MANAGEMENT BOARD REPORT
ON THE OPERATIONS OF WIKANA S.A.
IN THE PERIOD 1 JANUARY - 31 DECEMBER 2013

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PART I

I. INFORMATION ABOUT THE ENTITY

1) Description of the Company

Wikana S.A. (the "Company") is entered into the register of companies of the National Court Register (KRS) maintained by the District Court for Lublin-Wschód in Lublin, based in Świdnik, 6th Commercial Division, under KRS number 0000144421. The Company was registered at the KRS on 20 January 2003, following a merger between Masters S.A., based in Zamość (the acquiring company), and Wikana S.A., based in Lublin (the acquired company). The Company has been established for an indefinite period of time.

The Company's registered office is located in Lublin (20-703), ul. Cisowa 11.

The Company has the following numbers: REGON: 390284802 and NIP: 691-00-19-382.

The Company's economic activities comprise primarily property development, carried out through special purpose vehicles, management of Wikana Group and provision of services to Wikana Group entities.

The Company prepares financial statements in accordance with International Accounting Standards and International Financial Reporting Standards.

2) Share capital

Share capital amounts to PLN 33 533 119.20 and is divided into 167 665 596 ordinary bearer shares series G, with a nominal value of PLN 0.20 each.

During 2013, the Company's share capital was not subject to changes. During this period, there were two instances in which one of the shareholders - Dekra Holdings Limited - exceeded a statutory threshold as regards votes at the Company's general meeting:

- As a result of a block transaction on the Warsaw Stock Exchange on 10 September 2013, consisting of a purchase of 1 111 000 shares in the Company, Dekra Holding Limited's stake increased from 23 070 015 shares, which constituted 13.67% of the Company's share capital and entitled to 23 070 015 votes at the Company's general meeting (13.67% of total votes), to 24 181 015 shares, constituting 14.14% of the Company's share capital and entitling to 24 181 015 votes at the general meeting (14.14% of total votes).

- As a result of a block transaction on the Warsaw Stock Exchange on 23 September 2013, Dekra Holding Limited's stake increased from 24 140 973 shares, which constituted 14.40% of the Company's share capital and entitled to 24 140 973 votes at the Company's general meeting (14.40% of total votes), to 27 792 882 shares, constituting 16.58% of the Company's share capital and entitling to 27 792 882 votes at the general meeting (16.58% of total votes).

To the best of the management board's knowledge, other significant shareholdings were not subject to major changes in 2013.

From the 2013 year-end to the date on which the financial statements were prepared, the Company's share capital structure was subject to the following changes:

- As a result of a share sale transaction on 29 January 2014, Ipnihome Limited's stake decreased from 99 533 218 shares, constituting 59.36% of the Company's share capital and entitling to 99 533 218 (59.36%) votes at the Company's general meeting, to 82 767 218 shares, constituting 49.36% of the Company's share capital and entitling to 82 767 218 (49.36%) of votes at the Company's general meeting.

- As a result of a share purchase on 29 January 2014, AGIO RB FIZ, managed by AgioFunds TFI S.A., based in Warsaw, acquired 16 766 000 shares, constituting 9.99% of the Company's share capital and entitling to 16 766 000 (9.99%) of votes at the Company's general meeting.

3) Authorities of the entity

a) Management Board

During 2013, the structure and composition of the Company's management board were subject to the following changes:

- Sylwester Bogacki – served as president of the management board - from 1 January to 31 December.
- Tomasz Grodzki – served as vice-president of the management board, responsible for finance - from 1 January to 10 May.
- Krzysztof Szaliłow – served as vice-president of the management board, responsible for finance - from 10 May to 31 December.
- Tomasz Demendecki – served as member of the management board - from 22 October to 31 December.

From the 2013 year-end to the date on which the financial statements were prepared, the structure and composition of the Company's management board were subject to the following changes:

- On 27 January, Tomasz Demendecki submitted his resignation from the Company's management board, effective 28 January.
- On 28 January, Krzysztof Szaliłow submitted his resignation from the Company's management board, effective 28 January.
- On 28 January, the Company's supervisory board appointed Sławomir Horbaczewski as President of the management board.
- On 28 January, the Company's supervisory board appointed Sylwester Bogacki as Vice-President of the management board.
- On 24 April, Sylwester Bogacki submitted his resignation from the Company's management board, effective 30 April.
- On 24 April, the Company's supervisory board adopted a resolution on appointment of Agnieszka Maliszewska as a member of the Company's management board, effective 1 May 2014.
- On 24 April, the Company's supervisory board adopted a resolution on appointment of Robert Pydzik as a member of the management board, effective 1 May 2014.

b) Supervisory Board

During 2013, the structure and composition of the Company's supervisory board remained unchanged, as follows:

- Krzysztof Misiak – Chairperson
- Agnieszka Buchajska – Member
- Adam Buchajski – Member
- Tomasz Filipiak – Member
- Piotr Zawiślak – Member

From the 2013 year-end to the date on which the financial statements were prepared, the structure of the Company's supervisory board did not change, however its composition was subject to the following changes:

- On 31 January, acting pursuant to art. 388 § 3 of the Polish Commercial Companies Code and § 27 sec. 2 of the Company's Articles of Association, the supervisory board adopted a resolution on appointment of Tomasz Dukała as a member of the supervisory board, effective 1 February 2014.
- On 31 January, supervisory board member Piotr Zawiślak tendered his resignation from the Company's supervisory board, effective 1 February.

c) General Meeting

Two general meetings were held during 2013:

- An extraordinary general meeting on 2 January 2013, the subject of which was, among others:
    - adoption of a resolution on amendment of § 19 in the Company's articles of association
    - adoption of a resolution on authorisation for the Company's supervisory board to establish a consolidated text of the articles of association

- An ordinary general meeting on 29 June 2013, which adopted, among others, resolutions on:
  - approval of the separate management report on Company operations for 2012.
  - approval of the Company's separate financial statements for 2012
  - approval of the consolidated management report on Group operations in 2012
  - approval of Wikana Group's consolidated financial statements for 2012
  - approval of the 2012 report by the Company's supervisory board
  - 2012 profit allocation
  - vote of approval for members of the Company's management board for 2012
  - vote of approval for members of the Company's supervisory board for 2012
  - establishing the number of supervisory board members
  - establishing the composition of the supervisory board

II. SIGNIFICANT EVENTS HAVING AN IMPACT ON THE OPERATIONS OF THE ENTITY IN 2013

The significant events having an impact on the Company's operations were communicated by the Company in the form of current reports. The relevant information is also presented in note 40 to the financial statements.

In particular, the Company's management board would like to draw attention to the following events:

- On 17 January 2013, subsidiary Wikana Nieruchomości Sp. z o.o. ALFA S.K.A. executed two credit agreements with Deutsche Bank PBC S.A., guaranteed by the Company up to the amount of EUR 1.56 million.
- On 27 February 2013, the Company's supervisory board gave consent to change the entity authorised to audit the Company's separate and consolidated financial statements for 2012.
- On 17 July 2013, the Company's management board adopted a resolution on allocation of 20 530 series A bonds with a total par value of PLN 20 530 000 and a resolution on allocation of 7 612 series B bonds with a total par value of PLN 7 612 000.
- On 19 December 2013, the Company executed an agreement with Polska Tektura Sp. z o.o., based in Bydgoszcz, on the sale of 100% of shares in subsidiary Wikana Invest Sp. z o.o., based in Lublin.
- On 24 December 2013, subsidiary Wikana Property Sp. z o.o. Lamda S.K.A. issued 5 060 series A bonds, with a par value of PLN 1 000 and issue price of PLN 993 each. The Company provided a surety of up to 150% the par value of the issued bonds.

III. SIGNIFICANT EVENTS HAVING AN IMPACT ON THE ENTITY'S OPERATIONS FROM THE END OF 2013 TO THE DATE ON WHICH THE FINANCIAL STATEMENTS WERE APPROVED

On 31 January 2014, the Company's supervisory board adopted a resolution on selection of the entity authorised to audit the Company's financial statements – CSWP Audyt Sp. z o.o. Sp. k.

Other relevant information is presented in note 40 to the financial statements.

IV. EXPECTED DEVELOPMENT OF THE ENTITY

The Company expects to continue its current operations in the subsequent reporting periods. Most of its property development projects will be executed via special purpose vehicles, therefore Wikana Group's consolidated results will be most indicative.

For at least the next 12 months, the Company's growth strategy will focus on the following directions:

- Intensification of activities aimed at a substantial increase in operating scale, re-commencement or commencement of investments on the Group's land.
- Further operational expansion and reinforcement in markets where the Company is present, i.e. within the following provinces: Lower Silesia, Lublin, Lower Poland, Masovia, Sub-Carpathian.
- Selective market entry - larger urban areas.

- Consistent increase in apartment sales volumes, alongside margin growth.
- Development of residential investments in the 'popular' and 'popular plus' segments.
- Adaptation of the project schedule to current conditions on the property market, with the assumption that optimisation will be continued as regards the Company's expenditures and inflows, as well as the current ratio levels.
- Seeking to ensure an optimal financing structure for the on-going property development projects.
- Rational maximisation of project margins.
- Consistent execution of a customer-centric sales policy.

V. SIGNIFICANT ACHIEVEMENTS IN R&D

Given the nature of its business, the Company does not have significant R&D operations.

VI. CURRENT AND EXPECTED FINANCIAL SITUATION OF THE ENTITY

In 2013, The Company posted a PLN 12 048 000 net loss. Net revenue from sales was PLN 25 296 000. It should be noted that the Company's management board, appointed by the supervisory board in 2014, decided to carry out detailed analysis of the Company's finances and adopted accounting policy, and to introduce amendments to the latter. This also regards adjustments to the opening balance in 2013. These changes are aimed at ensuring the full transparency of data in the financial statements, presenting them in a clear and understandable manner not only for professional analysts and institutional investors but also so that they constitute a useful source of information for retail investors.

Currently, the Company continues to develop its on-going property projects: in Lublin (Miasteczko Wikana B12, Oranżeria, Osiedle Marina 3, Sky House), Rzeszów (Osiedle Panorama III, Zielone Tarasy II) and Zamość (Osiedle Świerkowa Aleja). In the subsequent reporting periods, additional development projects are expected to be executed in Piaseczno and other towns around Warsaw.

Until handover of apartments, construction costs are accumulated and recognised in financial statements as inventory, while revenue is recognised as deferred revenue.

The management board has assessed the Company’s expected liquidity situation for the 12 months from the date of the financial statements.
The main objective of this analysis was specifying the sources for repayment of current liabilities, resulting from, among others, issued bonds, credit facilities and trade payables (including liabilities concerning from on-going property projects).

As at 31 December 2013, the total amount of the Company’s liabilities due for repayment in 2014 (i.e. current liabilities), excluding provisions, was PLN 57 972 000.

This item mainly consists of credit facilities, loans and trade payables, as well as deferred revenue (the PLN 18 298 000 in deferred revenue corresponds to the amounts paid by clients based on apartment purchase agreements concerning completed and on-going development projects). Within the total of PLN 62 119 000 in current liabilities, the Company will actually have to repay up to PLN 39 674 000, i.e. after subtracting the amount of provisions and deferred revenue, which according to the accounting methodology for development projects (as specified in IAS 18) will be recognised in revenue from apartment sales after delivery to clients. The repayment of these liabilities towards apartment buyers would be necessary only in the event of non-performance of the executed apartment sales agreements, e.g. as a result of discontinuing or major delays in construction, which according to the management board will not occur.

As a result of the analysis, the Company’s management board has specified the main repayment sources for current liabilities:

- Proceeds from new sale agreements concerning apartments, parking spaces, storage spaces and service facilities that will be introduced to the Company’s portfolio in 2014.

- Proceeds from payments under sales agreements concerning apartments, parking spaces, storage spaces and service facilities in on-going development projects that were executed prior to 31 December 2013 - and which will be made by clients in accordance with the timetables specified in such agreements.
- Funds raised from transactions with Wikana Group subsidiaries. Given the fact that the Company's debt, including mostly liabilities on issue of bonds, is predominantly used to provide finance to subsidiaries (e.g. special purpose vehicles developing property projects), it is natural that they substantially participate in servicing the debt.

In addition, the Company's management board is analysing a number of solutions aimed at raising additional capital to ensure the Company's liquidity, to be used to repay financial liabilities and trade payables. As such, the following activities are currently at an advanced stage:

- a share issue (via a private offering),
- bond issue,
- new credit facilities.

The above list is not comprehensive, and the results of the above activities will be dependent on financial-market conditions and the benefits for the Company.

According to the management board, a visible improvement on the residential property market will make it possible to fulfil apartment sales plans at a level ensuring the uninterrupted continuity of the Company's operations, including repayment of its liabilities.

According to the Company's management board, thanks in part to the restructuring activities commenced at the beginning of 2014 and intensification of apartment sales, there is no threat to the Company's continuing operations over a period of 12 months from the date on which the financial statements were prepared. The management board believes that it will be able to provide the Company with sufficient capital to service its financial liabilities and trade payables and to continue operations uninterrupted, including property development projects.

VII. INFORMATION ON ACQUISITION OF OWN SHARES BY THE ENTITY

During the financial year 2013 and until the date on which the financial statements were prepared, the Company did not purchase own shares.

VIII. INFORMATION ON THE ENTITY'S BRANCHES

The Company does not have any branches.

IX. INFORMATION ON THE FINANCIAL INSTRUMENTS USED BY THE ENTITY FOR HEDGING RISK

1) Pricing risk

The Company has executed agreements with contractors where remuneration is precisely specified and allows for completion of the on-going investments in line with budgets adopted by the Company. The pricing risk is on the contractors' side, and their remuneration may only be changed with the Company's consent. Still, the Company is exposed to risk related to changes in construction costs and the Company's dependence on construction contractors, as described in point 5) below - "Description of other risk factors, along with the Company's exposure."

2) Credit risk, foreign exchange risk and interest rate risk

Exposure to credit risk and interest rate risk arises in the ordinary course of the Company's business.

There may be foreign exchange risk, connected with changes in the exchange rates of foreign currencies, as well as interest rate risk for the currencies in which mortgages are issued to buyers in order to finalise purchases of residential properties. A weakening of PLN in relation to foreign currencies, in particular CHF, USD and EUR, as well as an increase in the interest rates for these currencies, translating into an increase in the interest on credit, may result in buyers being unable to continue repaying their mortgages or in fewer new buyers being able to obtain such credit. This may lead to a decrease in demand for new apartments and to a higher number of properties repossessed by banks, which then could increase the number of properties available on the market. The above events may have a negative impact on the residential property market and, as a result, on the Company's operations and financial situation.

The balance sheet value of non-current investments and trade and other receivables reflects the maximum level of credit risk.

The Company's non-current liabilities concerning issue of fixed-coupon bonds are not exposed to cash flow risk as a result of interest rate changes. The Company does not hedge against interest rate risk. The Company also does not hedge against foreign exchange risk. Current receivables and payables are not exposed to interest rate risk.

3) Cash flow risk

The Company has executed agreements with contractors and secured financing for its on-going investments, therefore the Company's cash flows in subsequent reporting periods are already determined and allow minimising the cash flow risk.

4) Liquidity risk

The objective of financial liquidity management is to protect the Company from default. This objective is being achieved through systematic projections of debt over a 3-year horizon, and subsequently through arranging appropriate sources of finance.
A detailed liquidity analysis is presented in point VI of this report.

5) Description of risk factors, along with the Company's exposure levels

- **Strategic objective risk**

The Company cannot ensure that its strategic objectives will be met. The market in which the Company operates is subject to changes, the direction and scale of which are dependent on numerous factors. The Company's future situation, and therefore also its revenue and earnings, is dependent on how well its strategy is executed. Wrong decisions, resulting from incorrect assessment of situation or inability to adapt to the changing market conditions, might have a negative impact on the Company's financial results.

- **Risks associated with property development projects**

The Company's property projects require substantial capital employment and, by nature, are subject to a variety of risks. These risks concern the following in particular: (1) the inability to obtain or the loss of previously obtained permits, authorisations or other administrative decisions such as are essential for use of land and development of property projects in accordance with the Company's plans, (2) delays in commencement or completion of construction, (3) cost overruns, (4) contractor or subcontractor default, (5) contractors' or subcontractors' disputes with employees, (6) insufficient materials or construction equipment, (7) accidents or unforeseen technical difficulties, (8) inability to obtain the permits required to handover a building, or other essential authorisations, as well as (9) changes in the regulations pertaining to use of land. The occurrence of each of the above circumstances may result in delays in completing projects, cost increases or revenue losses, freezing the capital invested in procuring land and in certain situations the inability to complete projects. This may have a negative impact on the Company's operations and financial situation.

- **Risk associated with cost overruns and the Company's dependence on building contractors**

The Company has executed, and will execute, agreements with building contractors to develop property projects in the general-contractor formula. The costs of these projects may be subject to changes as a result of a variety of factors, such as the following: (1) changes in the scope of the project or changes in the architectural design; (2) increases in the cost of construction materials; (3) insufficient availability of skilled workers or increase in employment costs; (4) non-performance of work by contractors within the agreed deadlines or to a standard that is acceptable for the Company; (5) selection of incorrect technology at the initial phase of construction. Each substantial increase in costs or delay in project completion may have a negative impact on the Company's profitability. There is also a risk connected with the general contractors' loss of financial liquidity, which could impact the quality and timely delivery of the works. Loss of financial liquidity may, in extreme circumstances, result in the complete shutdown of works by a contractor, leading to their replacement. All delays and costs connected with replacing a general contractor may have a negative impact on the project's profitability. Despite the fact that the Company strives to limit such risk by maintaining long-term relations with a Company of proven construction contractors and has employees that can, if necessary, assume the general contractor's responsibilities, a threat to the continuity and stability of operations - including the loss of liquidity by any of the general contractors developing the projects - may have a negative impact on the Company's operations and financial situation.

- **Risk associated with an increase in operating expenses and other costs**

The Company's operating expenses and other costs may increase without a concurrent increase in revenue. The following factors may lead to an increase in operating expenses and other costs: (1) inflation, (2) increase in taxes and other mandatory fees, (3) changes in legal regulations (including changes relating to workplace health and safety and environmental protection) or government policy, which could increase the costs of compliance with such regulations or policy, (4) increase in financing costs. The above factors may have a significant negative impact on the Company's operations and financial situation.

- **Risk associated with the Company's operations being confined to the residential markets in Lower Silesia, Lublin, Lesser Poland, Masovia and Sub-Carpathian provinces**

Currently, all of the Company's projects are being executed in: Lublin, Janów Lubelski, Zamość, Rzeszów, Krosno and Piaseczno. The Company continuously analyses the property development market in other Polish cities, however, according to the management, the results of expansion into other markets would be incommensurate to the risk related to such decisions. As a result, in the short- and medium-term, the Company's revenue and earnings will be dependent on the situation on the residential markets in which the Company is already present. Any decreases in conditions on those markets may have a negative impact on the Company's operations and financial situation.

- **Risk associated with the ability to introduce additional apartments for sale, procure new land and with pricing**

Further development of the Company's business is primarily dependent on: the ability to commence new investments on the Company's properties, introduce apartments for sale, ability to acquire attractive land for new development projects - at attractive prices - and their appropriate use, and subsequently the Company's ability to sell its apartments on the market in a timely manner and at satisfactory margins. The ability to fulfil the above assumptions mostly depends on conditions in residential markets where the Company operates and on the results of the restructuring programme.

Acquiring land for property projects in the future may be more difficult or costly than before due to the following: (1) strength of the competition on the property market, (2) time-consuming process to acquire administrative permits and other essential decisions, consents and authorisations, (3) lack of local spatial development plans and (4) limited availability of land with appropriate infrastructure.

The profitability of the Company's property development business is also directly dependent on apartment prices in Poland, and particularly in the cities where the Company is present. An oversupply of apartments due to there being too many units available may have a negative impact on apartment prices in markets where the Company operates. In the case of falling apartment prices, the Company cannot guarantee that it will be able to sell all finished apartments at prices ensuring the Company's expected margins.

All of the above factors may have a significant negative impact on the Company's operations and financial situation.

- **Risk associated with adverse land conditions**

When procuring land for new property investments, the Company carries out geotechnical analysis. Due to the limited scope of this study, it cannot be excluded that over the course of a project the Company will encounter unforeseen difficulties, which may result in delays or increase in the costs to prepare the land for construction, for example archaeological finds. Such factors may have an impact on the costs or scheduling of a given project and may even prevent completion of a project in its original form. This may have a negative impact on the Company's operations and financial situation.

- **Risk associated with liability for use of land - as regards environmental protection regulations**

In accordance with Polish law, entities using land where dangerous substances or other pollutants are located or where an adverse transformation of land occurred may be obligated to remove these, bear the reclamation costs and pay administrative penalties. The risk that the Company may in the future be required to pay compensation, administrative penalties or reclamation costs resulting from environmental damage to the land it owns or procures cannot be excluded. This may have a negative impact on the Company's operations, financial situation and growth perspectives.

- **Infrastructure risk**

A property development project may be executed in a manner ensuring the legally-required infrastructure, such as internal roads, water connections, etc. Despite positive results of legal and technical analysis, a lack of the essential infrastructure may result in the fact that it will not be possible to execute a project on a given plot of land or, in the event that it be necessary to provide this infrastructure by the Company, that it will be too expensive. There is a risk that due to delays in preparing access to infrastructure, particularly delays resulting from factors that are independent from the Company, there might be a delay in handing over a property project or an unforeseen increase in the cost of accessing infrastructure. Such events may have an impact on project margins. It may also happen that the relevant administrative authorities will require the Company to construct essential infrastructure as part of a property development project, which could have a substantial impact on the cost of construction. Administrative authorities may also request that the investor construct the infrastructure that is essential from the viewpoint of the entire project, but such construction works may be expected by the authorities to constitute the investor's contribution towards the development of local communities as part of the property development project. This may have a negative impact on the Company's operations and financial situation.

- **IT failure risk**

The Company is not dependent on IT systems, however a failure of its IT system that results from a loss of data may result in temporary difficulties for the Company, particularly as regards contacts with its clients. The Company may not guarantee that its IT systems will be sufficient for its future purposes. The occurrence of IT system failures or inability to meet the Company's future needs could have an impact on the Company's operations and financial situation.

- **Risk connected with ineffectiveness of the land and mortgage register system**

The land and mortgage register system that is currently in use in Poland, especially in the cities where the Company has investments, is ineffective, particularly due to delays with which significant legal events are disclosed in such registers. As a general principle, given the public-trust guarantee nature of land and mortgage registers, a person carrying out a legal activity with binding effects with a person who is authorised as per the content of the land and mortgage register may purchase property or another property right, even in the event that in fact another entity was the owner, unless the buyer knew or could easily have found out about the inconsistency between the register with actual legal state. Given the potential delays in disclosing ownership or usufruct changes in mortgage and land registers and the binding public-trust guarantee of such registers, trade in properties is connected with the risk of purchasing a property from a person who appears in the register but is not authorised. This risk may have a negative impact on the Company's operations and financial situation.

- **Risk resulting from the act on payment guarantees for construction works**

According to the Act of 9 July 2003 on payment guarantees for construction works, a building contractor to whom the company commissions performance of a property development project may at any time request from the company a payment guarantee, in the form of a bank or insurance guarantee, bank letter of credit or surety issued for the contractor, up to the amount of any potential claims for remuneration arising under the agreement and additional work orders. In accordance with the above act, rights to request a payment guarantee cannot be waived or limited through any legal activity, and termination of the agreement based on a request of a payment guarantee is ineffective. The lack of a sufficient payment guarantee constitutes a hindrance in performance of construction works on the part of the company and entitles the contractor to request remuneration based on art. 639 of the Polish Civil Code. This may result in higher costs and delays in development projects, or even their cancellation. This may have a negative impact on the Company's operations, financial situation and results.

- **Risk associated with substantial damages, exceeding insurance compensation**

Buildings constructed as part of the Company's development projects are insured on the basis of insurance agreements executed by the Company's general contractors. In the case of physical damages to the buildings due to fire, flooding or other causes prior to handover of the premises to buyers, the Company may incur damages that might not be entirely covered by insurance payments, especially given the fact that the value of the insured object, estimated in the insurance agreement, may be smaller than the value of that object at the time of damage. In addition, insurance policies do not cover the Company's lost earnings from projects or damages connected with non-performance or delayed performance of agreements with the company's clients. In the event of damages exceeding the insurance limit, the Company may lose the funds invested in such damaged project, as well as the related future revenue. The above events may have a negative impact on the Company's operations, financial situation and results.

- **Risk associated with changes in tax regulations**

The Polish tax system is characterised by a lack of stability. Tax laws are often changed, a lot of the times against the taxpayer. These changes may concern not only increases in tax rates but also the introduction of new, complex legal instruments, expansion of the scope of taxation and even introduction of new tax burdens. Changes in tax laws may also result from the necessity to superimpose new solutions from EU law, resulting from the introduction of new, or changes of existing, tax regulations. Frequent changes in corporate tax laws and interpretative inconsistencies as regards application of tax regulations by tax authorities may have an adverse effect on the Company, which as a result may have a negative impact on its operations and financial situation.

- **Risk associated with application of tax regulations by tax authorities**

Tax authorities apply laws not only directly based on regulations but also on their interpretations, performed by authorities of higher instance or by courts. Such interpretations are also prone to changes, replacement with other interpretations or are in contravention to other interpretations. To a certain extent, this also concerns court rulings. This creates a lack of certainty in terms of how tax authorities apply the law or the automatic application of the law in accordance with the existing interpretations, which may not necessarily reflect the - often complicated - actual state of affairs in commercial trade. This risk is also increased by a lack of transparency in the many regulations that constitute the Polish tax system. On the one hand, this creates doubts as regards their proper interpretation, while on the other - the necessity to consider more carefully the above-mentioned interpretations. As regards the tax regulations that are based on EU laws and that should therefore be fully harmonised, it should be pointed out that the risk connected with their application is related to an often insufficient level of knowledge of EU laws, which is aided by the fact that they are relatively new in the Polish legal system. This may result in the interpretations of Polish law being in contradiction to EU regulations. A lack of stability in application of tax laws may have a negative impact on the Company's operations and financial situation.

- **Risk associated with potential claims**

In Poland, as a result of post-war nationalisations, numerous properties owned by legal entities and natural persons were acquired by the State Treasury, which in certain cases was against the then-current laws. Despite the fact that an act regulating the re-privatisation process has not yet been enacted in Poland, previous property owners or their successors may currently file requests with administrative authorities concerning annulment of the administrative decisions based on which they lost their properties. The Company's management board, to the best of its knowledge, has not identified any such instances described in this point. In addition, the properties on which the Company's development projects were, are or might be executed are not located in areas covered by the Decree of 26 October 1945 on the ownership and use of land in the Capital City of Warsaw (the Decree on land in Warsaw). To the best of its knowledge, the Company's management board sees no risk that the previous owners of land on which these properties are situated will submit re-privatisation claims, unless the land acquisition based on the Decree on land in Warsaw was done in an illegal manner. Despite the fact that prior to purchasing a property, the Company examines matters connected with the likelihood of claims for return of property being raised, the results of such audits are not conclusive and it may not be excluded that re-privatisation claims relating to the properties owned by the Company will be raised in the future. The risk that such claims raised in the future might have a significant impact on the Company may not be excluded. This may result in an increase in project costs, delays or cancellations, which could have a substantial negative impact on the Company's operations, financial situation and results.

- **Economic and political risk**

The Company operates in Poland, which is considered an emerging market. Investors that invest in shares of companies operating in such markets should be aware of the fact that the economic and political risk present on such markets is higher than in the case of developed markets.

The financial situation of the Polish property development industry, and therefore also the Company's financial situation, is closely connected with economic factors, such as GDP changes, inflation, unemployment, exchange rates and interest rates. Any adverse changes of one or more of the above factors in the future may lead to a decrease in demand for new apartments, which could have a negative impact on the Company's operations and financial situation.

- **Risk associated with lack of spatial development plans**

Parts of the land that the Company is using, or plans to use, for investments, are not covered by valid spatial development plans, which makes it substantially more difficult to obtain construction permits. In particular, in the case of a lack of a spatial development plan, determining the means of development and terms of construction takes place through a decision on construction terms and development conditions. Issue of such decision on development terms is possible only after numerous conditions are met, including that at least one neighbouring plot of land, accessible from the same public road, be developed in a manner enabling to specify requirements for the new development in terms of continuation, parameters, features and indicators of development of land or construction thereon, including the parameters and architectural forms of the buildings that are to be constructed, lines and closeness of the development. A lack of binding spatial development plans may cause significant problems with obtaining construction permits, which could lead to project delays and, in consequence, have a negative impact on the Company's operations and financial situation.

- **Risk associated with discrepancies between land and mortgage registers and land records**

Data in land and mortgage registers for properties is not always compliant with the data disclosed in land and property records, in particular data concerning the numbering and surface area of plots of land, as well as land ownership data. In reality, this may cause the necessity to reconcile such data and - given the time-consuming nature of this procedure - result in delays in establishing separate ownership for premises.

X. INFORMATION ON THE FINANCIAL RISK MANAGEMENT OBJECTIVES AND METHODS ADOPTED BY THE ENTITY

The Company manages all of the financial risk elements described in point IX, which could have a significant impact on its operations. The financial risk management system is organised so that the units responsible for executing the various transactions on the market are separated from the other, independent units evaluating these transactions prior to final approval by the Company's management board, which leads to a decrease in operating and financing costs - i.e. the elements that give rise to financial risk.

XI. SELECTED FINANCIAL RATIONS, ALONG WITH THEIR INTERPRETATION

		31 December 2013	**31 December 2012 (restated data)**
Return on sales	net profit/revenue from sales*100	-47.63%	-151.65%
Return on equity	net profit*100/equity-net profit	-22.24%	-40.78%
net debt	liabilities/equity and liabilities*100	68.37%	56.02%
current ratio	current assets/current liabilities	1.64	1.27

Net revenue covers net revenue from sale of products, materials and goods.

Return on sales decreased in 2013 due to adjustments to the opening balance for 2013 in the balance sheet and the 2013 result.

Return on equity changed due to a loss generated in 2013.

The debt ratio changed in comparison with the previous year. The main reason was an increase in liabilities.

The liquidity ratio changed in comparison with the previous year, as a result of a change in current liabilities.

XII. ON-GOING PROCEEDINGS IN COURTS, ARBITRATION BODIES OR PUBLIC ADMINISTRATION AUTHORITIES

Information regarding on-going proceedings is presented in note 30 the financial statements.

XIII. MAIN PRODUCTS, GOODS OR SERVICES

The Company's economic activity is property development - from land procurement, through design, construction permit acquisition and project management, to delivery of apartments to buyers. In addition, the Company provides services, including management and accounting, to other Wikana Group companies.

At Wikana Group, investment projects are carried out by special purpose vehicles, i.e. subsidiaries established for the purpose of executing specific investment projects.

XIV. SALES MARKETS

The Company operates in property development services and manages the Wikana group of companies.

The Company is not dependent on any of its customers, who are mostly natural persons and – as regards group management services – legal entities.

As part of property development activities, the Company incurs substantial costs on construction services and procurement of land for development projects. Land procurement does not lead to dependence on any one supplier, while in the case of construction works the Company selects general contractors via competitive tender proceedings, and the general contractor is responsible for the entirety of construction works. In the process of selecting contractors, the Company evaluates, among other factors, their financial condition, resources and experience.

In the coming years, of more significance will be relations between suppliers and the Company's subsidiaries, through which it increasingly carries out operations.

XV. SIGNIFICANT AGREEMENTS EXECUTED BY THE ENTITY

Information about significant agreements is presented in point II of this management report: "SIGNIFICANT EVENTS HAVING AN IMPACT ON THE ENTITY'S OPERATIONS THAT TOOK PLACE IN 2013."

XVI. ORGANISATIONAL OR CAPITAL TIES BETWEEN THE ENTITY AND OTHER COMPANIES

As at the date on which the financial statements were prepared, the Company is the parent entity for the following subsidiaries:

- Wikana Bioenergia Sp. z o.o., based in Lublin, which has been operating since September 2009 in the Lublin Province, in manufacturing of energy from renewable sources. Wikana Bioenergia Sp. z o.o. is also the general partner in Wikana Bioenergia Sp. z o.o. 01 S.K.A., which operates in the production and trade of energy from renewable sources and whose shareholder is Wikana FIZ.
- Wikana Project Sp. z o.o., based in Lublin, has been operating since January 2009, in the area of residential property development. Apart from this, it operates in project management services for other Wikana Group companies.
- Wikana Nieruchomości Sp. z o.o., based in Lublin, has been operating since January 2007, in the area of design and investment preparation services. As at the date on which these financial statements were prepared, this company was the general partner in the following property-development companies:
    - Wikana Nieruchomości Sp. z o.o. 02 S.K.A.
    - Wikana Nieruchomości Sp. z o.o. 03 Miasteczko S.K.A.
    - Wikana Nieruchomości Sp. z o.o. 04 Osiedle S.K.A.
    - Wikana Nieruchomości Sp. z o.o. 05 Marina S.K.A.
    - Wikana Nieruchomości Sp. z o.o. Komerc S.K.A.
    - Wikana Nieruchomości Sp. z o.o. Krosno S.K.A.
    - Wikana Nieruchomości Sp. z o.o. Legnica S.K.A.
    - Wikana Nieruchomości Sp. z o.o. Alfa S.K.A.
- Multiserwis S.A., based in Warsaw, has been operating in footwear retail since 2003.
- Towarzystwo Budownictwa Społecznego Wikana Sp. z o.o., based in Lublin, provides property management services to both own properties and on commission from housing cooperatives.
- Wikana Property Sp. z o.o., based in Lublin, has been operating since 2012 and its activities include provision of sales agency services to other Wikana Group companies. As at the date on which the financial statements were prepared, this company was the general partner in the following property-development companies:
    - Wikana Property Sp. z o.o. Beta S.K.A.
    - Wikana Property Sp. z o.o. Delta S.K.A.
    - Wikana Property Sp. z o.o. Podpromie S.K.A.

- Wikana Property Sp. z o.o. Panorama S.K.A.
- Wikana Property Sp. z o.o. Zielone Tarasy S.K.A.
- Wikana Property Sp. z o.o. Krosno S.K.A.
- Wikana Property Sp. z o.o. ACER S.K.A.
- Wikana Property Sp. z o.o. ALFA S.K.A.
- Wikana Property Sp. z o.o. BETULA S.K.A.
- Wikana Property Sp. z o.o. CORYLUS S.K.A.
- Wikana Property Sp. z o.o. GAMMA S.K.A.
- Wikana Property Sp. z o.o. JOTA S.K.A.
- Wikana Property Sp. z o.o. KAPPA S.K.A.
- Wikana Property Sp. z o.o. LAMDA S.K.A.
- Wikana Property Sp. z o.o. LARIX S.K.A.
- Wikana Property Sp. z o.o. MAGNOLIA S.K.A.
- Wikana Property Sp. z o.o. OMEGA S.K.A.
- Wikana Property Sp. z o.o. OMIKRON S.K.A.
- Wikana Property Sp. z o.o. ROSA S.K.A.
- Wikana Property Sp. z o.o. SIGMA S.K.A.
- Wikana Property Sp. z o.o. ZETA S.K.A.

- Wikana FIZ holds 100% of shares in the following Wikana Group companies:
  - Zielone Tarasy S.A.
  - Wikana Nieruchomości Sp. z o.o. 02 S.K.A.
  - Wikana Nieruchomości Sp. z o.o. 03 Miasteczko S.K.A.
  - Wikana Nieruchomości Sp. z o.o. 04 Osiedle S.K.A.
  - Wikana Nieruchomości Sp. z o.o. 05 Marina S.K.A.
  - Wikana Nieruchomości Sp. z o.o. Komerc S.K.A.
  - Wikana Nieruchomości Sp. z o.o. Krosno S.K.A.
  - Wikana Nieruchomości Sp. z o.o. Legnica S.K.A.
  - Wikana Bioenergia Sp. z o.o. 01 S.K.A.

The Company holds 100% of Wikana FIZ's investment certificates.

XVII. SIGNIFICANT RELATED-PARTY TRANSACTIONS EXECUTED BY THE ENTITY ON TERMS OTHER THAN MARKET TERMS

During 2013, as well as in the period until the date on which the financial statements were prepared, no such transactions took place.

XVIII. EXECUTED OR TERMINATED CREDIT AND LOAN AGREEMENTS

Information about significant events concerning credits and loans is presented in point II of this report: Information about significant agreements is presented in point II of this management report: "SIGNIFICANT EVENTS HAVING AN IMPACT ON THE ENTITY'S OPERATIONS THAT TOOK PLACE IN 2013."

Information regarding the Company's credits, including covenants, and loans is presented in note 26 to the financial statements.

XIX. INFORMATION ON ISSUED LOANS

In 2013, the Company recognised loan receivables. Information about the loans that the Company has issued is presented in notes 16 and 17 to the financial statements.

XX. INFORMATION ON ISSUED AND RECEIVED SURETIES AND GUARANTEES

Information about sureties and guarantees issued is presented in note 35 the financial statements.

In 2013, the Company did not receive any sureties or guarantees.

XXI. USE OF SHARE OR BOND ISSUE PROCEEDS BY THE ENTITY

During 2013, the Company used bond issue proceeds for the following objectives:

- PLN 20 530 000 from issue of series A bonds - to repay financial liabilities
- PLN 7 612 000 from issue of series B bonds - to repay financial liabilities

XXII. DISCUSSION OF THE DIFFERENCES BETWEEN RESULTS PRESENTED IN THE FINANCIAL STATEMENTS AND PREVIOUSLY PUBLISHED FORECASTS FOR THE YEAR COVERED BY THE FINANCIAL STATEMENTS

The Company did not publish separate financial forecasts for 2013.

XXIII. ASSESSMENT OF FINANCIAL RESOURCES MANAGEMENT

According to the management board, the Company rationally manages financial resources. The Company systematically makes projections of debt over a 3-year horizon, and subsequently arranges appropriate sources of finance.

XXIV. ASSESSMENT OF THE POSSIBILITIES FOR COMPLETING INVESTMENT OBJECTIVES

The Company finances its investments projects mainly using funds raised through bond issues, as well as credit facilities, advances from clients and own funds. Depending on the investment objectives, it arranges adequate sources of finance. The Company has capacity to fulfil its investment objectives. Also of significance is financing provided by banks / bondholders to the Company’s subsidiaries.

XXV. ASSESSMENT OF FACTORS AND EXTRAORDINARY EVENTS HAVING AN IMPACT ON THE OPERATING RESULTS DURING THE REPORTING PERIOD

In 2013, the Company did not record any extraordinary events having an impact on the Company's operating results.

XXVI. DESCRIPTION OF EXTERNAL AND INTERNAL FACTORS SIGNIFICANT FROM THE VIEWPOINT OF THE ENTITY’S DEVELOPMENT

A description of the external and internal factors that are significant from the viewpoint of the Company companies' development is presented in point IX point 5) of this report: “DESCRIPTION OF RISK FACTORS, ALONG WITH THE COMPANY'S EXPOSURE LEVELS.”

XXVII. CHANGES IN MAIN MANAGEMENT PRINCIPLES AT THE ENTITY

In 2013, no significant changes to the main management principles took place at the Company. During the period until the date on which the financial statements were prepared, a restructuring programme was underway, which resulted in, among others, a change in the management principles in many areas.

XXVIII. AGREEMENTS EXECUTED BETWEEN THE ENTITY AND MANAGEMENT PERSONNEL PROVIDING FOR COMPENSATION IN THE EVENT OF RESIGNATION OR DISMISSAL

No such agreements were executed.

XXIX. REMUNERATION, BONUSES AND EQUITY-BASED CONSIDERATIONS FOR THE ENTITY'S MANAGEMENT BOARD AND SUPERVISORY BOARD MEMBERS

First and last name, position	Amount of remuneration, bonuses or share-based considerations, paid, due or potentially due, from the Company [PLN 000s]	Amount of remuneration and bonuses for serving in the authorities of subsidiaries, associates and jointly controlled entities [PLN 000s]
MANAGEMENT BOARD		
Sylwester Bogacki President of the Management Board from 1 January 2013 to 31 December 2013	284	46
Tomasz Grodzki Vice-President of the Management Board from 1 January 2013 to 10 May 2013	26	83
Krzysztof Szaliłow Vice-President of the Management Board from 10 May 2013 to 31 December 2013	194	28
Tomasz Demendecki Member of the Management Board from 22 October 2013 to 31 December 2013	28	14
SUPERVISORY BOARD		
Krzysztof Misiak Chairperson of the Supervisory Board from 1 January 2013 to 31 December 2013	30	0
Agnieszka Buchajska Member of the Supervisory Board from 1 January 2013 to 31 December 2013	30	0
Adam Buchajski Member of the Supervisory Board from 1 January 2013 to 31 December 2013	30	0
Tomasz Filipiak Member of the Supervisory Board from 1 January 2013 to 31 December 2013	30	0
Piotr Zawiślak Member of the Supervisory Board from 1 January 2013 to 31 December 2013	30	0

There were no profit-based payments made to management personnel.

XXX. TOTAL NUMBER AND NOMINAL VALUE OF SHARES IN THE ENTITY AND RELATED PARTIES HELD BY MANAGEMENT BOARD AND SUPERVISORY BOARD MEMBERS

The ownership of shares in the Company by management board and supervisory board members as at the date on which the financial statements were prepared was as follows:

	Number of shares	**%**
Sylwester Bogacki	0	0.00
Tomasz Grodzki	0	0.00
Krzysztof Szaliłow	0	0.00
Tomasz Demendecki	0	0.00
Tomasz Misiak	0	0.00
Agnieszka Buchajska (*)	5 952 844	3.55
Adam Buchajski (**)	82 767 218	49.36
Tomasz Filipiak	0	0.00
Piotr Zawiślak	0	0.00

(*) together with subsidiary - Renale Management Limited.
(**) together with subsidiary - Ipnihome Limited.

XXXI. INFORMATION ON AGREEMENTS KNOWN TO THE ENTITY THAT COULD RESULT IN CHANGES IN THE PROPORTIONS OF SHARES HELD BY THE EXISTING SHAREHOLDERS AND BONDHOLDERS

The Company is not aware of any such agreements.

XXXII. EMPLOYEE SHARE PROGRAMME CONTROL SYSTEM

The Company has not implemented any employee share programmes.

XXXIII. INFORMATION ON:

1) Date of execution by the Company of an agreement with the entity authorised to audit financial statements

The Company executed an agreement with CSWP Audyt Sp. z o.o. S.k. on 3 February 2014.

2) Remuneration for the entity authorised to audit the financial statements for the reporting period

Audit of annual and review of semi-annual separate and consolidated financial statements of the Company and Wikana Group - PLN 105 000 for 2013.

PART II

DECLARATION ON APPLICATION OF CORPORATE GOVERNANCE STANDARDS AT THE ENTITY DURING 2013

Pursuant to § 91 sec. 5 point 4) of the Ordinance of the Minister of Finance dated 19 February 2009 on current and periodic information disclosed by issuers of securities and the conditions for recognising as equivalent information required by the laws of a non-member state (Polish Journal of Laws of 2009 no. 33, item 259, as amended), and complying with the responsibilities resulting from Resolution No. 1013/2007 of the Management Board of Giełda Papierów Wartościowych w Warszawie S.A. (the "WSE") of 11 December 2007 on establishing the scope and structure of reports on application of corporate governance standards by listed companies in connection with § 2 of Resolution No. 1014/2007 of the Management Board of the WSE of 11 December 2007 on partial waiver of the requirement to publish reports on application of corporate governance standards effective on the WSE's main market and in connection with § 2 of Resolution No. 718/2009 of the Management Board of the WSE of 16 December 2009 on disclosure by listed companies of reports on application of corporate governance standards, and based on art. 49 sec. 2 point 8 of the Accounting Act of 29 September 1994, the Management Board of WIKANA S.A., based in Lublin, provides hereby a declaration on application of corporate governance standards at the Company in 2013, which contains information that is required by the above regulations.

1. Corporate governance standards and scope of application

1.1. Declaration by the Company's Management Board

In 2013, the Company [Company, Issuer] - as a listed company - was subject to corporate governance standards contained in an Annex to WSE Council's Resolution No. 19/1307/2013 "Best Practices of WSE-Listed Companies" (the "Best Practices"), adopted on 21 November 2013 by the WSE's Council.

The content of this document is available at the WSE's corporate governance website (http://www.corp-gov.gpw.pl/).

The Company makes every effort to apply the corporate governance standards outlined in "Best Practices of WSE-Listed Companies."

Across all of its operations, the Company attempts to apply all recommendations relating to best practices and guidelines for management boards, supervisory boards and shareholders.

The Company's management board pays a lot of attention to applying corporate governance standards in its management processes, which are understood as a set of regulations necessary to maintain appropriate relations between the interests of all entities and natural persons involved in the Company's operations. Corporate governance standards largely serve as an example of ethically-correct conduct and are an expression of good customs.

The Company does not apply corporate governance standards that are beyond those provided for in Polish law.

1.2. Indication of the scope in which the Issuer did not apply the set of corporate governance standards contained in "Best Practices of WSE-Listed Companies," with indication of the excluded provisions and justification for such exclusion

In 2013, the Issuer did not (fully or in part) apply the following corporate governance standards:

1) As regards part II of "Best Practices of WSE-Listed Companies"

In reference to principle 1.9a) of "Best Practices of WSE-Listed Companies," which states as follows: *The company maintains a corporate website and publishes, aside from the legally-required information, minutes from general meetings, in audio or video format.*

According to the Company, performance of information obligations in accordance with the binding provisions of law, in particular by publishing the relevant current reports and placing the relevant information on its website, ensures that shareholders have access to all material information concerning general meetings.

2) As regards part IV of "Best Practices of WSE-Listed Companies"

In reference to principle 10 from part IV of "Best Practices of WSE-Listed Companies," point 10, which states as follows: *"The company should ensure that shareholders may participate in general meetings using electronic means of communications, which consist of: 1) real-time transmission of general meetings, 2) two-way communications in real time, whereby shareholders may make verbal statements during the general meetings from another location."*

According to the Issuer, application of the above principle carries risk of a technical, as well as legal, nature, which may have an impact on the correct and uninterrupted execution of general meetings. In addition, application of the above principle would cause the Issuer to incur substantial costs.

At the same time, the Issuer does not exclude the possibility of applying the above principles in the future.

As regards the non-application of these principles, contained in Part II sec. 1 point 9a and Part IV sec. 10 of "Best Practices of WSE-Listed Companies," the Company released current report 1/2013 of 2 January 2013.

2. Description of the modus operandi of general meetings and the main associated authorisations, along with shareholder rights and the means of exercising them

The modus operandi of general meetings and the main associated authorisations, along with shareholder rights and the means of exercising them are regulated by:

- Polish Commercial Companies Code,
- Articles of Association,
- Regulations of the Company's general meeting,
- Corporate governance principles adopted by the Company.

Both the Company's Articles of Association and the General Meeting Regulations are published on the Company's website, which fulfils principle 1 in part II of "Best Practices of WSE-Listed Companies" (*the Company maintains a corporate website and publishes legally-required information: 1) main corporate documents, in particular the articles of association and regulations of the company's authorities*).

General meetings may be ordinary or extraordinary.

An ordinary general meeting should take place no later than within six months from the end of the financial year.

An Extraordinary General Meeting is convened by the Management Board to examine matters requiring immediate decisions:

- at the Management Board's own initiative,
- at the Supervisory Board's request,
- at a written request of shareholders representing at least one-twentieth of share capital.

A general meeting is convened in the mode specified in art. 395 § 1 and art. 398 of the Polish Commercial Companies Code, in a manner specified in art. 402^1, 402^2 and 402^3 of the Polish Commercial Companies Code and in the Act of 29 July 2005 on Public Offerings [...].

Resolutions adopted by the General Meeting are valid regardless of the number of shares represented at the meeting, unless the Polish Commercial Companies Code states otherwise.

The following activities require a General Meeting resolution:

- Examining and approving the Management Board report on Company operations, Supervisory Board reports, annual financial statements, votes of approval for members of the Company's authorities,
- Issuing rulings concerning claims for rectification of damage caused in the formation of the Company or in the course of management or supervision,
- Consenting to the disposal or lease of the Company's enterprise or an organised part thereof and establishment of limited property rights thereon,
- Issuing convertible bonds or bonds with pre-emptive rights,
- Purchasing own shares in the events specified in art. 362 § 1 point 2 of the Polish Commercial Companies Code,
- Distribution of profit or coverage of loss;
- Amending the Company's Articles of Association,
- Establishing Supervisory Board remuneration rules;
- Increasing or decreasing the share capital,
- Establishing the "ex-dividend date" and "dividend payment date,"
- Other matters provided for in the Articles of Association and the Polish Commercial Companies Code.

The purchase and sale of properties or shares in properties, along with perpetual usufruct rights or shares in perpetual usufruct rights, encumbering properties or shares in properties and perpetual usufruct rights or shares in perpetual usufruct rights with restricted property rights, do not require a General Meeting resolution.

In accordance with principle 1 point 3 of part III of "Best Practices of WSE-Listed Companies," the supervisory board examines and issues opinions on matters that are to be the subject of general meeting resolutions, which are first provided to the management board for examination in the form of draft resolutions for the general meeting. A negative opinion or a lack of opinion from the supervisory board does not constitute a hindrance in adopting a resolution by the general meeting.

The general meeting regulations currently in place at the Company, adopted through general meeting resolution 13/X/2010 of 7 October 2010, state in particular that shareholder correspondence pertaining to general meetings that is sent by shareholders should allow for such shareholders to be identified and for their shareholder authorisations to be verified. Documents sent to the Company in electronic form should be scanned to PDF.

According to the general meeting regulations, a general meeting may be cancelled only if there are extraordinary obstacles to it taking place. However, in a situation where a general meeting was cancelled at the request of authorised entities or if the general meeting agenda contains items included at the request of authorised entities, cancellation requires consent from the entities making the request. No general meetings were cancelled in 2013.

A power of attorney to participate in the Company's general meeting and exercise voting rights must be issued in writing or in electronic form. A power of attorney in electronic form does not require a secure electronic signature, verified by a valid qualified certificate. That a power of attorney has been issued should be communicated to the Company using electronic communications, via an email sent to the address indicated in the general meeting notice, while making every effort to ensure that verification of the power of attorney's validity is possible. A power of attorney sent to the Company in electronic form should be scanned to PDF. The Company takes appropriate steps to identify the shareholder and attorney in order to verify the validity of a power of attorney issued in electronic form. Such verification may consist of a return question by telephone or email to the shareholder and the power of attorney in order to confirm the fact that the power of attorney has been issued.

As regards the means and mode of voting, the general meeting regulations state that an ordinary share entitles to one vote at the general meeting, with consideration given to par. 26 sec. 1 of the Articles of Association (i.e. considering that the shareholders participating in a general meeting have a number of votes that is equal to the number of shares they own, with stipulation that if a shareholder exceeds 66% of the total number of votes, that shareholder's share in the total number of votes is reduced to 66%). Shareholders may vote differently under each of the shares they own.

Voting is open, with the stipulation that secret voting is reserved for appointments and for voting on dismissal of members of the Company's authorities or liquidators, on suing them for a breach of responsibilities, as well as on personal matters. As regards appointment of returning committee members, the general meeting may waive the secrecy of voting. General meeting resolutions are adopted with an absolute majority, unless the Articles of Association or the Polish Commercial Companies Code state otherwise. An absolute majority of votes means more than half of all votes cast. Votes cast include votes 'for,' 'against,' and 'abstained.'

There were two general meetings in 2013. Both of them were convened through notices published on the Company's website and in a current report.

The general meetings took place at the Company's registered office, which fulfils principle 7 in part II of "Best Practices of WSE-Listed Companies" (*the company establishes the location and date of the general meeting in a manner that allows the largest possible number of shareholders to participate*).

Both of the general meetings were attended by the president and vice-president of the management board, who were prepared to provide technical responses to the questions posed during the meeting, which is in compliance with principle 6 in part II of "Best Practices of WSE-Listed Companies" (*management board members should participate in general meetings so as to facilitate provision of technical answers to questions posed during the general meeting*).

In addition, invited to the general meetings were members of the Company's supervisory board, which is in compliance with principle 3 in part III of "Best Practices of WSE-Listed Companies" (*supervisory board members should participate in general meetings so as to facilitate provision of technical answers to questions posed during the general meeting*).

3. Authorisations and modus operandi of the Company's management board and supervisory board, as well as their committees

3.1. Management Board

The Management Board's competences include all matters not reserved for the General Meeting or Supervisory Board.

The Management Board's operations are led by the President of the Management Board.

The modus operandi of the management board, the scope of mutual relations and the means of cooperation are regulated by the Management Board Regulations of 2011 and the Company's Articles of Association. Both of these documents are available on the Issuer's website.

The Management Board Regulations are published on the Company's website, which fulfils principle 1 in part II of "Best Practices of WSE-Listed Companies" (*the Company maintains a corporate website and publishes legally-required information: 1) main corporate documents, in particular the articles of association and regulations of the company's authorities*).

Management Board resolutions are adopted with an absolute majority. In the case of a tie, the President of the Company's Management Board has the decisive vote.

The Management Board is required to manage the Company's matters with the highest due care required in commercial trade, in accordance with the binding provisions of law, commonly accepted customs and with observance of the Articles of Association and resolutions of the General Meeting and Supervisory Board.

The Management Board's competences include all matters not reserved for the General Meeting or Supervisory Board.

The Management Board is particularly required to:

- Develop and execute the Company's strategy and business plans,
- Develop and execute the growth, HR, commercial, financial, quality management and operational policies,
- Submit, in a timely fashion, all notifications binding on the Company to the Register Court,
- Prepare the Company's financial statements,
- Convene the Company's general meetings,
- Participate in supervisory board meetings, if so requested,
- To provide the general meeting and supervisory board with comprehensive explanations and information, along with presenting the requested documents and other materials,
- Act with particular care in executing transactions with shareholders and other persons whose interests have an impact on the Company's interests, and to ensure that such transactions are executed on market terms,
- Represent the Company in contacts with shareholders pursuant to internal authorisations, and ensure protection of the rightful interests of all shareholders within the boundaries specified by law and good customs,
- Apply a proper information policy at the Company, in a manner that is in compliance with internal regulations, to observe the general binding provisions of laws and to abstain from activities that could constitute infringement or abuse of law,
- Maintain contacts with the media.

3.2. Supervisory Board

The Supervisory Board consists of between five and seven members, who are appointed by the General Meeting for a five-year term. The Supervisory Board is appointed for a joint term. Whenever the number of Supervisory Board members does not exceed five, the Supervisory Board may appoint one other member of the Supervisory Board. Supervisory Board members are appointed for a joint term. Supervisory Board members exercise their rights and fulfil their obligations in person only.

The competences of the Supervisory Board are as follows:

- Audit of annual separate financial statements,
- Audit of the management report on the Company's operations in 2013,
- Suspending of some or all members of the Management Board, for significant reasons,
- Delegating Supervisory Board members for temporary roles at the Company's Management Board,
- Establishing remuneration principles for Management Board members,
- Approving the Company's annual and long-term business plans,
- At the Management Board's request, consenting to the purchase and acquisition of shares in companies and participating in companies,
- Consenting to the purchase and sale of properties or shares in properties, along with perpetual usufruct rights or shares in perpetual usufruct rights, encumbering properties or shares in properties and perpetual usufruct rights or shares in perpetual usufruct rights with restricted property rights, if the amount of the Company's resulting liabilities or rights in a single transaction, in net amounts, exceeds 1/3 of its share capital,
- Approving the Company's organisational structure.
- Other matters provided for in the Articles of Association and the Polish Commercial Companies Code.

In accordance with principle 1 points 1 and 2 in part III of "Best Practices of WSE-Listed Companies," the supervisory board on 13 June 2013 prepared and subsequently, on 29 June 2013, provided to the general meeting a supervisory board report on the Company's operations in 2012, which comprised, among others: a concise assessment of the company's situation, with consideration given to an assessment of the company's internal control system and risk management system, along with an assessment of the supervisory board's operations.

In addition, pursuant to principle 1 point 3 in part III of "Best Practices of WSE-Listed Companies," prior to each general meeting the supervisory board examined and issued opinions on the matters that were to be the subject of general meeting resolutions, and to this end a supervisory board meeting was held on 29 June 2013 and opinions on resolutions were obtained by circulation on that day or the next.

For Supervisory Board resolutions to be valid, a majority of its members must be present and all of its members had to have been invited. Resolutions are adopted with an absolute majority of votes by the supervisory board members who are present at the meeting, and in the case of a tie the supervisory board chairperson has the decisive vote. Supervisory Board members may participate in adopting resolutions by casting votes in writing through another member of the Supervisory Board. Voting in writing is not applicable in the case of items introduced to the agenda in the course of a Supervisory Board meeting. Such resolution is valid if all Supervisory Board members were notified of the content of the draft resolution. Adopting resolutions in the above manners does not apply to the appointment of the Supervisory Board Chairperson, Deputy Chairperson, Management Board Members, as well as the removal or suspension of those persons.

Supervisory Board meetings and adoption of resolutions by the Supervisory Board may also take place in a manner whereby Supervisory Board members participate in the meeting and resolution adopting using electronic communications, provided that all members of the Supervisory Board have been informed about the content of the draft resolutions. In this mode, the Supervisory Board may not adopt resolutions on appointment of the Supervisory Board Chairperson, Deputy Chairperson and Secretary, on appointment, removal or suspension of Management Board members and on matters specified in art. 382 § 3 of the Polish Commercial Companies Code.

A detailed description of the modus operandi of the supervisory board is presented in the Company's Articles of Association and Supervisory Board Regulations (available on the Company's website), which fulfils principle 1 in part II of "Best Practices of WSE-Listed Companies" (*the Company maintains a corporate website and publishes, in addition to legally-required information, the following: 1) main corporate documents, in particular the articles of association and regulations of the company's authorities*).

The Supervisory Board Regulations were updated through adopting a new text of the Regulations by a general meeting resolution of 2 June 2010.

3.3. Appointed committees

As indicated above, the Company's supervisory board consisted of five people in 2013. In accordance with the binding provisions of law, if the supervisory board has five members, it can appoint an audit committee or itself exercise the audit committee's tasks, indicated in the Act of 7 May 2009 on statutory auditors and their self-governance, on entities authorised to audit financial statements and on publish oversight (the Act on statutory auditors). Given the five-person composition of the supervisory board, the audit committee's tasks, indicated in the Act on statutory auditors, are performed by the entire supervisory board.

The statutory activities in this regard particularly concern monitoring the following:

- financial reporting process,
- effectiveness of the internal control, internal audit and risk management systems,
- performance of financial revision functions,
- independence of the statutory auditor and entity authorised to audit financial statements, including in the case of providing the services referred to in art. 48 sec. 2 of the Act on statutory auditors, such as for example accounting and tax book-keeping services, tax advisory.

In addition, in performing the audit committee's tasks, the supervisory board examines written information from the entity authorised to audit financial statements regarding important matters that concern financial audit, including in particular material deficiencies in the entity's internal control system in the area of financial reporting, threats to the independence of the entity authorised to audit financial statements, along with the activities undertaken to limit such threats.

4. Description of the main features of the Company's internal control system and risk management system in the area of financial reporting

The Company's management board is responsible for the internal control system and the process of preparing financial statements and periodic reports.

The Parent's management board is responsible for the internal control system and the process of preparing consolidated financial statements and periodic reports. The Parent's management board is also responsible for the requirement to prepare periodic reports.

The Company's risk management system is multi-step.

The Company's most important roles are fulfilled by the management board and supervisory board.

As at 31 December 2013, the internal control and management systems at WIKANA Group subsidiaries were the responsibility of the respective management boards because no supervisory boards were appointed. This does not concern the subsidiaries Multiserwis S.A., Zielone Tarasy S.A. and TBS WIKANA Sp. z o.o., which have supervisory boards that fulfil oversight responsibilities in accordance with the Polish Commercial Companies Code and the supervisory board regulations that are adopted at those companies.

WIKANA Group consistently implements the overriding objectives of its risk management policy, pertaining primarily to the external and internal limits, as well as to risk optimisation and mitigation in the form of a continuous monitoring process. The risk management process is strictly connected with the capital management process. The Company's main capital management objective is capital optimisation, alongside compliance with external capital requirements.

The financial statements of all WIKANA Group companies are prepared by the chief accountant. The finance director also participates in preparing the Company's financial statements.

Financial statements are prepared in accordance with legal regulations and the Company's adopted accounting principles, and are continually verified by the companies' management boards, which are responsible for the accuracy and compliance of financial reporting.

The financial data that is the basis for financial statements is taken from the accounting and financial system, in which accounting events are recorded in accordance with the accounting policy of each of the companies within WIKANA Group, based on International Accounting Standards and International Financial Reporting Standards.

The Company's Management Board continuously monitors changes resulting from laws and external regulations having effect on the reporting requirements of listed companies, and prepares diligently ahead of their implementation.

Audits and assessments of financial statements are conducted by a statutory auditor who audits the annual financial statements (separate and consolidated) and reviews the semi-annual financial statements (separate and consolidated).

The financial statements of WIKANA Group companies are first approved by the respective management boards and subsequently verified by an independent statutory auditor. The statutory auditor carrying out audit of the Parent's separate financial statements and WIKANA Group's consolidated financial statements is selected by the Company's Supervisory Board from amongst a number of well-known audit firms.

At those WIKANA Group companies without a supervisory board, the statutory auditor is appointed by the general meeting from amongst a number of well-known audit firms.

The finance director and heads of departments prepare periodic reports for the management board concerning key financial data and operating indicators across operating segments.

Having been audited, financial statements are sent to members of the Company's supervisory board, which carries out its own assessment.

5. Information on participation of women and men in the Company's management board and supervisory board

Presented below is information on the participation of women and men in the Company's management board and supervisory board in 2013. During the financial year, the women-to-men ratio at the Company's management board or supervisory board did not change, and therefore the Company did not report any changes.

Management Board

As at:	**Number of women**	**Number of men**
31 December 2013	0	from 1 January 2013 to 22 October 2013: 2 from 22 October 2013: 3

Supervisory Board

As at:	**Number of women**	**Number of men**
31 December 2013	1	4

6. Support for educational and sporting activities

The Company pursues its business mission and growth strategy with consideration given to the needs and expectations of various stakeholder groups. The Company pursues these objectives not only on a strictly business basis but also through organising and supporting educational and sporting events. The Company is aware of its impact on the local market and the necessity to be involved in a number of non-business areas.

In 2013, the Company co-organised a contest for all students majoring in "Architecture and Urban Planning" at the Lublin Technology University, Building and Architecture Faculty, titled "Design the interior of a WIKANA apartment," which consisted of arranging a residential unit at one of Wikana Group's on-going property investments. The top three contestants received a paid internship at the Company's design department.

Throughout 2013, the Company continued to act as name sponsor for the men's basketball team WIKANA START S.A. LUBLIN.

In 2013, the Company also executed a sponsorship agreement with the KASZOWSKI Krynica-Zdrój ice hockey team.

Lublin, 26 May 2014

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Sławomir Horbaczewski - President of the Management Board

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Robert Pydzik - Member of the Management Board

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Agnieszka Maliszewska - Member of the Management Board