6%
- property management	7,976,979	2,857,843	179.1%

## 6. Information about the market

Presently the biggest and the main market for the business of the Company is the Warsaw market. In the past, the Company also implemented investment projects in Łódź, Gdynia and in Katowice, where the Company is going to commence new projects.

The Warsaw market is the biggest and the most stable housing market in Poland, with the highest prices for a square meter of a housing space. The company also plans to expand into markets outside Warsaw to meet the demand of large urban agglomerations in the southern Poland, in the north, in Lodz and for the first time in Poznań.

In 2011, the Company completed the construction of the first office project, "Jerozolimskie Point" situated in Warsaw. The Company is also prepared to commercialise other office projects – one in Warsaw and one in Szczecin and in Wrocław. The works that are being conducted presently are connected with designing and applying for necessary licences and permissions enabling the commencement of next investments.

## 7. Suppliers and recipients of the Company

The Company's biggest service supplier is a subsidiary, J.W. Construction S.A. with its seat in Żąbki (the turnover exceeds 10% of total transactions). The Company was founded in 2008 and currently it is the General Contractor of all implemented investment projects. As at 31 December 2011, the Company holds indirectly, through the subsidiary J.W. Construction Sp. z o.o. with its seat in Żąbki, 100 % of share capital of J.W. Construction S.A. Most of the Company's clients are individual persons buying apartments.

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

### 8.1 Construction contracts

The Company concluded with a subsidiary of J.W. Construction S.A the following agreements on the implementation of general contractor agreement of the investment:

Project's name	Date of the agreement	Subject of the contract
Osiedle Centrum II in Łódź	17 January 2011	The construction of 9 multi-family buildings with 255 premises
Zielona Dolina I, stage 1 in Warsaw	22 August 2011	The construction of 11 multi-family buildings with 290 premises
Zielona Dolina I, stage 2 in Warsaw	22 August 2011	The construction of 12 multi-family buildings with 306 premises
Osiedle Światowida in Warsaw	04 October 2011	The construction of 4 multi-family buildings with 184 premises
Czarny Potok in Krynica Zdrój	04 October 2011	Performance of additional works on the reconstruction and development of the hotel in Krynica

The total value of the above agreements exceeds 10% of the Company's equity.

On 24 October 2011, the Company concluded an agreement with "Wroński" a registered partnership with its seat in Leszno, near Kartuz in the amount of PLN 61,600,000 net. The subject of the agreement is the construction, performed by the Contractor as a general contractor, on a property located in Gdynia, at Leśna, Parkowa and Spacerowa Street ( cadastral parcels 70/1 and 22/1 k.m93) of a multi-family residential buildings with garages and parking lots, and the necessary infrastructure from the Contractor's own materials. A total usable floor space of flats will be about 24,640 m<sup>2</sup>. In the case of amendment to the total floor area of flats in the final decision on the building permit, the Parties shall change the remuneration with the annex, taking into consideration the final floor area of flats multiplied by PLN 2.500 per 1 m<sup>2</sup> of that area to set the amount of the

agreement. The parties agreed that in case when the Company will not have obtained the final decision on the building permit by 30 June 2012, for at least one Stage of the investment, the Agreement shall terminate.

## 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 Company holds a separate agreement on third party liability insurance due to its developer activity, property management, hotel service activity and third party liability insurance for the business activity to that extent.

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.

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
Third party liability insurance of the Management Board	AGI Europe S.A. Branch in Poland	PLN 60,000000
Business public liability	Sopockie Towarzystwo Ubezpieczeń ERGO HESTIA S.A.	PLN 10,000,000
Insurance connected with all other risks and accidents connected with implemented contracts including third party liability insurance	Towarzystwo Ubezpieczeń i Reasekuracji WARTA S.A. Towarzystwo Ubezpieczeń ALLIANZ S.A. Towarzystwo Ubezpieczeń Generali S.A.	PLN 236,704,000
Property insurance including the assets held in connection with hotel activity.	Towarzystwo Ubezpieczeń ALLIANZ S.A. Towarzystwo Ubezpieczeń i Reasekuracji WARTA	PLN 154,264,000

## 8.3 Land purchase agreements

On 29 March 2011, the Company concluded a preliminary agreement on acquisition of the right of perpetual usufruct of land plots with number No. 3 / 1 and 3 / 3 (q WA4M/00162186/5) with a total area of 81,185 m<sup>2</sup> located in Warsaw in Kasprzaka 29/31 Street and the title to buildings and structures located on the property with VIS Investments Limited liability company Limited joint-stock partnership with its seat in Warsaw. The amount of the agreement was set for net PLN 173,980,000 ( PLN 176, 914,183.17 gross). The agreement was concluded under the condition precedent in the form of entry into force (according to art. 29. 1 of the Act of 27 March 2003 on Spatial Planning and Development) a zoning plan covering the area of the property, which in reference to the property, was supposed to expect records and building parameters not worse than those indicated in the letter constituting annex to the agreement concluded. The agreement was annexed at the end of the reporting period,

currently the Company should meet the deadline 29 March 2012 to exercise the right to conclude a subject agreement. The Company is planning to implement a mixed housing-office-service development.

On 04 August 2011 the company concluded an agreement with the trustee in bankruptcy of "Buditalia" Sp. z o.o on purchase of ownership rights to the plot with number No. 104 / 5 with an area of 7,014 m<sup>2</sup> located in Lodz, at Ks. Bp. Tymienieckiego 16 Street and for which a land and mortgage register with No. LD1M/00111879/7 is kept . The value of the agreement is PLN 4,247,000 gross.

#### **8.4 Financial agreements concluded and terminated during the accounting year**

##### **8.4.1 Loans terminated**

Both in 2011 and in the period from the balance sheet date until the date of this Management Commentary for 2011 none of the credit agreements was terminated.

##### **8.4.2 Loans contracted**

**In 2011, the Company entered into a credit agreement as follows:**

On 18 February 2011, the Company concluded the investment loan agreement with Invest Bank S.A in the amount of PLN 33.000.000 for financing the "Osiedle Centrum II" investment at Tymienieckiego Street in Lodz. The repayment date was set on 31 March 2013.

On 28 April 2011, the Company concluded a revolving credit with Bank Polskiej Spółdzielczości S.A in the amount of PLN 10 million. The repayment date was set on 27 April 2012.

On 28 April 2011, the Company concluded an overdraft facility agreement with PKO BP S.A in the amount of PLN 10 million. The repayment date was set on 27 April 2012.

On 05 May 2011, the Company concluded an overdraft facility agreement with Bank Ochrony Środowiska S.A in the amount of PLN 13 million. The repayment date was set on 30 April 2012.

On 30 June 2011, the Company concluded the investment loan agreement with Getin Noble Bank S.A in the amount of PLN 19.000.000 for financing the investment at Światowida Street in Warsaw. The repayment date was set on 20 December 2013.

On 21 September 2011, the Company concluded two revolving credit facilities with Bank Ochrony Środowiska S.A.:

- in the amount of PLN 41,000,000 - for the implementation of the first stage of "Zielona Dolina I" investment at Zdziarska Street in Warsaw, the date of a repayment is set on 31 March 2014.
- in the amount of PLN 46.000.000 - for the implementation of the second stage of "Zielona Dolina I" investment at Zdziarska Street in Warsaw, the date of a repayment is set on 31 May 2014.

On 03 October 2011, the Company concluded a revolving credit with Bank Polskiej Spółdzielczości S.A in the amount of PLN 10 million. The repayment date was set on 02 October 2014.

**In 2011, the Company repaid the following credits:**

On 31 March 2011, the Company has made a full repayment of revolving working capital loan granted by the Bank PKO BP SA in the amount of PLN 67 million which was dedicated to finance "Lewandów II" investment at Lewandów Street, Warsaw.

On 29 April 2011, the Company has made a full repayment of a credit granted by the Bank Polskiej Spółdzielczości S.A in the amount of PLN 50 million which was dedicated to finance "Bursztynowe Osiedle" investment at Korkowa Street, Warsaw.

**In 2011, the following changes occurred in credit agreements that were concluded in the previous years:**

On 18 March 2011, the Company concluded an Annex to the working capital credit granted by Bank Polskiej Spółdzielczości S.A in the amount of PLN 30 million, dedicated for the purchase of a property located at Spokojna - Leśna Street, Gdynia. By virtue of the Annex, credit legal collaterals in the form of the mortgage establishment on the property credited were changed.

On 31 March 2011, and then on 18 July and 28 October 2011, the Company concluded an Annex to the investment credit granted by Bank PKO BP S.A in the amount of PLN 66,803,028, dedicated for the financing of the implementation of "Czarny Potok" investment in Krynica Zdrój. In virtue of the annexes, the credit use date was rescheduled till 31 March 2012, the repayment date was also rescheduled till 31 March 2020.

On 22 April 2011, the Company concluded the Annex to the overdraft facility agreement with Invest Bank S.A . In virtue of the annex, the loan value was raised to PLN 15.000.000 and repayment date was postponed until 25 April 2012.

On 30 June 2011, the Company entered into the Annex to the credit agreement granted by Millennium Bank S.A to finance the commercial investment of "Jeruzolimskie Point" at Al.Jeruzolimskie / Badylarska Street, Warsaw. By virtue of the Annex, the loan value was raised to PLN 23.000.000 and repayment date was postponed until 31 December 2021.

On 23 December 2011, 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 postponed and set on 23 December 2012.

Detailed information about liabilities under loans as at 31/12/2011 is presented under Note 12 to the financial statements.

**8.4.3 Cash loans contracted**

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

#### 8.4.4 Cash loans granted

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

Borrower	Granted on	Amount and currency	Interest rate	Maturity date
YAKOR HOUSE	26/04/2011	PLN 45.000	WIBOR 3M + margin	31/12/2011
YAKOR HOUSE	11/07/2011	PLN 202.500	WIBOR 3M + margin	31/12/2012
YAKOR HOUSE	11/10/2011	PLN 165.000	WIBOR 3M + margin	31/12/2012
J.W. Construction Sp. z o.o. (formerly JWCH Produkcja Budowlana Sp. z o.o.)	05/04/2011	PLN 50.000	WIBOR 3M + margin	31/12/2012
Architects Polska Sp. z o.o (formerly Sami Tito Architects Polska Sp. z o.o)	25/05/2011	PLN 300.000	WIBOR 3M + margin	31/12/2012
Deweloper Sp. z o.o.	14/12/2011	PLN 115.492,85	WIBOR 3M + margin	14/10/2012
J.W. Construction Bułgaria Sp. z o.o.	08/02/2011	EUR 65.000	LIBOR 3M + margin	31/12/2013

#### 8.5. 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.

#### 8.6. Issue of securities

On 25 June 2010, the Company issued 1,300 long-term unsecured bonds in total with unit par value PLN 100,000 each . In the reporting period the Company made interest payments of above mentioned bonds in quarterly periods.

The Company held, as at 31.12.2010, bills of exchange amounting to PLN 162.4 million.

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

On 23 June 2011, the Company concluded the agreement in which it granted the guarantee to Klosters Beteiligungsgesellschaft GmbH, with its seat in Kempen ("Buyer") in respect of the sale agreement for the benefit of the aforesaid entity by Sezam II Closed Investment Fund and J.W. Consulting Sp. z.o.o J.W. 5 - Partnership limited by shares - with its seat in Warsaw (the "Seller"), of shares representing 100% of the share capital of the company operating under the name J.W Agro Ltd. with its seat in Nowogard . The company ensured that all statements submitted by the sellers in the sale agreement are true and correct and do not mislead in any significant scope that is covered by them, while ensuring fulfilment of obligations of the Sellers which result from the agreement. The value of the sale agreement is PLN 57 million. The buyer is entitled to file a claim on the Sellers in case of assurances on public law liabilities within 10 years, and the rest within 2 years from the date of the contract.

In the reporting period, the Company granted a guarantee for liabilities of J.W. Wronia Spółka z o.o exceeding 10% of capital share that was granted on 20 September 2011, in the benefit of Bank Millennium S.A with its seat in Warsaw ( "Bank") under a revolving credit agreement to finance the residential housing of 02.08.2011 granted to J.W. Wronia Spółka z o.o with its seat in Ząbki ("Debtor"). The credit was granted in the amount of PLN

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75 million for a partial financing of the investment in Wronia 45 street. The surety shall include all existing liabilities of the Debtor at the time of granting a guarantee, and these which may arise in the future in relation to credit along with the commissions, fees and other costs, in case the debtor has not performed its obligations. The surety has been granted till 30 April 2014.

**In 2011 the following guarantees were granted by the Company:**

<b>Beneficiary of the guarantee</b>	<b>Guarantee value</b>
Guarantees to the benefit of TBS "Marki" Sp z o.o.	22,400,000.00
Guarantees to the benefit of JW. Construction S.A.	0.00
Guarantees to the benefit of ZPM Metalcon Sp z o.o.	800,000.00
Guarantees to the benefit of JWCH Produkcja Budowlana sp. z o.o.	0.00
Guarantees to the benefit of Deweloper Sp. z o.o.	341,697.97
Guarantees to the benefit of JW. Wronia Sp. z o.o.	75,000,000.00
Guarantees to the benefit of JW. Consulting Sp. z.o.o J.W.2 partnership limited by shares	39,653,100.00

The list of warranties and guarantees granted within the Company, year-to-date as at 31 December 2009, is presented in Note 26 to the financial statements.

**8.8 Employee share plan control system**

The Company does not have any employee stock ownership plans.

**8.9 Other relevant agreements**

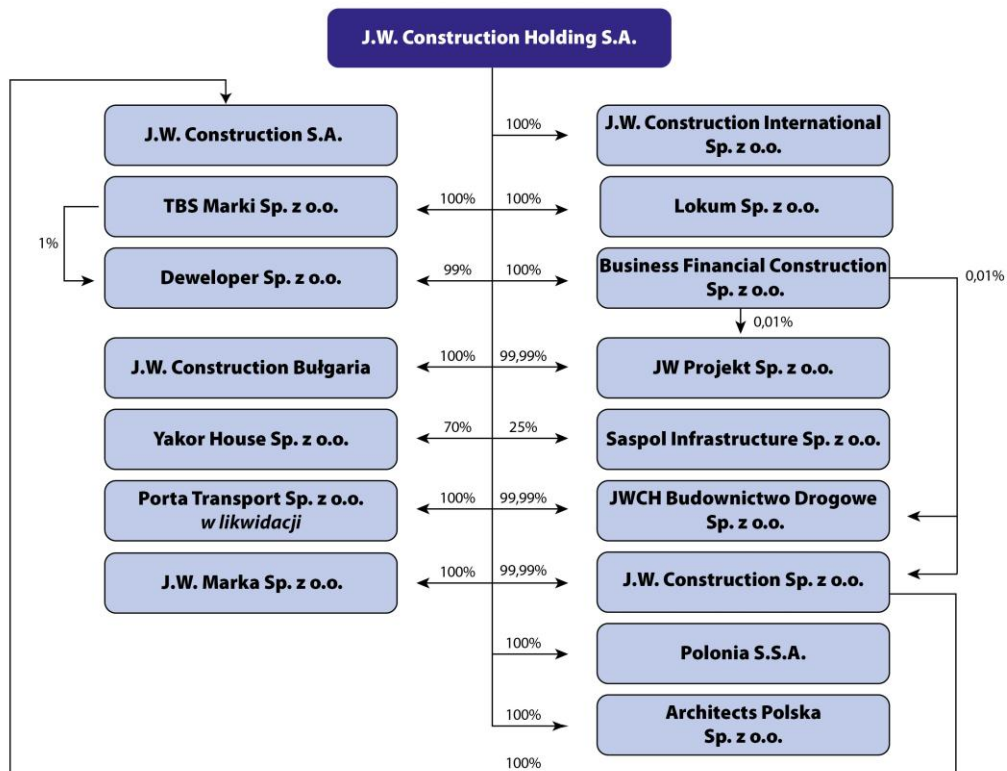
On 28 October 2011, the Company concluded an agreement with a subsidiary of J.W.Marka Spółka z o.o with its seat in Ząbki (formerly INTERIM D Spółka z o.o with its in Warsaw), in the amount of PLN 155.833.000 The agreement was concluded in performance of obligations resulting from the adopted resolution No. 1 of the Extraordinary Meeting of Shareholders of INTERIM D Sp. z o. o. (currently J.W. Marka Sp. z o.o) of 24 October 2011, on the share capital increase by the amount of PLN 155,833,000 and the statements of the Company, of 24 October 2011., on taking up newly created shares and covering them with capital contribution in a form of an organized part of the Company's Marketing Department and Intellectual Property ("ZCP"). The agreement was concluded in performance of obligations of the Company to transfer ZCP as the in-kind contribution to the benefit of INTERIM D Sp. z o. o. (currently J.W. Marka Sp. z o.o.) to cover the value of the newly acquired shares in INTERIM D Sp. z o. o. in the total amount 3,116,660 units, the nominal value of PLN 50 each, and the total value of PLN 155.833 million. The ZCP includes components associated with their activities in the field of marketing, including the right to trademark protection, "JW CONSTRUCTION " both in word and in graphic. The agreement had a dispositive character and transfers the organised part of the enterprise components ownership rights to the benefit of INTERIM D Sp. z o.o (currently J.W. Marka Sp. z o.o.)

**9. Organisational and capital relations of the Company with other entities**

Shares in other subsidiaries with description:



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J.W. Construction S.A. (full consolidation)

The Company of J.W. Construction S.A., domiciled in Ząbki entered in the register of entrepreneurs of the National Court Register under KRS number 0000290315. Share capital of J.W. Construction S.A. amounts to PLN 11,526,618 and is divided into 11,526,618 shares with a par value of PLN 1 each. J.W. Construction S.A. took over the construction activity of the Company. The Company of J.W. Construction Sp. z o.o a subsidiary of the the Company holds 100% of share capital of J.W. Construction S.A.

J.W. Construction Sp. z o.o. (formerly JWCH Produkcja Budowlana Sp. z o.o.) (full consolidation)

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 0000300959. 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 business activity of J.W. Construction Sp. z o.o is production of building prefabricated units.

JW Projekt Sp. z o.o. (full consolidation)

JW Projekt 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 195210 on 20 February 2004 . The Company holds 99.99% of its shares. Share capital of JW Projekt Sp. z o.o. amounts to PLN 1.155.600 and is divided into 5,778 shares with a par value of PLN 200 each. The business of JW Projekt Sp. z o.o. is architecture and designing.

TBS Marki Sp. z o.o. (full consolidation)

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 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 oo (full consolidation)

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.

Deweloper Sp. z o.o. (full consolidation)

Deweloper Sp. z o.o., a limited liability company domiciled in Siemianowice Śląskie entered in the register of entrepreneurs of the National Court Register entered in the register of entrepreneurs of the National Court Register 170493 on 22 August 2003. The Company holds 99 % of its shares. Share capital of Deweloper Sp. z o.o. amounts to PLN 50,000 and is divided into 100 shares with a par value of PLN 500 each. The business of Deweloper Sp. z o.o. is road construction. In the structure of the Capital Group it was assigned the role of the general contractor of a housing estate in Katowice.

J.W. Construction International Sp. z o.o (full consolidation)

J.W. Construction International Sp. z o.o., a limited liability company is registered in the territory of Russia. The Company holds a 100% of its share capital. The business of J.W. Construction International Sp. z o.o. is investments in housing building industry in the territory of the Russian Federation.

Porta Transport Sp. z o.o. in liquidation (full consolidation)

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 0000177420. 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.

JWCH Budownictwo Drogowe Sp. z o.o. (full consolidation)

JWCH Budownictwo Drogowe Sp. z o.o., a limited liability company domiciled in Ząbki entered in the register of entrepreneurs of the National Court Register entered in the register of entrepreneurs of the National Court Register 0000299665 on 21 February 2008 on 21 February 2008. The Company holds 99.99% of its shares. Share capital of JWCH Budownictwo Drogowe Sp. z o.o. amounts to PLN 2,060,000 and is divided into 41,200 shares with a par value of PLN 50 each. JWCH Budownictwo Drogowe Sp. z o.o. is going to continue further actions in the scope of road construction and construction of infrastructure.

Yakor House Sp. z o.o. - formerly Ośrodek Wypoczynkowy "Ogoniok" (full consolidation)

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. - BFC (not subject to consolidation)

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.

Polonia S.S.A (not subject to consolidation)

Polonia S.S.A a sports joint-stock 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 173656 on 19 September 2003. The Company holds 100% of its shares. Share capital of Polonia S.S.A. amounts to PLN 1,544,000 and is divided into 5,000 A-class registered shares with a par value of PLN 100 each and 10,440 B-class registered shares with a par value of PLN 100 each.

J.W. Construction Bulgaria EOOD (not subject to consolidation)

*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.*

Saspol Infrastructure Sp. z o.o. (not subject to consolidation)

SASPOL INFRASTRUCTURE Sp. z o.o., a limited liability company domiciled in Ząbki, entered in the register of entrepreneurs of the National Court Register entered in the register of entrepreneurs of the National Court

Register 0000335059 on 21 February 2010. The company holds 25% its share capital. Share capital of SASPOL INFRASTRUCTURE Sp. z o.o amounts to PLN 5,000 and is divided into 100 shares with a per value of PLN 50,00 each. SASPOL INFRASTRUCTURE Sp. z.o.o is a special purpose vehicle made up of foreign partners through which, the Company, together with these partners, will take part in tenders for the realization of works connected with infrastructure.

Architects Polska Sp. z o.o. (full consolidation)

Architects Polska Sp. z o. o. with its seat in Ząbki (formerly Sami Tito Architects Polska Sp. z o.o ) entered in the register of entrepreneurs on 19 January 2011 under the KRS number 0000376090, of which the capital amounts to PLN 5,000 and is divided into 100 shares at PLN 50,00 each, the Company operates in the scope of architecture and designing. The Company took over control on Architects Polska Sp. z o.o. in June 2011.

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

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 0000373684 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.

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

On 25 May 2011 (effective as at June 2011), the Company acquired 35 shares with a nominal value of PLN 100.00 each and a total value of PLN 3,500 in the company under the name of Sami Tito Architects Poland Sp. z o.o. (currently Architects Poland Sp. z o.o), which with previously held shares gives 100% of share capital. On 17 November 2011, the District Court for the City of Warsaw, XII Commercial Division of the National Court Register registered an increase of the share capital by the amount of PLN 155,833,000 in the company of J.W. Marka Sp. z o.o through a creation of 3,116,660 new shares with a nominal value of PLN 50.00 each. The shares were acquired by the Company in exchange for a in-kind contribution in the form of an organized part of the Company - Marketing and Intellectual Property Management Department. 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. consists in guaranteeing liquidity in all business segments, including mainly the developer activity. The supreme objective of the Company's business is to provide sources of financing for all implemented projects, while maintaining safe liquidity ratios. Financing of a vast majority of implemented projects, also with granted bank loans, is guaranteed. 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 2011 the Company generated satisfactory profits. By controlling daily turnovers the Company repaid numerous loans incurred for implementation of developer projects. The economic and financial situation is protected in the form of inflows from investments - both completed and handed over in 2012 and in the form of other assets. Moreover, the Company has cooperated with various banks for many years in order to provide financing both business investment activity and the current one.

#### **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. Those will continue to be loans in the form of safe revolving lines financing the gap of the given period. Financing is raised based on very good 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**

**The most important external factors determining the conditions of functioning of the Company as regards attainment of financial results are as follows:**

- introduction of the Recommendation S, which can undermine the creditworthiness of many buyers
- on the other hand, more and more attractive level of flats' prices to buyers and lack of interesting offer of long-term deposits in banks' offer, which are accompanied by tightening tax system for example through the elimination of overnight deposits, may have a positive impact on the growth of interest in investing in the housing market
- according to various sources, a strong recovery in commercial property market, especially office spaces in major Polish agglomerations is forecasted
- stable situation on the market of building material prices;
- formal and legal factors, administrative decisions, licences, permits, etc.
- shortage of new flats amounting to 1.5 – 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;

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

- good and attractive and continually extended offer of apartments (including those ready for immediate move-in),
- diversified offer of financing programmes for the purchase of investment projects for clients, which can be an alternative in case of lack of credibility

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- constant marketing actions,
- introduction of demonstration flats with interior design,
- flexible approach to the customer – the possibility of negotiating the prices depending on the payment amount and schedule
- 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 2012 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 continues to be hampered. Despite periodic price stagnation connected with a limited supply of new apartments coming to the market, it is projected that prices of real estate will be gradually increasing. In order to benefit from the factors favourable for the Company's development and to eliminate the unfavourable ones, it is planned to introduce further special apartment purchase programmes, launch the sale of new housing investments and implement commercial projects, and to acquire a complementary entity to strengthen the executive and building arm of the Company.

#### **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 31.12.2011

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**

As at 31 December 2011, the Company was a party in the proceedings filed by the Company in a total amount of PLN 99,302,000. On this day, the largest value of the object of litigation had the case brought by the Company against SAWA Residential Fond Sp. z o.o. with its seat in Warsaw. In connection with evasion by SAWA Residential Fond Sp. z o.o. of the performance of an acquisition obligation of premises from the Company, in accordance with the concluded preliminary agreement between the parties, the Company instituted an action for a payment of the rest of sale price in the amount of PLN 58,876, 568.28. Due to the fact that the Company filed a declaration on the agreement termination, the action was withdrawn and the case remitted by the Court in February 2012.

As at 31 December 2011, the Company was a party to proceedings brought against it in the total amount of PLN 22, 657,000.

### **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.**

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 05 August 2011, 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 2011.

The remuneration of the auditor for auditing the unitary financial statements for the financial year ended 31.12.2011 amounted to PLN 155 thousand, of which PLN 65 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.

The remuneration of the auditor for auditing the unitary financial statements for the previous year that ended 31.12.2010 amounted to PLN 155 thousand, of which PLN 65 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. In addition, the Company concluded agreement on providing audit and attestation services with the entity authorized to audit the financial statements. The remuneration in this agreement is set in the amount of PLN 20 thousand net. The remuneration in the agreement on preparation of the valuation is amounted to PLN 50 thousand net.

### **23. Statement on corporate governance of J.W. Construction Holding S.A. in 2011**

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

In 2011 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 Companies is available at:

<http://www.corp-gov.gpw.pl/publications.asp>

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

J.W. Construction Holding S.A. did not waive any rules provided under the Best Practices of WSE Listed Companies.

**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**

Financial reporting processes are covered with the constantly improved Quality Management System. The said system is reviewed periodically by internal and external quality system auditors. The last review was made in April 2011 and ended with the renewal of the ISO 9001 certificate. The main document governing the principles of handling financial documents is the "Internal Document Circulation and Control Instruction" introduced with the regulation of the President of the Management Board of the Company in November 2005. The most important documents governing financial records and projections are the "Procedure for Budgeting and Budget Supervision" and "Procedure for Investment Project Budgeting".

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

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**



The Management Commentary of J.W Construction Holding S.A  
for the period from 01 January 2011 to 31 December 2011.

As at 31.12.2011

<i>Shareholder</i>	<i>Number of shares held</i>	<i>% of share capital</i>	<i>Number of votes</i>	<i>% of total number of votes in the General Meeting</i>
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 recalling a given Management Board member, or on appointing or recalling the President of the Management Board.

As at 31 December 2011 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 2002 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 2011 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 2002 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**

Due to intention of bonds issue in 2010, the Annual General Meeting adopted the resolution on 18 May 2010 which enables the Company to issue convertible bonds. To date, no convertible bonds were issued, the Company

held the program for the issuance of ordinary unsecured bonds, which replaced the convertible bond issue program. However, in accordance with § 5. 6 of the Articles of Association, the Management Board is authorized to increase share capital by issuing new shares with a total nominal value of not more than PLN 1.38 million. The above will be done by converting bonds into shares of series D, which will be made on the basis of written statements of the Bondholders. The Management Board shall report to the registration court each increase in the share capital as specified in the Article. 452 of the Commercial Companies Code. Deadlines for submitting claims to replace the bonds into shares of D series will be determined by the Management Board in a resolution which specifies the conditions of the bonds issue and principles described in detail in the Resolution No. 26 of the Annual General Meeting of 18 May 2010

**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.

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. This means that 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 ¾ 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 31/12/2011 the Management Board of the Company was composed of:

Tomasz Panabażys - Vice-Chairman of Management Board

Robert Wojcik - Member of Management Board

Mr. Wojciech Rajchert - Member of Management Board

Mrs. Irmína Łopuszyńska - Member of Management Board

Mrs. Bożena Malinowska - Member of Management Board

During 2011 the composition of the Management Board of the Company was changed as follows:

On 27 October 2011, Mr. Marek Samarcew, on the basis of the personal right entitled to the shareholder who holds more than 50% of the shares, was dismissed from Management Board.

On 28 October 2011, on the basis of the personal right entitled to the shareholder who holds more than 50% of the shares, Ms. Irmína Łopuszyńska and Bożena Malinowska were appointed as the Member of Management Board.

##### 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 setting 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

Marcin Michnicki – Vice Chairman of Supervisory Board

Józef Oleksy – Vice Chairman of Supervisory Board

Andrzej Podsiadło – Member of Supervisory Board

Jarosław Król – Member of Supervisory Board

In 2011, the following changes in the composition of the Management Board occurred:

On 1 June 2011, Mr. Henry Pietraszkiewicz, who held the position of the Vice Chairman of the Supervisory Board resigned from his function for personal reasons.

Due to the Resolution No 25 which was taken by the Annual General Meeting on 29 June 2011 relating to changes in the number of the Supervisory Board members, there was no new person appointed to the Supervisory Board, and the position of the Vice Chairman of the Supervisory Board was entrusted to Mr. Marcin Michnicki.

##### 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. Currently, as at 31 December 2011 the Supervisory Board did not appoint any Committees.

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 closerelatives (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 29 June 2011 the Annual General Meeting was held, which approved unitary financial statements, consolidated financial statements for 2010, 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 for a supplementary capital of the Company. In addition, the resolutions on the change in the number of members of the Supervisory Board from six to five were taken, Mr. Marcin Michnicki was appointed as the Vice Chairman of the Supervisory Board and resolutions on the merger of the Company with its subsidiaries were passed: Project 55 Sp. z o.o with its seat in Warsaw, Interlokum Sp. z o. with its seat in Warsaw, Stadnina Mazowiecka Sp. z o.o with its seat in Ząbki and Construction Invest Sp. z o.o with its seat in Ząbki.

On 12 October 2011, Extraordinary General Meeting approved the sale of an organized part of the enterprise in a form of the Marketing and Intellectual Property Management Department for the benefit of a subsidiary Interim D Spółka z o.o. (currently J.W. Marka Sp. z o.o.) to cover newly created shares in the subject company.

### Registration of the merger

On 29 July 2011, the District Court for the City of Warsaw, XIV Commercial Division of the National Court Register registered the merger of the Company (as a merging company) with its subsidiaries: Project 55 Sp. z o.o with its seat in Warsaw, Interlokum Sp. z o. with its seat in Warsaw, Stadnina Mazowiecka Sp. z o.o with its seat in Ząbki and Construction Invest Sp. z o.o with its seat in Ząbki (as merged companies). The merger was in accordance with art. 492 § 1 of the Code of Commercial Companies by transferring all the assets of merged companies to the Company.

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

### Occupancy permits

On 27.01.2012 the Company received a permission to use the sewage treatment plant built in the municipality of Kręczki Kaputy in Ożarów Mazowiecki.

The Management Commentary of J.W Construction Holding S.A  
for the period from 01 January 2011 to 31 December 2011.

**Credit Agreements**

On 20.02.2012, the Company concluded the revolving credit agreement with Millenium Bank S.A in the amount of PLN 21.000.000 for financing the investment at Jaroczyńskiego Street in Poznań. The repayment date was set on 31/03/2015.

On 09.03.2012, the Company concluded an agreement on Nowy Dow investor loan in the amount of PLN 27,558,000 for co-financing the implementation of Lewandów investment buildings 3-6 at Lewandów Street in Warsaw. The repayment date was set on 25/12/2014.

**Changes in the Board**

On 1 February 2012, with a decision of Supervisory Board, Mrs. Magdalena Starzyńska was appointed to Management Board of the Company.

The Management Commentary of J.W Construction Holding S.A  
for the period from 01 January 2011 to 31 December 2011.

Signatures of Board Members

Tomasz Panabażys Vice President	Signature
Robert Wójcik Member of Management Board	Signature
Wojciech Rajchert Member of Management Board	Signature
Irmina Łopuszyńska Member of Management Board	Signature
Bożena Malinowska Member of Management Board	Signature
Magdalena Starzyńska Member of Management Board	Signature

Ząbki, 15 March 2012.