

**Consolidated Business Report of the Management Board**  
**of the Capital Group of J.W. Construction Holding S.A.**  
**for the 1<sup>st</sup> half of 2008**



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for the period from 1 January 2008 to 30 June 2008

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## 1. Introduction

### General information

**J.W. Construction Holding S.A.**, a joint-stock company ("Company") domiciled in Ząbki at ul. Radzymińska 326 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, 14<sup>th</sup> Business Division of the National Court Register, is the parent company of the **Capital Group of J.W. Construction Holding S.A.** ("Capital Group").

**J.W. Construction Holding S.A.** domiciled in Ząbki at ul. Radzymińska 326, REGON statistical number: 010621332, was initially registered as Towarzystwo Budowlano-Mieszkaniowe Batory Sp. z o.o., a limited liability company, under number RHB 39782 on 7 March 1994. On 15 January 2001 it was transformed into a joint-stock company and registered with the District Court for Warsaw under number RHB 63464. On 16 July 2001 the Company was renamed to the present J.W. Construction Holding S.A. and registered with the National Court Register under number KRS 0000028142.

In accordance with the Polish Classification of Activities (*Polska Klasyfikacja Działalności – PKD*) the core business of the Company is developing and selling own real estate, the Company also provides hotel services.

The major event in the 1<sup>st</sup> half of 2008 was separating three branches from the structures of J.W. Construction Holding S.A. and transferring them as in-kind contributions to subsidiaries.

On 30 April 2008 there were held three Extraordinary General Meetings of subsidiaries of J.W. Construction Holding S.A., under which there were concluded agreements for transferring organised parts of the enterprise – branches:

- to J.W. Construction S.A. – the branch of J.W. Construction Holding S.A. Oddział "**Budownictwo**" (*Branch: "Construction"*);
- to J.W. Projekt Sp. z o.o. – the branch of J.W. Construction Holding S.A. Oddział "**Pracownia Projektowa**" (*Branch: "Designing Workroom"*);
- to JWCH Produkcja Budowlana Sp. z o.o. – the branch of J.W. Construction Holding S.A. Oddział "**Zakład Prefabrykacji Budowlanej**" (*Branch: "Building Prefabrication Plant"*).

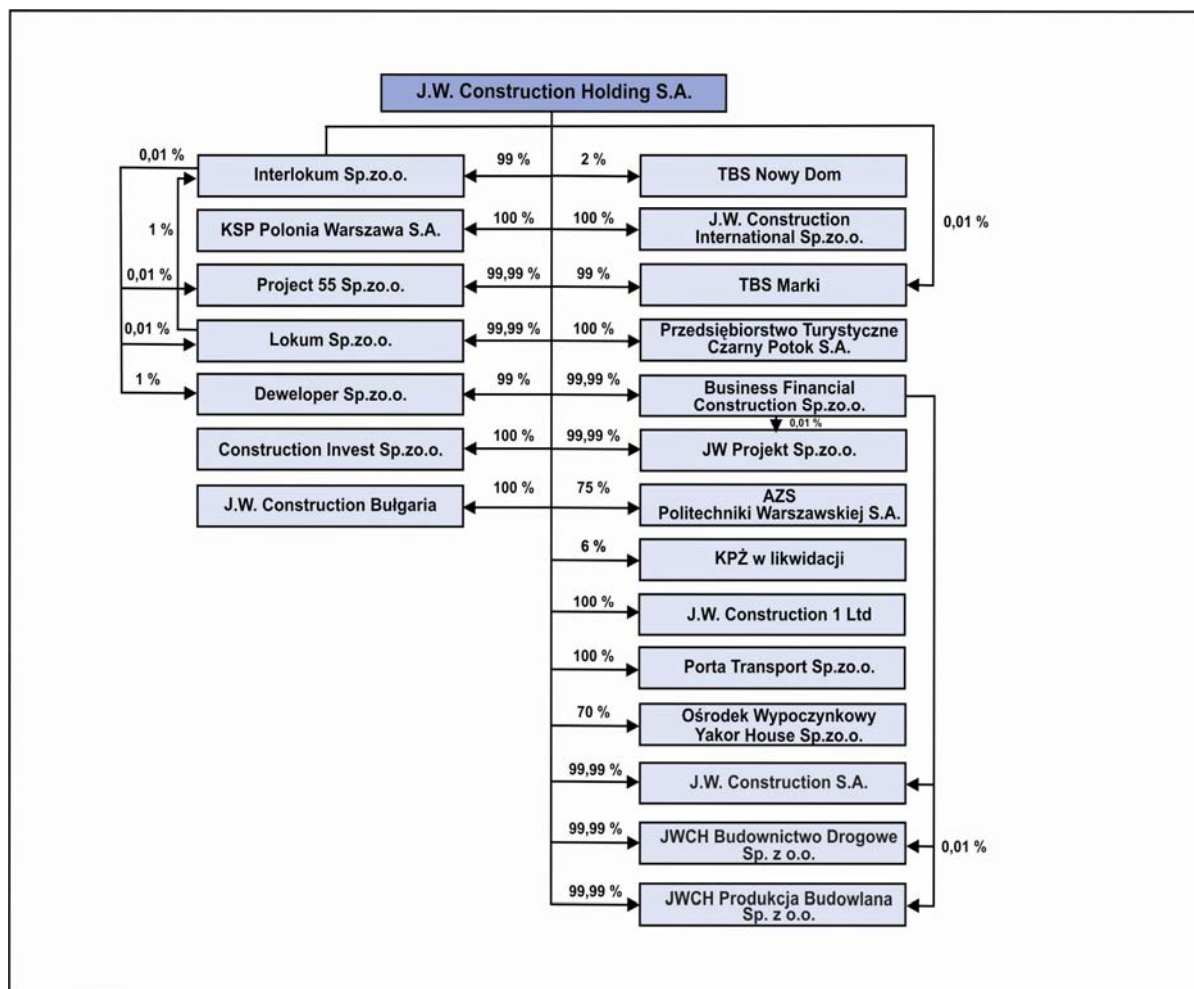
Transfer of general construction activities to separate companies is of key significance for the Capital Group, as due to the implemented organisational changes the said companies operate to their own account, while through development and reinforcement of their own production power they will contribute to reducing the dependence on external sub-contractors. Moreover, due to that the aforesaid companies may diversify sources of Group's income, also by acquiring contracts with third parties in the future.

**Since 1 May 2008 the Capital Group has been operating under new structures.**

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**2. Organisational and capital relations in the Group of J.W. Construction Holding S.A.**

As at 30 June 2008 the structure of the Capital Group of the Company was as follows:



**J.W. Construction S.A.**

J.W. Construction S.A., a joint-stock company domiciled in Ząbki was registered with the register of companies under number KRS 0000290315. Share capital of the company amounts to PLN 500,000 and is divided into 500,000 shares with a par value of PLN 1 each. J.W. Construction S.A. took over the construction activity of the Company. The Company holds a 99.99% share in share capital of J.W. Construction S.A. As at 30 June 2008 the registration of the increase in share capital of J.W. Construction S.A. was pending.

**JWCH Produkcja Budowlana Sp. z o.o.**

JWCH Produkcja Budowlana Sp. z o.o., a limited liability company domiciled in Ząbki was registered with the register of companies on 7 March 2008 under number KRS 0000300959. The Company holds a 99.99% share in JWCH Produkcja Budowlana Sp. z o.o. Share capital of the company amounts to PLN 15,495,000 and is divided into 307,900 shares with a par value of PLN 50 each. JWCH Produkcja Budowlana Sp. z o.o. launched the production of building prefabricated elements.

**J.W. Projekt Sp. z o.o.**

J.W. Projekt Sp. z o.o., a limited liability company domiciled in Warsaw was registered with the register of companies on 20 February 2004 under number KRS 195210. The Company holds a 99.96% share in J.W. Projekt Sp. z o.o. Share capital of the company amounts to PLN 1,155,000 and is divided into 5,778 shares with a par value of PLN 200 each. Architectural and designing activities were transferred to the said company.

**Construction Invest Sp. z o.o.**

Construction Invest Sp. z o.o., a limited liability company domiciled in Warsaw was registered with the register of companies on 9 February 2006 under number KRS 250688. The Company holds a 100% share in Construction Invest Sp. z o.o. Share capital of the company amounts to PLN 50,000 and is divided into 100 shares with a par value of PLN 500 each. The business of the company consists in own real estate development and sale. The company was established to purchase real estate, obtain building permits and then transfer real estate with the corresponding

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building permit to the Company. Construction Invest Sp. z o.o. is one of special purpose vehicles established to implement a concrete investment.

**TBS Marki Sp. z o.o.**

TBS Marki Sp. z o.o., a limited liability company domiciled in Warsaw was registered with the register of companies on 28 November 2001 under number KRS 65232. The Company holds a 99.99% share in TBS Marki Sp. z o.o. Share capital of the company amounts to PLN 13,360,000 and is divided into 22,720 shares with a par value of PLN 500 each. The company was established as a public 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: "Lisi Jar", "Marki V", "Warszawa Białoleka (TBS)" and "Sochaczew, ul. Piłsudskiego (TBS)".

**Lokum Sp. z o.o.**

Lokum Sp. z o.o., a limited liability company domiciled in Warsaw was registered with the register of companies under number KRS 170570 on 20 August 2003. The Company holds a 99.99% share in Lokum Sp. z o.o. Share capital of the company amounts to PLN 3,778,500 and is divided into 7,557 shares with a par value of PLN 500 each. The company is a special purpose vehicle. Since 2006 it has been implementing an investment – Willa Konstancin in Konstancin-Jeziorna.

**Business Financial Construction Sp. z o.o. (BFC)**

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

**Project 55 Sp. z o.o.**

Project 55 Sp. z o.o., a limited liability company domiciled in Warsaw was registered with the register of companies on 22 November 2002 under number KRS 139665. The Company holds a 99.99% share in Project 55 Sp. z o.o. Share capital of the company amounts to PLN 7,528,500 and is divided into 15,057 shares with a par value of PLN 500 each. The company is a special purpose vehicle conducting developer activities. Project 55 Sp. z o.o. is an investor of the Górczewska housing estate.

**Interlokum Sp. z o.o.**

Interlokum Sp. z o.o., a limited liability company domiciled in Warsaw was registered with the business register under number KRS 170216 on 18 August 2003. The Company holds a 99% share in Interlokum Sp. z o.o. Share capital of the company amounts to PLN 50,000 and is divided into 100 shares with a par value of PLN 500 each. The company is a special purpose vehicle established to implement the "Skarpa IV" investment.

**Przedsiębiorstwo Turystyczne Czarny Potok S.A.**

Przedsiębiorstwo Turystyczne Czarny Potok S.A., a joint-stock company domiciled in Krynica was registered with the register of companies under number KRS 91153 on 14 February 2002. The Company holds a 100% share in Przedsiębiorstwo Turystyczne Czarny Potok S.A. Share capital of the company amounts to PLN 1,994,000 and is divided into 500 A-class registered shares with a par value of PLN 100 each and 19,440 B-class registered shares with a par value of PLN 100 each. The business of the company is hotel activities. The company runs a recreational centre in Krynica. In 2006 the company was granted a permit to expand the same. Presently the hotel building is being modernised. The process of including the said company into the structures of J.W. Construction Holding S.A. was commenced. It is expected to be completed until the end of this year.

**Deweloper Sp. z o.o.**

Deweloper Sp. z o.o., a limited liability company domiciled in Siemianowice Śląskie was registered with the register of companies under number KRS 170493 on 22 August 2003. The Company holds a 99% share in Deweloper Sp. z o.o. 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 the company comprises road construction activities. In the structure of the Capital Group it was assigned the role of the general contractor of a housing estate in Katowice.

**Klub Sportowy Piłkarski Polonia Warszawa S.S.A. (presently Polonia Warszawa S.S.A.)**

Klub Sportowy Piłkarski Polonia Warszawa S.S.A. (*Polonia Warszawa Football Club*), a sports joint-stock company domiciled in Warsaw was registered with the register of companies on 19 September 2003 under number KRS 173656. The Company holds a 100% share in Klub Sportowy Piłkarski Polonia Warszawa S.S.A. Share capital of the company 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. Klub Sportowy Piłkarski Polonia Warszawa S.S.A. runs a football team.

**J.W. Construction – Akademicki Związek Sportowy Politechniki Warszawskiej S.A.**

J.W. Construction – Akademicki Związek Sportowy Politechniki Warszawskiej S.A. (*Academic Sports Association of the Warsaw University of Technology*), a joint-stock company domiciled in Warsaw was registered with the register of companies on 24 October 2005 under number KRS 243759. The Company holds a 75% share in J.W. Construction – Akademicki Związek Sportowy Politechniki Warszawskiej S.A. Share capital of the company amounts to PLN 500,000

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and is divided into 5,000 shares with a par value of PLN 100 each. The company runs a volleyball team classified on the top level of the Polish Volleyball League.

**J.W. Construction International Sp. z o.o.**

J.W. Construction International Sp. z o.o., a limited liability company registered in the territory of Russia. The Company holds a 100% share in J.W. Construction International Sp. z o.o. The business of the company comprises investments in housing buildings in the territory of the Russian Federation. Presently it constructs the "Victoria Park" housing estate in Kolomna near Moscow.

**J.W. Construction 1 Ltd**

J.W. Construction 1 Ltd. domiciled in London is registered in Great Britain. The Company holds 1,000 shares with a par value of GBP 1 each and the total par value of GBP 1,000, constituting 100% of share capital of J.W. Construction 1 Ltd.

**J.W. Construction Bulgaria EOOD**

J.W. Construction Bulgaria EOOD was registered by the Municipal Court for Sofia (Bulgaria) on 8 October 2007 under business name J.W. Construction Bulgaria EOOD domiciled in Sofia (a Bulgarian law company – equivalent to a Polish limited liability company) in which the Company took up 500 (five hundred) shares with a par value of BGN 10 (ten) each and the total value of BGN 5,000 (five thousand). The said shares constitute 100% of share capital of the company. The Company plans to conduct business activity in the territory of Bulgaria through J.W. Construction Bulgaria EOOD.

**Porta Transport Sp. z o.o.**

Porta Transport Sp. z o.o., a limited liability company domiciled in Szczecin was registered with the register of companies under number KRS 0000177420. Share capital of the company is divided into 258,308 shares with a par value of PLN 100 each. The business of the company comprises provision of transport services to Porta Szczecińska Nowa Sp. z o.o. in the territory of the Szczecin shipyard and forwarding services in the country and abroad. The Company holds a 100% share in share capital of Porta Transport Sp. z o.o.

**JWCH Budownictwo Drogowe Sp. z o.o.**

JWCH Budownictwo Drogowe Sp. z o.o., a limited liability company domiciled in Ząbki was registered with the register of companies on 21 February 2008 under number KRS 0000299665. The Company holds a 99.95% share in JWCH Budownictwo Drogowe Sp. z o.o. Share capital of the company amounts to PLN 100,000 and is divided into 2,000 shares with a par value of PLN 50 each. The business of JWCH Budownictwo Drogowe Sp. z o.o. is road construction activities.

**Yakor House (former Ośrodek Wypoczynkowy "Ogoniok") Sp. z o.o.**

Yakor House Sp. z o.o. is a limited liability company domiciled in Sochi, Russian Republic. The Company holds a 70% share in share capital of Yakor House Sp. z o.o., amounting to RUB 10,500,000. The company holds real estate in Sochi, where it plans to launch a housing and service investment.

### **3. Key economic and financial figures of the Group**

#### **Selected financial data containing key items of the summary financial statements (also translated into EURO)**

The balance sheet as at the end of the period from 1 January to 30 June 2008 was translated into EUR at the rate established by the National Bank of Poland as at the said day i.e. PLN / EUR 3.3542.

The balance sheet as at the end of the period from 1 January to 30 June 2007 was translated into EUR at the rate established by the National Bank of Poland as at the said day i.e. PLN / EUR 3.7658.

The balance sheet as at the end of the period from 1 January to 31 December 2007 as translated into EUR at the rate established by the National Bank of Poland as at the said day i.e. PLN / EUR 3.5820.

The income statement for the period from 1 January 2008 to 30 June 2008 was translated into EUR at the average EUR rate calculated as the arithmetic average of rates applicable as at the last day of each month in the given period, established by the National Bank of Poland as at the said day i.e. PLN / EUR 3.4779.

The income statement for the period from 1 January 2007 to 30 June 2007 was translated into EUR at the average EUR rate calculated as the arithmetic average of rates applicable as at the last day of each month in the given period, established by the National Bank of Poland as at the said day i.e. PLN / EUR 3.8486.

#### **Consolidated balance sheet**

In the 1<sup>st</sup> half of 2008 and in the 2<sup>nd</sup> half of 2007 the balance sheet total was permanently growing. As at the end of June 2008 the balance sheet total was PLN 1,701,559 thousand i.e. it grew by 25% compared to the same period of 2007. On the assets side the growth was concentrated on one item of current assets – construction contracts.

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As at 30 June 2008 current assets constituted around 77% of the balance sheet total. The most dynamic item of equity and liabilities over the last 12 months was equity, which changed by PLN 177.5 million i.e. it grew by 42%.

Assets, equity and liabilities as at 30 June 2008, 31 December 2007 and 30 June 2007 in PLN and EUR '000

Consolidated balance sheet item	30 June 2008		31 December 2007		30 June 2007	
	PLN	EUR	PLN	EUR	PLN	EUR
<b>Total assets</b>	<b>1,701,559</b>	<b>507,292</b>	<b>1,511,567</b>	<b>401,393</b>	<b>1,363,071</b>	<b>380,533</b>
Non-current assets	383,178	114,238	381,045	101,186	329,925	92,106
Current assets	1,318,382	393,054	1,130,522	300,208	1,033,146	288,427
<b>Total equity and liabilities</b>	<b>1,701,559</b>	<b>507,292</b>	<b>1,511,567</b>	<b>401,393</b>	<b>1,363,071</b>	<b>380,533</b>
Equity	603,858	180,030	549,508	145,921	426,349	119,025
Non-current liabilities	446,400	133,087	370,799	98,465	351,428	98,109
Current liabilities	651,301	194,175	591,260	157,008	585,294	163,399

Structure and dynamics of movements in assets, equity and liabilities as at 30 June 2008 and 30 June 2007 in PLN and EUR '000

Consolidated balance sheet item	30 June 2008		30 June 2007	
	PLN	Share in balance sheet total	PLN	Movement 2008/2007
<b>Total assets</b>	<b>1,701,559</b>	<b>100%</b>	<b>1,363,071</b>	<b>125%</b>
Non-current assets	383,178	23%	329,925	116%
Current assets	1,318,382	77%	1,033,146	128%
<b>Total equity and liabilities</b>	<b>1,701,559</b>	<b>100%</b>	<b>1,363,071</b>	<b>125%</b>
Equity	603,858	35%	426,349	142%
Non-current liabilities	446,400	26%	351,428	127%
Current liabilities	651,301	38%	585,294	111%

#### Consolidated income statement

Income recognised for the 1<sup>st</sup> half of 2008 amounted to PLN 386.1 million and was by PLN 158.6 million higher than in the same period of the previous year (growth by 70%). The dynamics of net profit was even bigger – in June 2008 it was almost twice as high as after six months of 2007 and amounted to PLN 50.9 million compared to PLN 25.6 million.

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Key items of the income statement translated into EUR (in PLN and EUR '000)

Consolidated income statement item	1 January 2008 to 30 June 2008		1 January 2007 to 30 June 2007	
	PLN	EUR	PLN	EUR
Net revenues from sales of products, goods and materials	386,110	111,020	227,466	59,103
Costs of products, goods and materials sold	284,684	81,856	165,644	43,040
<b>Gross profit (loss) on sales</b>	<b>101,427</b>	<b>29,164</b>	<b>61,822</b>	<b>16,063</b>
Costs of sales	14,121	4,060	11,368	2,954
Overhead costs	14,896	4,283	11,511	2,991
Profit (loss) on sales	72,410	20,820	38,942	10,119
Operating profit (loss)	71,861	20,662	40,680	10,570
<b>Profit (loss) before tax</b>	<b>62,680</b>	<b>18,023</b>	<b>32,106</b>	<b>8,342</b>
Income tax	11,751	3,379	6,474	1,682
<b>Net profit (loss)</b>	<b>50,929</b>	<b>14,644</b>	<b>25,632</b>	<b>6,660</b>

Structure and dynamics of movements in items of the income statement (figures in PLN '000)

Consolidated income statement item	1 January 2008 to 30 June 2008 in PLN	% of sale	1 January 2007 to 30 June 2007 in PLN	Movement 2008/2007
<b>Net revenues from sales of products, goods and materials</b>	<b>386,110</b>	<b>100%</b>	<b>227,466</b>	<b>170%</b>
Costs of products, goods and materials sold	284,684	74%	165,644	172%
<b>Gross profit (loss) on sales</b>	<b>101,427</b>	<b>26%</b>	<b>61,822</b>	<b>164%</b>
Costs of sales	14,121	4%	11,368	124%
Overhead costs	14,896	4%	11,511	129%
Profit (loss) on sales	72,410	19%	38,942	186%
Operating profit (loss)	71,861	19%	40,680	177%
<b>Profit (loss) before tax</b>	<b>62,680</b>	<b>16%</b>	<b>32,106</b>	<b>195%</b>
Income tax	11,751	3%	6,474	182%
<b>Net profit (loss)</b>	<b>50,929</b>	<b>13%</b>	<b>25,632</b>	<b>199%</b>



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**Balance sheet and income statement of the Company**

Company's balance sheet item	30 June 2008		31 December 2007		30 June 2007	
	PLN	EUR	PLN	EUR	PLN	EUR
<b>Total assets</b>	<b>1,323,645</b>	<b>394,623</b>	<b>1,194,159</b>	<b>333,378</b>	<b>1,131,786</b>	<b>300,543</b>
Non-current assets	277,019	82,589	285,038	79,575	294,078	78,092
Current assets	1,046,625	312,034	909,121	253,803	837,708	222,452
<b>Total equity and liabilities</b>	<b>1,323,645</b>	<b>394,623</b>	<b>1,194,159</b>	<b>333,378</b>	<b>1,131,786</b>	<b>300,543</b>
Equity	541,210	161,353	494,789	138,132	387,462	102,890
Non-current liabilities	293,289	87,439	214,305	59,828	157,638	41,860
Current liabilities	489,146	145,831	485,064	135,417	586,686	155,793

Company's income statement item	1 January 2008 to 30 June 2008		1 January 2007 to 30 June 2007	
	PLN	EUR	PLN	EUR
Net revenues from sales of products, goods and materials	347,876.83	100,026.40	175,309.17	45,551.22
Costs of products, goods and materials sold	264,045.37	75,922.01	134,998.24	35,077.08
<b>Gross profit (loss) on sales</b>	<b>83,831.46</b>	<b>24,104.39</b>	<b>40,310.93</b>	<b>10,474.14</b>
Costs of sales	13,475.05	3,874.53	10,633.62	2,762.97
Overhead costs	10,126.63	2,911.75	10,167.25	2,641.79
<b>Profit (loss) on sales</b>	<b>60,229.78</b>	<b>17,318.11</b>	<b>19,510.07</b>	<b>5,069.37</b>
Operating profit (loss)	59,105.78	16,994.92	21,174.26	5,501.78
<b>Profit (loss) before tax</b>	<b>51,976.03</b>	<b>14,944.87</b>	<b>14,414.18</b>	<b>3,745.29</b>
Income tax	9,969.33	2,866.52	2,718.00	706.23
<b>Net profit (loss)</b>	<b>42,006.70</b>	<b>12,078.35</b>	<b>11,696.18</b>	<b>3,039.06</b>

**Financial ratios of the Company**

	30 June 2008	30 June 2007
Profitability ratios		
Gross profit margin on sales <i>Gross profit / net revenues from sales</i>	16.2%	14.1%
Return on Sales <i>Net profit / net revenues from sales</i>	13.2%	11.3%
Return on Assets <i>Net profit / total assets</i>	3.0%	1.9%
Return on Equity <i>Net profit / equity</i>	8.4%	6.0%

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Liquidity ratios			
	Current ratio <i>Current assets / current liabilities</i>	2.0	1.8
	Quick ratio <i>(Current assets – inventories) / current liabilities</i>	2.0	1.7
	Cash ratio <i>Cash / current liabilities</i>	0.1	0.4
Financial leverage ratios			
	Equity ratio <i>Equity / total assets</i>	35%	31%
	Capital gearing <i>Total liabilities / equity</i>	182%	220%
	Debt ratio <i>Total liabilities / total assets</i>	65%	69%

#### 4. Development perspectives

The Company plans to continue investments in progress, consisting of housing building construction in the territory of Warsaw and it expanded its activities to that extend beyond the capital city and abroad. In 2008 the construction of Lewandów Park I, Lewandów Park II and Wiślana Aleja housing estates was commenced. In the 1<sup>st</sup> half of 2008 further investments were launched, such as housing estates – Bursztynowe Osiedle at ul. Korkowa, Lazurowe Ustronie in the Ożarów Mazowiecki commune and Aleja Ludwinowska II at ul. Ludwinowska.

The Company also plans large investments on highly developmental eastern markets. It purchased land for investments inter alia in Sochi (Russia), where it plans to build a large housing estate at the turn of the year, and in a very attractive sea resort – Golden Sands (Bulgaria) on the Black Sea coast. The Company plans to build a holiday village there. The reason behind that purchase was high demand for holiday apartments among affluent West European clients.

Exposure of the Group on the Russian market was the result of a large development potential of the said market. Expansion of activities on that market would depend on current profitability analyses of the project. The Russian market is considered as very prospective and guaranteeing high profitability of activities.

Real estate market analyses and own investigation of customer preferences confirmed that the current development directions of the Company are appropriate, as well as concentration on satisfying housing needs of moderately affluent clients. Due to prevailing and expected demographic and social phenomena the housing building activities conducted so far are still perceived as developmental on the market and they will be continued by the Company as the primary business for the next several years.

Taking account of prevailing market trends, the Company introduced an innovative financial programme enabling less affluent clients to purchase flats. At the same time the Company continues and develops co-operation with banks offering housing loans.

Marketing campaigns were conducted, aimed at winning a broad circle of potential clients, also from regions other than Warsaw. According to the Company's data 47% of clients come from beyond Warsaw, usually from small towns. As a consequence of a decision of the Management Board, the Company launched activities on housing markets other than Warsaw. Such projects were already commenced in Łódź, Gdynia, Katowice and in the Ożarów Mazowiecki commune.

Due to a slowdown of the housing market and its stabilisation, accompanied by the decrease in the rate of sale and adjustment of housing prices recorded from the 2<sup>nd</sup> half of 2007, the Capital Group took actions aimed at diversifying services and minimising risks prevailing in developer activities. Separation of companies from the structures of the holding was to serve that purpose, as such companies would strengthen their activities in the area of general building services and reinforce their current production power, while expecting to acquire external contracts in the future as well.

Presently the Capital Group can see new developmental opportunities consisting not only of implementation of housing projects but also office projects.

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The Capital Group plans to build office buildings for lease on plots owned in Warsaw and Szczecin, while seeing new developmental opportunities in the context of optimistic prognoses and the period of prosperity on the domestic real estate market in this segment.

**Strategic objectives of the Capital Group of J.W. Construction Holding S.A. comprise:**

- Strengthening of the leading position among developers in Poland, both in Warsaw and other towns, due to the launch of new investments and application of innovative programmes of sales of flats to clients;
- Cutting costs inter alia by shortening the period of investment implementation while using a new prefabricated unit production technology under a separated company – JWCH Produkcja Budowlana Sp. z o.o.;
- Diversifying services and risks by separating general building companies, aimed at acquiring external contracts in the future, from the organisational structure of J.W. Construction Holding S.A. The said organisational transformation is targeted inter alia at reducing dependence on third party contractors by way of development and strengthening of own labour forces under a separated building company – J.W. Construction S.A.;
- Launching new investments in the scope of office projects for lease in Warsaw and Szczecin;
- Developing activities on the foreign markets (Russia, Bulgaria).

**5. Significant risk factors**

Risks recognised by the Capital Group were the interest rate risk, liquidity risk, currency risk and credit risk.

**Interest rate risk**

The Capital Group raised funds for implementation of its projects based on floating interest rate loans. Those were mainly loans incurred for the period of construction of a given investment – on the average for two years. It was assumed that in such period the interest rate risk would not require additional hedging options.

The only non-current liabilities were liabilities of TBS Marki – a member of the Capital Group, under loans incurred with the National Housing Fund on entirely separate terms and conditions.

**Currency risk**

Within the whole Capital Group the companies not to conclude transactions in PLN were two Russian law companies – J.W. Construction International and Yakor House, and a Bulgarian law company – J.W. Construction Bulgaria EOOD. Settlements made by the said companies did not require additional hedging, while the Bulgarian company had just commenced its activities.

**Credit risk**

A very significant part of Group's clients made purchases with bank loans. Risks connected with offered loans were secured with insurance of particular debts on behalf of clients. There was no significant credit risk concentration in any group of clients. Moreover, the Group systematically evaluated payments made by the clients, as well as their financial standing.

**Liquidity risk**

The Capital Group paid special attention to keeping the balance between financing its investment activities and timely payment of its liabilities. Liquidity ratios (including current debt at 30 June 2008: 2.00) were satisfactory, which proved that the risk in this area was low.

**Consolidated risks**

Financial statements item	Value in PLN	Interest rate risk				Currency risk			
		Impact on earnings		Impact on equity		Impact on earnings		Impact on equity	
		+ 50 b.p. in PLN	- 50 b.p. in PLN	+ 50 b.p. in PLN	- 50 b.p. in PLN				
<b>Financial assets</b>		+ 25 b.p. in USD	- 25 b.p. in USD	+ 25 b.p. in USD	- 25 b.p. in USD	+10%	-10%	+10%	-10%

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Cash in current accounts and cash equivalents	34,914	175	-175						
Bank deposits	40,956	205	-205						
Bonds held		0	0						
Loans granted		0	0						
<b>Impact on financial assets before tax</b>		<b>379</b>	<b>-379</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
Tax (19%)		-72	72	0	0	0	0	0	0
<b>Impact on financial assets after tax</b>		<b>307</b>	<b>-307</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Financial liabilities</b>									
Bonds issued	180,800	-904	904						
Bank loans	357,614	-1,788	1,788						
<b>Impact on financial liabilities before tax</b>		<b>-2,692</b>	<b>2,692</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
Tax (19%)		511	-511	0	0	0	0	0	0
<b>Impact on financial liabilities after tax</b>		<b>-2,181</b>	<b>2,181</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Total increase / (decrease)</b>		<b>-1,873</b>	<b>1,873</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>

#### Risk connected with administrative decisions

Developer activities were based on administrative decisions required in connection with the present or future projects. The lack of licences, permits or concessions, or untimely obtainment of the same might have negative impact on the ability to commence, conduct or complete present or new developer projects by the Capital Group. All those factors might have impact on cash flows and overall activities.

#### 6. Main products of the Capital Group

In the area of developer activities the Capital Group offered flats in multi-family houses, in the standard and above-average-standard flat segments.

The Capital Group also conducted activities, consisting of building and assembly works, as a general contractor of projects implemented by J.W. Construction Holding S.A.

Like in the past (since 1990), in the 1<sup>st</sup> half of 2008 the Capital Group was running a chain of hotels – Hotel 500 (five hotels in Poland) and a recreational centre – “Czarny Potok” SA, which was intensively modified in the 1<sup>st</sup> half of 2008.

#### Developer activities

The Capital Group considered implementation of developer housing projects as the main area of its business activity. In the 1<sup>st</sup> half of 2008 works were performed on the following housing estates on the local and foreign markets:

- Warsaw housing estates: Górczewska, Rezydencja na Skarpie, Willa Konstancin, Górczewska Park, Lazurkowa, Osada Wiślana, Lewandów Park, Rezydencja Quatro, Osiedle Bursztynowe, Wiślana Aleja, Ludwinowska Aleja, Lazurkowe Ustronie (in the Ożarów Mazowiecki commune),
- the Tricity (Gdańsk, Gdynia and Sopot) market: Osiedle Leśne,
- the Łódź market: Osiedle Centrum,
- the Katowice market: Osiedle Uroczysko,
- the Russian market: Osiedle Victoria Park.

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During that period the Capital Group was building and selling the total of 8,289 flats (including 6,837 flats sold in the years 2006, 2007 and the 1<sup>st</sup> half of 2008).

The below table presents the total number of projects completed, being implemented or planned:

<b>Project status</b>	<b>Number of projects</b>	<b>Number of flats</b>	<b>Number of flats for sale</b>	<b>Number of flats to be handed over to clients</b>
Completed	487	15,600	42	62
Being implemented	185	8,289	1,452	5,716
Planned	-	15,799	15,799	-
<b>Total</b>	<b>672</b>	<b>39,688</b>	<b>17,293</b>	<b>5,778</b>

The value of flats sold in the 1<sup>st</sup> half of 2008 is presented in the table below:

<b>2008</b>	<b>Value of agreements</b>
January	PLN 23,183,920.49
February	PLN 32,962,275.99
March	PLN 15,903,885.77
<b>Total 1<sup>st</sup> quarter of 2008</b>	<b>PLN 72,050,082.25</b>
April	PLN 10,220,923.88
May	PLN 31,336,768.39
June	PLN 18,386,778.35
<b>Total 2<sup>nd</sup> quarter of 2008</b>	<b>PLN 59,944,470.62</b>
<b>Total 1<sup>st</sup> half of 2008</b>	<b>PLN 131,994,552.87</b>

#### **Construction activities**

J.W. Construction Holding S.A. established J.W. Construction S.A. in charge of implementation of building investments. Presently the said company conducted works on more than ten building sites. J.W. Construction S.A. employed over five hundred office and manual workers. The company had valid agreements with contractors for performance of building works, while sub-contractors employ over two thousand qualified employees.

Optimum achievements of the company resulted from full mobility and co-operation of all departments of J.W. Construction S.A., inter alia:

Investment Implementation Department, Vertical Transport (Tower Crane Section), Bidding Department, Pricing Policy Department, Contracting and Settlement Department, Logistics Department, Supply Management Department, Investment Budgeting Department and Guarantee Repair Department.

**The following investments were commenced in the 1<sup>st</sup> half of 2008:**

<b>Investment</b>	<b>Commenced on</b>	<b>Number of flats</b>
LEWANDÓW PARK Phase I, II	February 2008	1,905
LUDWINOWSKA ALEJA II	May 2008	24
WIŚLANA ALEJA	May 2008	200
OSADA WIŚLANA Phase III	March 2008	128

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OSIEDLE BURSZTYNOWE	June 2008	322
LAZUROWE USTRONIE Phase Ia, Ib (the Ożarów Mazowiecki commune)	June 2008	376

**Besides the aforesaid investments, in the 1<sup>st</sup> half of 2008 the Capital Group was developing buildings in the following housing estates:**

- Górczewska (Warsaw) – 1410 flats,
- Górczewska Park (Warsaw) – 890 flats,
- Rezydencja na Skarpie (Warsaw) – 261 flats,
- Willa Konstancin (Konstancin-Jeziorna) – 177 flats,
- Ludwinowska Aleja (Warsaw) – 68 flats
- Lazurkowa Phase I, II, III, IV and V (Warsaw) – 669 flats,
- Osada Wiślana Phase I and II (Warsaw) – 276 flats,
- Rezydencja Quatro (Warsaw) – 243 flats,
- Centrum I (Łódź) – 324 flats,
- Leśne (Gdynia) – 202 flats,
- Uroczysko (Katowice) – 24 flats.

**Production of prefabricated building elements by JWCH Produkcja Budowlana in plants in Teresin and Tłuszcz**

A significant direction of development of general building activities of the Capital Group in the 1<sup>st</sup> half of 2008 was launch of the production of prefabricated elements using a modern finished ceramic walls building technology. JWCH Produkcja Budowlana (a subsidiary of J.W. Construction Holding S.A.) launched the production of ceramic brick walls using semi-automatic masonry machines. The technology was imported from Germany where it has been successfully applied for years also by a German company – Huening Baustoffwerke of North Rhine-Westphalia. There have already been two production lines operational in the Teresin plant, launched in May 2008. Two more lines were launched in the plant in Tłuszcz in August 2008.

The modular brick ceramic walls system and the use of semi-automatic masonry machines brought measurable effects, as that allowed to build faster and more precisely with high-class materials. Flat buyers appreciate comfort given by porous ceramic walls and advantages of precise assembly of building woodwork. At the same time a company building flats in accordance with the aforesaid ceramic walls building technology also gained significant benefits. It was able to guarantee full control and high quality of wall execution, which translated into faster building with no need to remove workers' errors seen at each building site where elements of this type are executed manually. However, the most important benefit was derived from a possibility to replace a numerous team of masons with a production band served by two persons. That was extremely important for the Group, taking account of a noticeable shortage of labour force in the construction industry on the Polish market.

**Hotel activities**

Hotel activities under the Hotel 500 chain were continued, as in the previous year. Good perspectives for the hotel industry, connected with an economic boom resulting among other things in a permanent growth in affluence of the society and activity of foreign hotel chains on the Polish market, made the Management Board sustain the decision on further development of the Hotel 500 buildings.

Even though in the 1<sup>st</sup> half of 2008 the Hotel 500 chain itself was not developed, expenditures were made on modernisation of the hotel and recreational centre – Czarny Potok in Krynica (operating under a separated company) which is soon to be transformed in a top-class SPA centre.

The Hotel 500 chain extended the group of clients by further corporations appreciating high-quality services provided on its premises.

As in the previous year, the number of individual clients spending at least two days in a hotel was growing. That was reflected in growing revenues of the chain.

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## **7. Borrowings, issued securities, loan and other agreements**

### **7.1 Cash loan agreements**

Cash loan agreements are described under item 8 of this Business Report.

### **7.2 Loan agreements concluded by the Capital Group**

#### Concluded loan agreements

On 28 May 2008 J.W. Construction Holding S.A. concluded a loan agreement with Fortis Bank Polska S.A. for PLN 35,000,000 with the maturity date until 30 July 2010 for the purpose of partial financing of an investment – “Wiślana Aleja” at ul. Odkryta in Warsaw.

On 24 June 2008 J.W. Construction Holding S.A. concluded two loan agreements with Bank PKO BP S.A.:

- 1) for PLN43,000,000 with the maturity date until 31 August 2010 for the purpose of partial financing of an investment – Lewandów Park I;
- 2) for PLN 45,000,000 with the maturity date until 30 September 2010 for the purpose of partial financing of an investment – Lewandów Park II.

#### Concluded annexes to loan agreements

On 11 April 2008 the Company concluded Annex 2 to the loan agreement with Bank Ochrony Środowiska S.A. of 17 September 2007 for the purpose of partial financing of an investment – “Górczewska Park”. The annex increased the value of the loan from PLN 60,000,000 to PLN 115,000,000.

#### Repaid loans

1. On 29 February 2008 J.W. Construction Holding S.A. repaid an investment loan of PLN 6,500,000 incurred with Bank Millennium S.A. for the purpose of partial financing of an investment – “Aleja Ludwinowska” in Pyry.
2. On 4 April 2008 a subsidiary – Projekt 55 Sp. z o.o. repaid a loan for PLN 40,000,000 incurred with Bank Millennium S.A. for the purpose of co-financing of an investment – “Osiedle Górczewska” at ul. Górczewska in Warsaw.
3. On 30 April 2008 a subsidiary – Interlokum Sp. z o.o. repaid a loan of PLN 20,600,000 incurred with Bank PKO BP S.A. for the purpose of co-financing of an investment – “Rezydencja na Skarpie” in Warsaw.
4. On 1 June 2008 J.W. Construction Holding S.A. repaid a loan of PLN 23,325,047 incurred with Bank PKO BP S.A. for the purpose of purchase of plots of land at ul. Lewandów in Warsaw.

### **7.3 Bond issue programme**

#### **Issue, redemption and repayment of debt and equity securities**

#### Issued bonds

In the period from 1 January 2008 to 30 June 2008 the Company made several issues of bonds at the total number of 2,290 bonds with a par value of PLN 100,000 each and the total value of PLN 229,000,000 with the redemption term up to 12 months.

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Redeemed bonds

In the period from 1 January 2008 to 30 June 2008 the Company redeemed the total of 1,887 bonds with a par value of PLN 100,000 each and the total value of PLN 188,700,000.

Purchased bonds

In the period from 1 January 2008 to 30 June 2008 the Company purchased the total of 1,760 bonds with a par value of PLN 100,000 each and the total value of PLN 176,000,000.

Sold bonds

In the period from 1 January 2008 to 30 June 2008 the Company sold the total of 2,360 bonds of a par value of PLN 100,000 each and the total value of PLN 236,000,000.

**7.4 Guarantees and sureties**

<b>OFF-BALANCE SHEET LIABILITIES</b>	<b>30 June 2008</b>	<b>31 December 2007</b>
Investment real estate pledged as collateral – loans	932,498,519.26	747,077,076.26
Other companies' real estate pledged as collateral – loans	13,500,000.00	3,500,000.00
Blank promissory notes*	434,276,618.99	416,978,822.68
Other**	0.00	10,000,000.00
Transfer of receivables	4,499,600.00	4,299,600.00
Registered pledge on receivables from a bank account***	20,000,000.00	20,000,000.00
Guarantees to the benefit of TBS "Marki" Sp z o.o.	22,400,000.00	22,400,000.00
Guarantees to the benefit of Project 55 Sp. z o.o.	0.00	40,000,000.00
Guarantees to the benefit of Lokum Sp. z o.o.	16,500,000.00	16,500,000.00
Guarantees to the benefit of Interlokum Sp. z o.o.	0.00	20,600,000.00
Guarantees to the benefit of Budokrusz Sp. z o.o.	0.00	2,500,000.00
Guarantees to the benefit of JWCH Budownictwo Drogowe Sp. z o.o.	1,700,000.00	0.00
Guarantees to the benefit of J.W. Construction S.A.	720,910.29	0.00
Guarantees to the benefit of JWCH Produkcja Budowlana	4,056,574.80	0.00
Guarantees to the benefit of Pebex Sp. Jawna	106,506.00	0.00

\* collateral in the form of blank promissory notes is presented up to the full value of the principal liability;

\*\* the item covers collateral inter alia in the form of a freeze on bank accounts, assignment of rights under insurance policies.

The table above presents all collateral under concluded loan agreements. Since several items of collateral were established under particular loan agreements, the value of collateral was not summed up.

As 30 June 2008 there were realised performance bonds granted by banks and insurance institutions to the benefit of the Company. Moreover, there were blank promissory notes issued to the benefit of J.W. Construction Holding S.A. to secure rights of the Company under guarantees granted by counterparties, which may be filled in by JWCH S.A. at any time with the amount corresponding to costs of failure and defect removal. As at 30 June 2008 the total value of guarantees was PLN 25.5 million.



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## 7.5 Land purchase agreement

### Further land acquisition

1. On 17 April 2008 a subsidiary – J.W. Construction Bulgaria EOOD domiciled in Sofia, concluded a final purchase agreement for real property located in Golden Sands (Bulgaria), of the area of 14,667 m<sup>2</sup>. The purchase price was EUR 7,778,867.42 (including VAT) – which amounted to PLN 26,685,404.69 at the average rate of EUR of the National Bank of Poland of 17 April 2008.
2. On 24 June 2008 the Company concluded a conditional agreement for purchase of real estate of the area of 15,763 m<sup>2</sup> located in Warsaw in the Mokotów district at ul. Antoniewska.
3. In the period from 1 January 2008 to 30 June 2008 the Company concluded further agreements for purchase of real estate in Warsaw in the Białoleka district from natural persons, of the total area of 33,926.5 m<sup>2</sup>.

## 7.6 Agreements between shareholders

The Company is not aware of any agreements to have been concluded between its shareholders.

## 7.7 Insurance agreements

Under their insurance policies, the companies of the Capital Group held insurance for building projects implemented by the same, covering possible losses that may be incurred during the building process. The insurance also contained third party liability clauses covering building works. Insurance agreements were concluded for the whole term of the construction.

The Capital Group also concluded insurance agreements covering non-current assets owned by the same. The agreements were concluded at replacement value both in PLN and EUR, depending on the currency of purchase. The agreements were concluded for a one-year term.

Moreover, the Capital Group held an insurance policy for the Management Board for PLN 20,000,000, concluded with AIG Europe Branch in Poland, which covered Management Boards of the companies of the Capital Group.

Due to the business of real estate management, the companies conducting such activities held third party liability insurance of a real estate manager and third party liability insurance covering real estate management business.

After having completed the construction of buildings, companies of the Capital Group purchased insurance policies for such buildings and upon establishment of Housing Communities – they assigned the policies to the said entities, by way of annexes.

The Capital Group also had all necessary insurance agreements connected with hotel activities in place.

## 7.8 Significant agreements

No significant agreements were concluded during the reporting period of this Business Report.

## **8. One or many transactions concluded by the Company or its subsidiary with related parties, if the value of such transactions (aggregate value of all transactions from the beginning of the financial year) is higher than PLN equivalent of EUR 500,000**

The Company or its subsidiaries were a party to transactions described below, of the value exceeding PLN equivalent of EUR 500,000, not being typical or regular arm's length transactions concluded between related parties, with terms and conditions resulting from current operations.

### Lending

From the beginning of the year the Company granted loans to a subsidiary – J.W. Construction Bulgaria EOOD domiciled in Sofia, for purchase of real estate located in Varna, the Golden Sands region, and costs connected with the same, for the total amount of EUR 8,038,867.42. The loans bore a market interest rate of 3M LIBOR plus margin. The loans were granted until 30 June 2010 with an option of bullet repayment or prepayment in instalments.

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From the beginning of the year the Company granted loans to a subsidiary – YAKOR HOUSE (former Ośrodek Wypoczynkowy "Ogoniok") domiciled in Sochi, for the total amount of USD 2,050,000 for the purpose of covering costs connected with implementation of the investment. The loans were granted under the obligation provided under Article 3.4 of the Share Purchase Agreement of 7 December 2007 and § 2.2 of the Co-operation Agreement of the same day. The loans bore a market interest rate of 3M LIBOR plus margin. They were granted until 31 December 2008 with an option of bullet repayment or prepayment in instalments.

From the beginning of the year the Company transferred the total of USD 1,500,000 to a subsidiary – J.W. Construction International domiciled in Himki (Russian Federation) as a loan for financing costs connected with providing flats to persons leaving the real estate on which it would develop a multi-family housing building designated as A-3 in Kolomna quarter 21. The loan bore a market interest rate of 1M LIBOR plus margin. It was granted until 31 December 2008 with an option of bullet repayment or prepayment in instalments.

#### Borrowings

From the beginning of the year the Company incurred loans from TBS Marki Sp. z o.o. domiciled in Warsaw for the total amount of PLN 17,200,000. The largest agreement was concluded on 12 June 2008 for PLN 7,000,000 until 31 May 2009. The loan bore a market interest rate of 3M WIBOR plus margin. The purpose of the loan was financing business activity. The loan is repayable under bullet repayment or prepayment in instalments.

#### Notes

On 24 April 2008 a subsidiary – Interlokum Sp. z o.o. domiciled in Warsaw issued a note for PLN 20,000,000 with a six-month redemption term, acquired by J.W. Consulting Spółka z o.o. J.W. 4 Spółka komandytowo-akcyjna, a limited joint-stock company domiciled in Warsaw, whose sole shareholder is Fundusz Inwestycyjny Zamknięty SEZAM II (*closed-end investment fund*).

On 24 June 2008 the Company issued a note for PLN 12,000,000 with a 12-month redemption term, acquired by J.W. Consulting Spółka z o.o. J.W. 4 Spółka komandytowo-akcyjna domiciled in Warsaw, whose sole shareholder is Fundusz Inwestycyjny Zamknięty SEZAM II.

#### In-kind contribution agreements

On 30 April 2008 the Company concluded an agreement (in the form of a notarial deed) with a subsidiary – J.W. Projekt Spółka z o.o. domiciled in Warsaw, for transferring an organised part of the enterprise in the form of a branch operating as J.W. Construction Holding S.A. Oddział "Pracownia Architektoniczna" (*Branch: "Architectonic Workroom"*) domiciled in Ząbki, in performance of an obligation under the resolution on increase of share capital of J.W. Projekt Spółka z o.o. and the declaration of subscription to shares.

On 30 April 2008 the Company concluded an agreement (in the form of a notarial deed) with a subsidiary – JWCH Produkcja Budowlana Spółka z o.o. domiciled in Ząbki, for transferring an organised part of the enterprise in the form of a branch operating as J.W. Construction Holding S.A. Oddział "Zakład Prefabrykacji Budowlanej" (*Branch: "Building Prefabrication Plant"*) domiciled in Ząbki, in performance of an obligation under the resolution on increase of share capital of JWCH Produkcja Budowlana Spółka z o.o. and the declaration of subscription to shares.

On 30 April 2008 the Company concluded an agreement (in the form of a notarial deed) with a subsidiary – J.W. Construction S.A. domiciled in Ząbki, for transferring an organised part of the enterprise in the form of a branch operating as J.W. Construction Holding S.A. Oddział "Budownictwo" (*Branch: "Construction"*) domiciled in Ząbki, in performance of an obligation under the resolution on increase of share capital of J.W. Construction S.A. and the declaration of subscription to shares.

#### **9. Utilisation of receipts from issue of securities**

Not applicable

#### **10. Cash management**

Cash management of the Capital Group consisted in guaranteeing liquidity in all segments of activities, including mainly in developer activities. The supreme objective of activities of the whole Group was providing sources of financing for all implemented projects, while maintaining safe liquidity ratios. Turnovers in the companies and the structure of financing were analysed on a daily basis to guarantee optimum current and future liquidity. In the 1<sup>st</sup> half of 2008 the Capital Group was able to perform its obligations in all areas of activities conducted by the same.

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**11. Ability to implement investment plans**

All companies of the Capital Group are fully capable of implementing their investment projects. The core business – developer activities will be financed with equity, prepayments made by clients, bank loans and issues of debt securities. Each project has a precisely devised financial engineering with the structure of financing, also with bank loans. All investments planned for launch have financing guaranteed based on rendered credit decisions. Those are usually loans in the form of safe revolving lines financing the balance of funds necessary for a given period. Financial terms and conditions of a loan are adjusted to the nature of a project, including the period of its implementation, while repayments are made with revenues from sales of flats. Financing is raised based on long-term, very good co-operation with banks, where lending formulas – taking account of characteristics of the building industry – were developed on the basis of mutual experience. It is possible that the separated, newly created companies will also be raising loans for their activities.

**12. Circumstances of significant impact on activities of the Capital Group**

**In the opinion of the Capital Group in the 1<sup>st</sup> half of 2008 the most important external factors determining conditions of its functioning – with regard to realisation of earnings – were:**

- prevailing deficit of new flats (1.5 million, in accordance with information of the Central Statistical Office for December 2007),
- a large, active group of clients entering the market, coming from the baby boom of the 80's,
- growing level of country urbanisation, supporting increasing demand for flats in large cities,
- prevailing high increase in GDP, decreasing rate of unemployment and growing salaries,
- broad, constantly modified mortgage loan offer,
- permanent interest in purchase of housing real estate by domestic and foreign financial institutions.

**External factors having impact on the rate of growth of revenues:**

- good, attractive housing offer,
- modern, effective marketing (product and brand),
- modern programmes of flat purchase: 10/90 and 20/80,
- close co-operation with banks crediting the investment process and clients of the Company,
- good commercial representatives forces,
- good internal communication between departments in charge of designing, production, sales, marketing and customer service,
- professional public relations and investor relations activities,
- constant modernisation of the technical back-up, tools and equipment of particular building production departments.

The projections for the principal business of the Company for 2008 assume that the aforesaid circumstances will be prevailing in future. Tightened lending policies of banks serving the whole building sector and individual clients, periodic stagnation of prices due to demand restricted artificially by hampered access to the sources of flat purchase financing and a broad offer of finished flats sold on the market are considered as market threats. To eliminate those unfavourable factors it is planned to implement further special flat purchase programmes, launch sales of a new large housing investment for an attractive price and in an attractive location, supported with a broad marketing campaign conducted in the spring and summer season.

**13. Changes in basic principles of management of the Capital Group**

The organisational structure of the Capital Group was subject to the following changes, described in detail in this Business Report:

Registration of the capital increase in a subsidiary – J.W. Projekt Spółka z o.o. domiciled in Warsaw, from PLN 52,000 to PLN 1,155,600 i.e. by PLN 1,103,600, by creating 5,518 new shares with a par value of PLN 200. The increased share capital was subscribed by the Company and covered with an in-kind contribution in the form of an organised part of the enterprise operating as J.W. Construction Holding S.A. Oddział "Pracownia Architektoniczna" domiciled in Ząbki, which was separated from the structures of the Company.

Registration of the capital increase in a subsidiary – JWCH Produkcja Budowlana Spółka z o.o. domiciled in Ząbki, from PLN 100,000 to PLN 15,495,000 i.e. by PLN 15,395,000, by creating 307,900 new shares with a par value of PLN 50 each. The increased share capital was subscribed by the Company and covered with an in-kind contribution in the form

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of an organised part of the enterprise operating as J.W. Construction Holding S.A. Oddział "Zakład Prefabrykacji Budowlanej" domiciled in Ząbki, which was separated from the structures of the Company.

During the process of share capital increase in a subsidiary – J.W. Construction S.A. domiciled in Ząbki, there was concluded an agreement transferring an organised part of the enterprise in the form of a branch operating as J.W. Construction Holding S.A. Oddział "Budownictwo" domiciled in Ząbki, which was separated from the structures of the Company.

#### **14. Management Board and Supervisory Board of J.W. Construction Holding S.A.**

##### **Management Board**

As at 30 June 2008 the Management Board of the Company was composed of:

- Jerzy Zdrzałka, CEO – appointed in accordance with Article 14.2 in connection with Article 29 of the Statute of the Company,
- Wojciech Rajchert, Management Board Member – appointed in accordance with Article 14.2 in connection with Article 29 of the Statute of the Company,
- Barbara Czyż, Management Board Member – appointed in accordance with Article 14.2 in connection with Article 29 of the Statute of the Company,
- Irmina Łopuszyńska, Management Board Member,
- Bożena Malinowska, Management Board Member,
- Grażyna Szafarowska, Management Board Member.

After 30 June 2008 (on 21 August 2008) Mr. Jerzy Zdrzałka resigned from the office of the CEO of the Company.

##### **Supervisory Board**

As at 30 June 2008 the Supervisory Board was composed of:

- Józef Wojciechowski – Supervisory Board Chairman, appointed in accordance with Article 16.2 in connection with Article 29 of the Statute of the Company,
- Roman Kobylński – Supervisory Board Member, appointed in accordance with Article 16.2 in connection with Article 29 of the Statute of the Company,
- Jacek Obłękowski – Supervisory Board Member,
- Grzegorz Ślak, appointed in accordance with Article 16.2 in connection with Article 29 of the Statute of the Company,
- Henryk Pietraszkiewicz – Supervisory Board Member.

#### **Changes in membership of the Supervisory Board in the 1<sup>st</sup> half of 2008**

On 13 June 2008 Mr. Marek Rocki, an Independent Supervisory Board Member submitted a resignation from membership in the Supervisory Board of the Company due to personal reasons.

On 19 June 2008 the Main Shareholder of the Company exercised his personal right and – in accordance with §16.2 of the Statute of the Company – recalled Mr. Jacek Obłękowski from membership in the Supervisory Board.

On 19 June 2008 the Main Shareholder of the Company exercised his personal right and – in accordance with §16.2 of the Statute of the Company – appointed Mr. Grzegorz Ślak as a Member of the Supervisory Board.

On 19 June 2008 the Annual General Meeting of the Company supplemented the composition of the Supervisory Board of the Company by an Independent Member of the Supervisory Board – Mr. Jacek Obłękowski.

#### **15. Shares of J.W. Construction Holding S.A. held by members of the Management Board and Supervisory Board**

Members of the Management Board and Supervisory Board holding shares of the Company and shares in subsidiaries as at 30 June 2008:

Party	Total number of shares held	Total par value of shares held
Józef Wojciechowski	PLN 19,326,588	PLN 3,865,317.60

#### **16. Shareholders holding directly and indirectly over 5% of the total number of votes in the General Meeting of J.W. Construction Holding S.A.**

As at 30 June 2008 over 5% of the total number of votes in the General Meeting of the Company was held by:

Shareholder	Number of shares	% of share capital	Number of votes	% of total votes in the General Meeting
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Józef Wojciechowski	19,326,588	35.33 %	19,326,588	35.33 %
EHT S.A.	25,448,300	46.52 %	25,448,300	46.52 %
<i>EHT S.A. is controlled through another company by Mr. Wojciechowski.</i>				

#### **17. Entity authorised to audit financial statements**

On 13 August 2008 the Supervisory Board of the Company appointed BDO Numerica S.A. domiciled in Warsaw as its certified auditor to perform an interim review and to audit separate and consolidated financial statements for 2008.

#### **18. Corporate governance principles**

The Company observed the Best Practices for Companies Listed on the Warsaw Stock Exchange, accepted under Resolution No. 121170/2007 of the Warsaw Stock Exchange Council of 4 July 2007.

#### **19. Significant actions and achievements of the Capital Group companies**

The most important achievement of the Capital Group in the 1<sup>st</sup> half of 2008 was keeping the leading position among developers, both with regard to the quantity of realised projects and sold flats, as well as with regard to generated earnings. Despite significant “cooling” of the market in the whole 2008, it seems that this position is not threatened due to actions taken for the purpose of diversification – both geographic and business – of the sources of Capital Group’s income, including benefits from separating three branches from the structures of the Company (described in detail in this Business Report). Acquisition of valuable, specialist personnel qualified to implement new projects connected with the housing sector, commercial areas, bio-fuels and qualified (health) tourism was also a success.

#### **Sale of flats and income for the 1<sup>st</sup> quarter of 2008**

In the 1<sup>st</sup> quarter of 2008 the realised sales allowed to generate earnings of the total of PLN 131,994,552.87. Marketing actions were intensified, which resulted in permanent interest of clients in the Capital Group’s offer, decisions – aimed at adapting the product offer to current purchasing capacity of potential flat buyers – were taken.

After two quarters of 2008 revenues from sales of the Capital Group amounted to PLN 386.1 million. It was almost 70% more than in the 1<sup>st</sup> half of 2007. Compared to the 1<sup>st</sup> half of the previous year operational profit grew by 77% to PLN 71.9 million. Net earnings after six months were PLN 50.9 million, which was almost double of the 1<sup>st</sup> half of 2007. At the same time values achieved after the 1<sup>st</sup> half of 2008 signify much higher progress (denominated in percent) compared to the values budgeted for the end of the year, than achieved after the 1<sup>st</sup> half of 2007, compared to the whole 2007. The progress of income was 47% (annual budget is PLN 819.9 million), while after the 1<sup>st</sup> half of 2007 the progress was 29%. Net earnings amounted to PLN 50.9 at the annual budget of PLN 150.6, which translates to the progress of 34% – while in 2007 it was 17% after the first half of the year.

#### **Building permits**

On 14 January 2008 the Company obtained a valid building permit for construction of a housing estate – “Lewandów I” at ul. Lewandów in Warsaw.

On 12 February 2008 the Company obtained a valid building permit for construction of a housing estate – “Wiślana Aleja” at ul. Odkryta in Warsaw.

On 9 April 2008 the Company obtained a valid building permit for construction of a housing estate – “Aleja Ludwinowska II” in Pyry.

On 11 April 2008 the Company obtained a valid building permit for construction of a housing estate – “Lewandów II” at ul. Lewandów in Warsaw.

On 28 April 2008 the Company obtained a valid building permit for construction of a housing estate – “Lazurowe Ustronie” in Kręczki-Kaputy, the Ożarów Mazowiecki commune.

On 30 May 2008 the Company obtained a valid building permit for construction of a housing estate – “Bursztynowe Osiedle” at ul. Korkowa in Warsaw.

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**Launch of prefabricated elements production with a modern technology by JWCH Produkcja Budowlana**

An important and significant achievement of the operational activities of the Capital Group was the launch by JWCH Produkcja Budowlana (a subsidiary of J.W. Construction Holding S.A.) of the prefabricated elements production with a modern technology of finished ceramic walls construction (described in detail in item 6 of this Business Report).

Advantages of implementation of the modern technology in the Tłuszcz and Teresin plants:

- smaller demand for qualified labour forces i.e. masons,
- better quality of executed elements,
- shorter time of construction and thus, reduction of general building costs,
- smaller demand for technical personnel on building sites, necessary to supervise the construction under the technology applied so far,
- social factor: a client receives a flat executed in 100% with ceramic materials i.e. brick.

Based on the current needs, it is planned to build the following housing estates with the said technology:

- 1) Zielona Dolina in Warsaw (69,751 m<sup>2</sup> of usable housing area),
- 2) Lazurowe Ustronie in the Ożarów Mazowiecki commune (phase I – 89.240.79 m<sup>2</sup> usable housing area).

It is also planned to enter the external market with the said production and acquire contracts from third parties.

In the 1<sup>st</sup> half of 2008 the Company purchased the POLIBEND reinforcement production equipment for PLN 900,000. That would allow to reduce costs of labour of steel prefabrication by 50%. The monthly throughput of that equipment was 500,000 kg and the production was launched in July 2008.

**Designs made by J.W. Projekt Spółka z o.o.**

In the 1<sup>st</sup> half of 2008 the Company made complete multi-sector designs for the following housing estates:

- Execution design – Lewandów I – A, A1 buildings,
- Execution design – Lewandów II,
- Replacement building permit design – Lewandów I,
- Execution design – Osada Wiślana III,
- Execution design – Ludwinowska Aleja.

**Extraordinary General Meeting**

An Extraordinary General Meeting of the Company was held on 1 April 2008. The General Meeting resolved to give consent to selling organised parts of the enterprise in the form of branches of the Company operating as J.W. Construction Holding S.A. Oddział "Budownictwo" domiciled in Żąbki, J.W. Construction Holding S.A. Oddział "Pracownia Architektoniczna" domiciled in Żąbki and J.W. Construction Holding S.A. Oddział "Zakład Prefabrykacji Budowlanej" domiciled in Żąbki, by contributing them in kind to subsidiaries of the Company.

On 30 April 2008 the Extraordinary General Meeting of a Company's subsidiary – J.W. Construction S.A. domiciled in Żąbki was held. The General Meeting resolved to increase share capital from PLN 500,000 to PLN 11,526,618 i.e. by PLN 11,026,618 by way of issuing 11,026,618 B-class registered ordinary shares with a par value of PLN 1 each. The entire issue was subscribed by the Company and covered with an in-kind contribution in the form of a branch of the Company operating as J.W. Construction Holding S.A. Oddział "Budownictwo" domiciled in Żąbki. In performance of the said resolution a share subscription agreement was executed between the Company and J.W. Construction S.A. domiciled in Żąbki. On the same day an agreement was executed between the Company and J.W. Construction S.A. domiciled in w Żąbki, transferring the ownership to an organised part of the enterprise in the form of a branch of the Company, which operated as J.W. Construction Holding S.A. Oddział "Budownictwo" domiciled in Żąbki.

On 30 April 2008 the Extraordinary General Meeting of a Company's subsidiary – J.W. Projekt Spółka z o.o. domiciled in Warsaw was held. The General Meeting resolved to increase share capital from PLN 52,000 to PLN 1,155,600 i.e. by PLN 1,103,600 by way of issuing 5,518 new shares with a par value of PLN 200 each. The entire issue was subscribed by the Company and covered with an in-kind contribution in the form of a branch of the Company operating as J.W. Construction Holding S.A. Oddział "Pracownia Projektowa" domiciled in Żąbki. In performance of the said resolution the Company made a representation on subscription to the newly issued shares. On the same day an agreement was executed between the Company and J.W. Projekt Spółka z o.o. domiciled in Warsaw, transferring the ownership to an organised part of the enterprise in the form of a branch of the Company, which operated as J.W. Construction Holding S.A. Oddział "Pracownia Projektowa" domiciled in Żąbki.

On 30 April 2008 the Extraordinary General Meeting of a Company's subsidiary – JWCH Produkcja Budowlana Spółka z o.o. domiciled in Żąbki was held. The General Meeting resolved to increase share capital from PLN 100,000 to PLN 15,495,000 i.e. by PLN 15,395,000 by way of issuing 307,900 new shares with a par value of PLN 50 each. The entire issue was subscribed by the Company and covered with an in-kind contribution in the form of a branch of the Company operating as J.W. Construction Holding S.A. Oddział "Zakład Prefabrykacji Budowlanej" domiciled in Żąbki. In performance of the said resolution the Company made a representation on subscription to the newly issued shares. On the same day an agreement was executed between the Company and JWCH Produkcja Budowlana Spółka z o.o. domiciled in Żąbki, transferring the ownership to an organised part of the enterprise in the form of a branch of the Company, which operated as J.W. Construction Holding S.A. Oddział "Zakład Prefabrykacji Budowlanej" domiciled in Żąbki.

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On 26 May 2008 the District Court for the capital city of Warsaw, 12<sup>th</sup> Business Division of the National Court Register registered the capital increase of a subsidiary – J.W. Projekt Spółka z o.o. domiciled in Warsaw, from PLN 52,000 to PLN 1,155,600 i.e. by PLN 1,103,600 by way of issuing 5,518 new shares with a par value of PLN 200 each.

On 30 May 2008 the District Court for the capital city of Warsaw, 14<sup>th</sup> Business Division of the National Court Register registered the capital increase of a subsidiary – JWCH Produkcja Budowlana Spółka z o.o. domiciled in Ząbki, from PLN 100,000 to PLN 15,495,000 i.e. by PLN 15,395,000 by way of issuing 307,900 new shares with a par value of PLN 50 each.

On 19 June 2008 the Annual General Meeting of the Company was held, which passed resolutions required under the Code of Commercial Companies, on accepting and approving separate financial statements of the Company and consolidated financial statements of the Capital Group of the Company, accepting and approving the Business Report of the Management Board of the Company and the Capital Group of the Company, while acknowledging fulfilment of duties by members of authorities of the Company in 2007, distribution of profit, which was allocated in its entirety for the supplementary capital.

Moreover, the Shareholders gave consent to buy back own shares by the Company for the purpose of their redemption until 30 June 2009; the buy-back is to cover not less than 1,500,000 shares for the maximum amount of PLN 55,000,000.

On 30 June 2008 the Company signed the Merger Plan with a subsidiary – Przedsiębiorstwo Turystyczne “Czarny Potok” S.A. domiciled in Krynica (“Acquired Company”). The merger is to be performed in accordance with Article 492 §1.1) of the Code of Commercial Companies by transferring the whole assets of the Acquired Company to the Company. Since the Company holds 100% of share capital in the Acquired Company, the merger will be performed without increasing share capital of the Company.

The merger is compliant with the policy of hotel chain development under one entity, earlier presented by the Company, reduction of operating expenses connected with functioning of the Acquired Company, as well as simplification of the structure of management of particular business lines under the Capital Group of the Company.

**Awards and distinctions granted to the Company in the 1<sup>st</sup> quarter of 2008**

- Title “Company of the Year 2007” for special achievements in housing building and for effective launch on the Warsaw Stock Exchange, awarded by the Polish Business Club;
- Ranked among the most valuable companies “Diamonds of Forbes 2008”. The list contained enterprises which most effectively increased their value in the years 2004-2006 and thus, made the best use of the economic boom.
- Ranked the first in the “Ranking of Developers 2008”, prepared by the editorial staff of the Business Forum of the “Gazeta Prawna” magazine. The ranking nominates the biggest and the most dynamic representatives of the developer industry.

**Awards and distinctions granted to the Company in the 2<sup>nd</sup> quarter of 2008**

- “European Medal” for European quality of services in the Hotel 500 chain, awarded by the Business Centre Club in the 16<sup>th</sup> edition of the “European Medal for Services”;
- Ranked among “100 Most Valuable Companies” in the ranking of the “Newsweek” weekly and A. T. Kearney;
- Granted the fifth diamond to the “Polish Business Leader” statuette awarded by the Business Centre Club;
- J.W. Construction Holding S.A. among “Top 500 Polish Enterprises” in the ranking of the “Polityka” weekly;
- Included in the list of “Top 500” companies being the leaders of the Polish business, kept by the editorial staff of the “Rzeczpospolita” daily;
- Nominated to the “Master in Building” award in the “Best Building Contractor” category, awarded by the “Home&Market” monthly;
- Titled “Benefactor of 2007” in the contest organised by the Academy of Philanthropy Development in Poland.

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**The most significant events after the balance sheet date:**

Corporate events

On 21 August 2008 the Company received a resignation of Mr. Jerzy Zdrzałka from the office of the CEO of the Company as of 22 August 2008. The said resignation was justified by personal reasons. Mr. Jerzy Zdrzałka held the office of the Chief Executive Officer of the Company.

Significant agreement

On 27 August 2008 the Company concluded a general contracting agreement with a subsidiary – J.W. Construction S.A. The subject matter of the agreement was implementation by the General Contractor of an investment task in the form of complex development of a multi-family housing building complex with external infrastructure, roads and service lines on real estate located in Warsaw at ul. Korkowa “Osiedle Bursztynowe”, in accordance with building permit no. 127/WAW/2008 of 11 April 2008. The date of works completion by the Contractor was established in the Agreement for 26 March 2010. The fee for performance of the Agreement was set at PLN 81,256,524 net, being the total value of elements included in the itemised works budget. Moreover, the Company concluded agreements with J.W. Construction S.A. regulating the principles of completing the following investments: Aleja Wiślana, Rezydencja Quatro, Osada Wiślana and Osiedle Lazurowa.

Commencement of the buy-back programme for the purpose of share redemption

On 10 July 2008 the Company commenced the programme of buying back own shares for the purpose of their redemption and share capital reduction on terms and conditions provided under Resolution No. 26 of the Annual General Meeting of 19 June 2008. The Programme will be implemented in accordance with the Council Regulation (EC) No. 2273/2003 of 22 December 2003.

Annex to the loan agreement

On 14 August 2008 the Company executed an annex to the working capital loan agreement concluded with Bank Millennium S.A. on 23 May 2006 for the purpose of financing current activities. The annex increased the value of the loan from PLN 11,000,000 to PLN 21,492,000.

Repaid loan

On 17 July 2008 a subsidiary – Lokum Sp. z o.o. repaid a loan of 16,500,000 granted by Bank Millennium S.A. for the purpose of partial financing of an investment – “Willa Konstancin” in Konstancin.

Issued bonds

From 1 July 2008 until the publication of this Business Report the Company issued 848 bonds with par value of PLN 100,000 each and the total par value of PLN 84,800,000. The redemption term of the bonds is up to 12 months.

Repaid bonds

From 1 July 2008 until the publication of this Business Report the Company repaid 1,342 bonds of the total par value of PLN 134,200,000.

Further land acquisition

On 31 July 2008 the Company concluded a conditional purchase agreement for real estate located in Warsaw in the Mokotów district at ul. Antoniewska, of the area of 10,744 m<sup>2</sup>.



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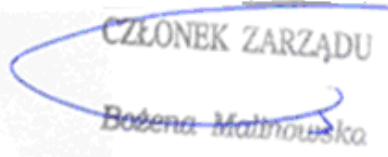
Barbara Czyż, Management Board Member –

CZŁONEK ZARZĄDU  
  
Barbara Czyż

Irmina Łopuszyńska, Management Board Member –

CZŁONEK ZARZĄDU  
  
Irmina Łopuszyńska

Bożena Malinowska, Management Board Member –

CZŁONEK ZARZĄDU  
  
Bożena Malinowska

Wojciech Rajchert, Management Board Member –

CZŁONEK ZARZĄDU  
  
Wojciech Rajchert

Grażyna Szafarowska, Management Board Member –

CZŁONEK ZARZĄDU  
  
Grażyna Szafarowska

Ząbki, 25 September 2008