



POLNORD SA
CAPITAL GROUP

CONSOLIDATED QUARTERLY REPORT FOR FIRST QUARTER 2014

CONTAINING
CONDENSED INTERIM FINANCIAL STATEMENTS
FOR THE PERIOD FROM 01.01.2014 TO 31.03.2014
PREPARED IN ACCORDANCE WITH INTERNATIONAL FINANCIAL REPORTING STANDARDS

GDYNIA, MAY 15TH 2014

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I. COMPANY INFORMATION

Unless the context indicates otherwise, the terms “Company”, “Polnord SA”, “Polnord”, “Parent Company” or other terms with similar meanings and their grammatical forms shall mean Polnord SA, while the terms: “Group”, “Capital Group”, “POLNORD Capital Group” or other terms with similar meanings and their grammatical forms shall mean the Capital Group composed of Polnord SA and entities subject to consolidation. The term „Report” shall refer to this Consolidated Report for first quarter of 2014.

Due to the changes in accounting standards, including in particular IFRS 11 in terms of the proportionate consolidation, with effect from 01.01.2014, Fadesa Polnord Poland Sp. z o.o. and its subsidiaries (“Fadesa”) are consolidated using the equity method, which means that there were changes in the presentation in the consolidated financial statements:

- in the consolidated balance sheet, Fadesa was included in the item – Investments in associates measured with the equity method, and
- in the consolidated profit and loss account, Fadesa was included in the item – Share in profit of associate measured with the equity method.

Consequently, as from 2014, the proportional recognition of assets and liabilities of Fadesa in the consolidated balance sheet and of individual revenues and costs of Fadesa in the consolidated profit and loss account was discontinued. Figures for the comparable periods were restated accordingly.

1 INTRODUCTION

Polnord SA is one of the most experienced companies on the construction and developer market in Poland. It was established in 1977 as a construction export general contractor. In 1988, it was named Polnord. In 1999, the Company's shares were introduced to trading on the Warsaw Stock Exchange main market. The Company is currently listed in WIG 50 and WIG-Deweloperzy indices.

Since 2007, the core business of Polnord Group has been development and sale of residential and commercial properties. Polnord implements development projects through special purpose vehicles, which are established without or with partners. Polnord Group operates mainly on the Polish market (especially in Warsaw, Tricity, Szczecin, Łódź and Wrocław), and to a smaller and smaller extent on the Russian market.

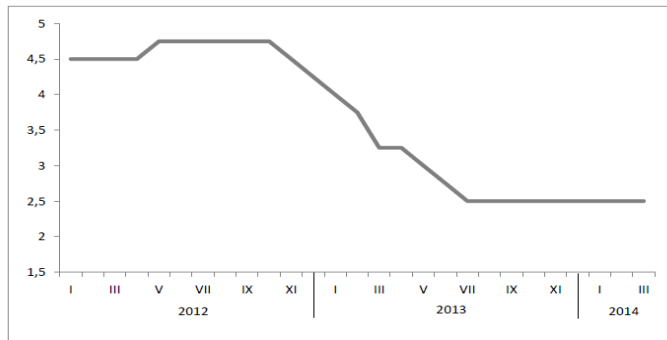
The Company's objective is to maximize the value of the Company, in the interests of its shareholders, by building a leadership position on the housing market. According to the Polnord Group strategy, the Group is firmly committed to increasing the volume of housing sales by focusing on the segment of residential real estate in the most absorbent and fast-growing markets in Poland - Warsaw and Tricity, to reduce general and administrative expenses and to reduce the level of the Group's debt. Polnord SA is a founding member of the Polish Association of Developers with its purpose being promoting a code of good practices in the customer – developer relations. Polnord SA holds the Developer's Certificate continuously since 2000 which is awarded by the Polish Association of Developers and confirms the Company's professionalism as well as guarantees its integrity in acting for the benefit of a customer.

Polnord Group has one of the largest land reserves among Polish developers, allowing at present to carry out projects with usable area of nearly 1 million sq. m. Employing the experience and know-how from the investing and developing activities, Polnord has completed its projects in Warsaw (housing estates: Dobry Dom and Śródmieście Wilanów at Kazachska, as well as Królewskie Przedmieście at Aleja Rzeczypospolitej on Pola Wilanowskie), in Łódź (City Park complex at Żeligowskiego), in Gdańsk (housing estates: Ostoja Myśliwska at Morena and 2 Potoki at Czerwińskiego/Przywidzka), in Sopot (Sopocka Rezydencja at Łokietka), in Olsztyn (housing estate Tęczowy Las) in Szczecin (Ku Słońcu at Kazimierska). Moreover, for several years it also successfully implements its investments in commercial premises sector, managing Wilanów Office Park project in Warsaw.

2 MARKET ENVIROMENT

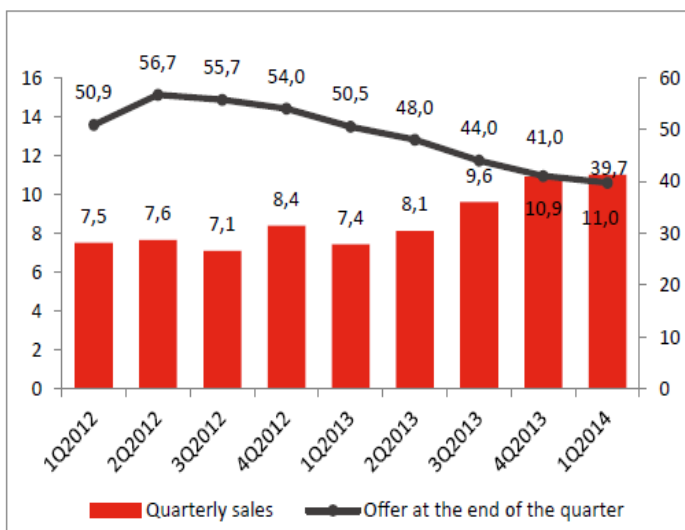
The situation on the Polish real estate development market was steadily improving since the beginning of 2013. The factors stimulating demand on the housing market include historically low interest rates and relatively low real estate prices. The level of interest rates translated into a higher creditworthiness of individuals connected with lower costs of debt servicing. Furthermore, since the beginning of 2013, a strong outflow of capital from low-interest deposits to, among other things, the real estate market, was observed. At the beginning of 2013 the downward trend in flats prices slowed down and, in the Q1 2014, their slight growth was noted.

Figure 1. NBP reference rate in 2012-2014



Source: NBP

Figure 2. Number of flats sold on the primary market in 6 largest Polish cities from the first quarter of 2012 to the first quarter of 2014 (in thousands)



Source: REAS

The activity of flats buyers significantly increased in the middle of the year. Significant impact on demand resulted from the information on Recommendation S III entering into force since 2014, accompanied by noticeable decreases in prices. In accordance with the new provisions of the Recommendation the mortgage loans financing 100% of the real property price disappeared from the banks' offers. The minimum own contribution required since the beginning of the new year amounts to 5%.

In 2014, the housing market, especially in the segment of popular flats, will be affected by the "Mieszkanie dla Młodych" (MdM) government support programme. In 2014 the government will earmark PLN 600 million for subsidies to own contribution, which will to some extent mitigate the consequences of the recommendation S III entering into force at the same time and will increase the creditworthiness of buyers taking advantage of this programme in real terms. In the Q1 2014, the MdM program had a positive impact on the investment decision of the customers. In the cities, where a large part of the premises meets the MdM program requirements, a percentage of flats purchased with the government subsidies is significant. The biggest beneficiaries among the cities are Warsaw, where the customers received PLN 13 million of subsidies, and Gdańsk, where the value of subsidies amounted to PLN 9.6 million.

The fund for a flat for rent will be the second programme of a significant importance to the real estate market. The programme, prepared by the government in cooperation with Bank Gospodarstwa Krajowego, provides for an investment of PLN 5 billion in order to purchase real properties for rent. The fund's portfolio will eventually include 20 thousand flats, including entire buildings that the funds plans to purchase from developers. Works are underway on the final shape of the programme but according to the announcements a purchase of the first properties is expected as early as in the first half of 2014.

3 POLNORD SA CAPITAL GROUP STRATEGY

Polnord's objective is to maximise the value of the Company, in the interests of its Shareholders, by building a leadership position on the housing market and optimising the operating activities. The Company's strategy adopted at the end of 2012 is based on four pillars.

Significant increase in the volume of units sold

The Group's strategic objective is to achieve annual sales in excess of 1,300-1,500 units already in 2014 (i.e. approximately 30% more than in 2013). To achieve this goal a dynamic extension of the offer is necessary. Polnord is constantly looking for new investment opportunities that will enable an increase in sales. The Company is preparing to buy land in prime locations, e.g. in Warsaw and Tricity, and is starting new, high-margin investments in cooperation with its business partners.

Focus of activities on the housing market

Polnord focuses its activities on housing projects on the Polish market, particularly in Warsaw and Tricity and their suburbs. These are very absorbent and fast-growing markets which enable profitable development investments. The vast experience of the Company and its knowledge of local markets is a competitive advantage of Polnord.

Reduction of selling, general and administrative expenses

The Company continued to reduce operating costs, in particular selling, general and administrative expenses. The Group's objective was to reduce in 2013 the selling, general and administrative expenses by approximately 17-20% compared to 2012, and in subsequent years to stabilise them at approximately PLN 28 million per year (excluding expenses of Fadesa Polnord Poland and its subsidiaries).

Debt reduction

The strategic objective of the Polnord's Management Board is to reduce the Group's debt considerably. Funds for the debt reduction will come primarily from proceeds resulting from increased sales of apartments, sale of non-operating assets that are unrelated to the principal activity of the Company and from compensations received.

4 SUMMARY OF THE 1Q2014

Focus of activities on the housing market and increase in the volume of units sold

As of the end of Q1 2014, Polnord Capital Group was implementing 13 residential projects comprising 2,100 units with 112 thousand sq. m of unit usable area (UUA) and in Q1 2014, the Group commenced the construction of 500 units with the total area of approx. 27 thousand sq. m., within the investments located in Warsaw, Wrocław and Łódź. The Group plans to launch the implementation of 14 new development projects or consecutive phases of the already implemented projects by the end of 2014, which will increase the Group's offer by approximately 2,500 flats, including those initiated in Q1 2014.

Diagram 1. Polnord SA Capital Group Strategy



Under IFRS, sales revenues are recognized in profit or loss at the time of the handover of the premises, which does not fully reflect the Group's activity in the reporting period. In order to present the results of the Group's activity in Q1 2014 the table 1 below was prepared, showing the impact of the signed agreements – in this period – on the result and operating cash flows that will be recognized in the financial statements at the time of handover of the units.

Table 1. Expected operating income and planned Direct margin on sales from units sold on 2014

Investment	number of premises sold ¹⁾	revenues ²⁾	direct margin on sales ²⁾	direct cost allocated to land ^{**2)}	net operating income ^{***2)}
Part I – projects implemented by the wholly owned subsidiaries of Polnord SA					
Warsaw					
Śródmieście Wilanów (build. C)	7	4 781	1 567	987	2 554
Śródmieście Wilanów (build. D)	66	25 402	5 876	6 798	12 674
Neptun	9	3 009	722	343	1 065
Tricity					
Ostoja Myśliwska I	1	845	339	84	423
Ostoja Myśliwska II	3	1 053	345	115	460
2 Potoki I	5	852	150	84	234
2 Potoki II	17	3 262	529	368	897
Sopocka Rezydencja	6	3 509	-	3 082	3 082
Dwa Tarasy I	23	8 925	1 785	1 684	3 469
Olsztyn					
Osiedle Tęczowy Las (build. 4)	1	196	64	13	77
Osiedle Tęczowy Las (build. 5)	8	1 771	332	74	406
Osiedle Tęczowy Las (build. 6)	5	1 010	236	59	295
Szczecin					
Ku Słońcu I	10	3 038	262	709	971
Ku Słońcu II (build. 2)	3	725	82	121	203
Ku Słońcu II (build. 1)	25	5 767	453	1 047	1 500
Łódź					
City Park I	1	1 159	-	358	358
City Park II	2	1 043	-	322	322
Total Part I	192	66 347	12 742	16 248	28 990
Part II – projects implemented by the companies jointly controlled by Polnord SA					
Warsaw					
Ostoja Wilanów II-VII	25	6 159	1 889	1 583	3 472
Wrocław					
Osiedle Innova I-VII	27	4 310	1 454	793	2 247
Tricity					
Aquasfera (Pacific)	12	1 632	390	262	652
Total Part II	64	12 101	3 733	2 638	6 371
Total Part I and II	256	78 448	16 475	18 886	35 361

¹⁾ Data not weighted with Polnord's share (applies to the contracts with developers without reservation contract) ²⁾ Data weighted with Polnord's share

* direct margin on sales calculated as revenue from sales reduced by costs of land, design and workmanship (excluding financial costs)

** as at the balance sheet date, the land is owned by the Group. The investment implementation will allow return on investment

*** net income calculated as revenue from sales contracts, reduced by direct costs and increased by the value of the land

The above figures represent estimates to the Management Board's best knowledge at the date of this Report.

Reduction of selling, general and administrative expenses

Regardless of the intensification of sales activities, the Group continues activities aimed at the reduction of expenses on the general administration and sales, which in Q1 2014 amounted to PLN 6,399 thousand, in comparison to PLN 7,256 thousand in Q1 2013, which constitutes a decrease of nearly 12%.

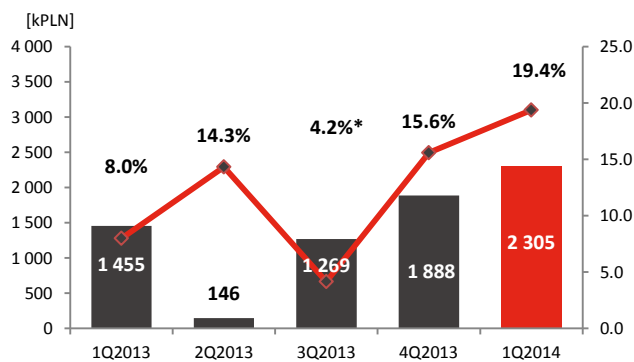
Debt reduction

As of 31.03.2014, the Group's net debt (excluding Fadesa Polnord Polska and its subsidiaries) amounted to PLN 510.3 million (including gross debt of PLN 520.1 million) and as of 31.12.2013 the net debt amounted to PLN 503.7 million (including gross debt of PLN 538.0 million).

The charts below show the dynamics of the selected financial and operational data.

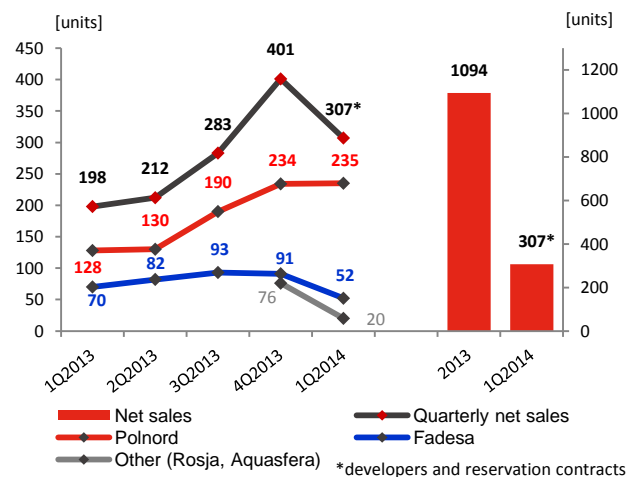
Figure 3. Selected financial and operational data

Net profit and gross sales profitability

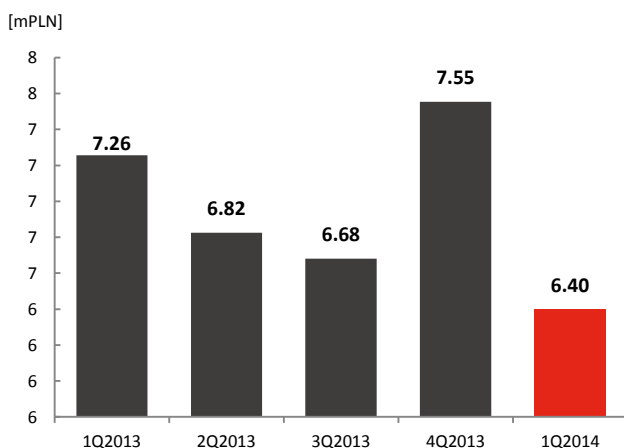


*corrected by a write-down for inventories, that does not affect development projects

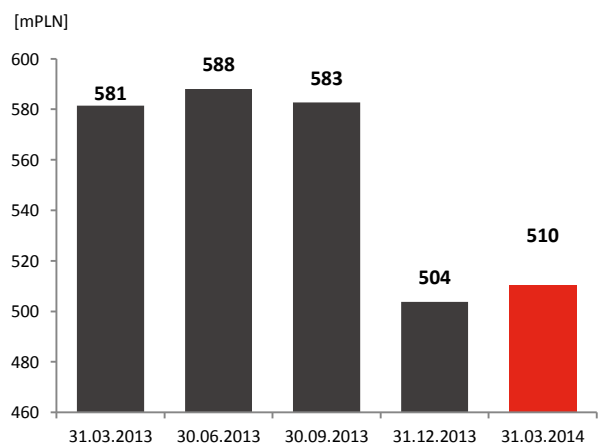
Net sales of units



Selling, general and administrative expenses



Net interest debt



5 DIVIDENDY POLICY

As far as the dividend policy is concerned, the Management Board applies the principle of making payments in proportion to the amount of generated profit and to the financial position of the Company. The Company intends to pay regular dividends in the future. When making proposals concerning the possibility of dividend payout, the Management Board takes into account the need to ensure to the Company the liquidity and capital necessary for business development.

As at the date of the Report, the Issuer's Management Board does not plan to recommend the payment of dividend for the years 2014-2015. This situation may change, if the Group obtains significant inflows in the form of compensation from the Capital City of Warsaw and MPWiK described in Chapter IV, item 2. of the Report.

In the last three financial years (2011-2013), the Company did not declare and did not pay dividends, which was related to the decision to keep in the Company funds for investments and business development and to secure liquidity. On 14.05.2014, the Company's Ordinary General Meeting fully allocated Polnord SA 2013 net profit to supplementary capital.

6 SELECTED FINANCIAL DATA

Table 2. Selected financial data-consolidated financial statement

	PLN' 000		EUR' 000	
	01.01.2014 - 31.03.2014	01.01.2013 - 31.03.2013	01.01.2014 - 31.03.2014	01.01.2013 - 31.03.2013
PROFIT AND LOSS ACCOUNT				
Sales revenue	37 048	34 835	8 843	8 346
Gross profit (loss) on sales	7 181	2 787	1 714	668
Gross operating profit (loss)	1 747	11 018	417	2 640
Gross profit (loss)	959	3 757	229	900
Net profit (loss) on continued operations	2 416	1 404	577	336
Net profit (loss) for the financial year	2 305	1 455	550	349
BALANCE SHEET				
	31.03.2014	31.12.2013	31.03.2014	31.12.2013
Equity	1 371 159	1 370 110	328 713	330 370
Long-term liabilities	507 767	484 391	121 729	116 799
Short-term liabilities	223 924	259 092	53 682	62 474
Fixed assets	1 347 946	1 396 604	323 148	336 758
Current assets	754 904	716 989	180 976	172 885
Assets in total	2 102 850	2 113 593	504 124	509 643

Table 3. Selected financial data- individual financial statement

	PLN' 000		EUR' 000	
	01.01.2014 - 31.03.2014	01.01.2013 - 31.03.2013	01.01.2014 - 31.03.2014	01.01.2013 - 31.03.2013
PROFIT AND LOSS ACCOUNT				
Sales revenue	9 948	5 393	2 375	1 292
Gross profit (loss) on sales	7 685	5 393	1 834	1 292
Gross operating profit (loss)	(21 588)	(10 037)	(5 153)	(2 405)
Gross profit (loss)	(29 302)	(9 782)	(6 994)	(2 344)
Net profit (loss) on continued operations	(23 784)	(8 632)	(5 677)	(2 068)
Net profit (loss) for the financial year	(23 895)	(8 581)	(5 704)	(2 056)
BALANCE SHEET				
	31.03.2014	31.12.2013	31.03.2014	31.12.2013
Equity	1 337 525	1 361 420	320 650	328 274
Long-term liabilities	361 022	324 541	86 548	78 256
Short-term liabilities	116 478	167 507	27 924	40 390
Fixed assets	1 588 357	1 640 201	380 782	395 496
Current assets	226 668	213 267	54 340	51 424
Assets in total	1 815 025	1 853 468	435 122	446 920

7 COMPOSITION OF THE POLNORD CAPITAL GROUP SA

Composition of the Polnord Capital Group SA includes Polnord SA as the parent company and companies subject to consolidation.

The Group's financial statements were prepared as at 31.03.2014 and cover the period from 01.01.2014 to 31.03.2014, and they contain relevant comparative data as at 31.12.2013 and 31.12.2012 and for the period from 01.01.2013 to 31.03.2013.

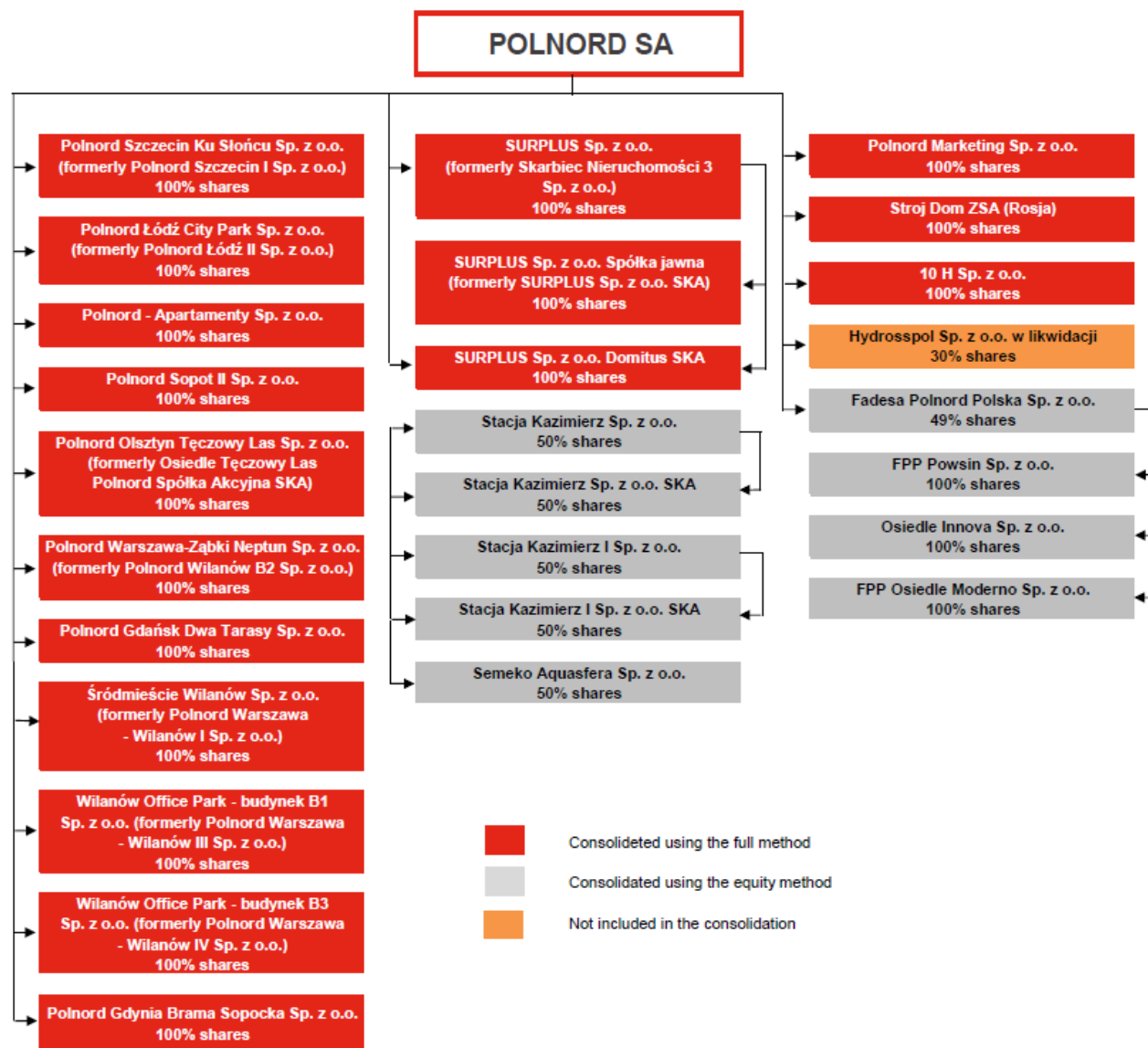
The duration of the Parent Company and companies comprising the Group as at 31.03.2014 is indefinite.

Table 4. Basic Company data

Full name (company name)	POLNORD Spółka Akcyjna
Registered office	81-310 Gdynia, ul. Śląska 35/37
Number in the National Court Registered (KRS)	0000041271
Tax identification Number (NIP)	583-000-67-67
Statistical Identification Number (REGON)	000742457
Registered share capital	65.266.054 PLN (paid in fully)
PKD (Polish Classification of Business Activities)	6810 Z – buying and selling of own real estate
Website	www.polnord.pl

The diagram presented below illustrates the structure of organizational and capital links of Polnord as at 31.03.2014.

Diagram 2. Structure of Polnord of Polnord SA Capital



Moreover, Polnord has 1,757,295 shares in the share capital of Korporacja Budowlana Dom SA (Construction Corporation "Home" SA), corresponding to 1,757,295 votes, representing 17.70% of the share capital of Korporacja Budowlana Dom SA and 17.70% of the total voting rights in the general meeting of shareholders of Korporacja Budowlana Dom SA.

A detailed description of the rules for preparing the Consolidated Financial Statements is presented in chapter VI item 5 of the Consolidated Financial Statements, in section "Additional Notes and Explanations".

Due to the changes in accounting standards, including in particular IFRS 11 in terms of the proportionate consolidation, with effect from 01.01.2014, Fadesa Polnord Poland Sp. z o.o. and its subsidiaries ("Fadesa") are consolidated using the equity method, which means that there were changes in the presentation in the consolidated financial statements:

- in the consolidated balance sheet, Fadesa was included in the item – Investments in associates measured with the equity method, and
- in the consolidated profit and loss account, Fadesa was included in the item – Share in profit of associate measured with the equity method.

Identification of the effects of changes in the structure of the Capital Group, including those resulting from mergers of businesses, acquisitions or disposals of the Company's Capital Group entities, long-term investments, division, restructuring and discontinuation of activity

In the Q1 2014 following changes occurred the structure of organizational and capital links of Polnord:

Entity name	Description of the event
<i>Transformation of the Company</i>	
Surplus Sp. z o.o. SKA	On 16.01.2014 the Extraordinary General Shareholder's Meeting of Surplus Sp. z o.o. SKA adopted a resolution on transformation of Surplus Sp. z o.o. SKA into a registered partnership (Polish spółka jawna). The transformation took place on 29.01.2014, i.e. at the moment of registering the registered partnership resulting from transformation of Surplus Sp. z o.o. SKA in the District Court for Gdańsk - Północ in Gdańsk, 8th Commercial Division of the National Court Register.
<i>Registering the capital increase</i>	
Polnord Łódź City Park Sp. z o.o.	On 20.01.2014 an increase in the share capital of Polnord Łódź City Park Sp. z o.o. from an amount of PLN 50 thousand to PLN 1,050 thousand was registered by the District Court for the Capital City of Warsaw in Warsaw, 8th Commercial Division of the National Court Register.
<i>Registering the capital increase</i>	
Fadesa Polnord Polska Sp. z o.o.	On 28.03.2014, the District Court for the Capital City of Warsaw in Warsaw, 12th Commercial Division of the National Court Register, registered the increase in the share capital of Fadesa Polnord Polska Sp. z o.o. from the amount of PLN 16,600,000 by the amount of PLN 8,400,000, i.e. up to the amount of PLN 25,000,000 by creating 168,000 new shares with a nominal value of PLN 50 each and the total nominal value of PLN 8,400,000.

As at 31.03.2014, the percentage of voting rights held by the Group in the subsidiaries, jointly controlled entities and in associates corresponded to the percentage held in the share capital of those entities.

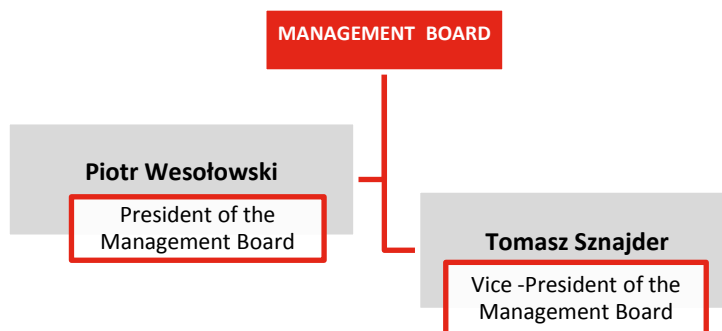
The following changes took place after the balance sheet date:

Entity name	Description of the event
<i>Transformation of the Company</i>	
Surplus Sp. z o.o. Domitus SKA	On 11.04.2014 the Extraordinary General Shareholder's Meeting of Surplus Sp. z o.o. Domitus SKA adopted a resolution on transformation of Surplus Sp. z o.o. Domitus SKA into a registered partnership (Polish spółka jawna). The transformation took place on 13.05.2014, i.e. at the moment of registering the registered partnership resulting from transformation of Surplus Sp. z o.o. Domitus SKA in the District Court for Gdańsk - Północ in Gdańsk, 8th Commercial Division of the National Court Register.

8 GOVERNING BODIES OF THE COMPANY

Management Board

As at 31.03.2014, the Company's Management Board was composed of:



According to the Company's Statute, the Company's Management Board may be composed of 2 to 6 members, appointed for a joint three-year term of office. On 30.06.2011, the Company's Supervisory Board appointed the Company's Management Board for another joint three-year term of office which will end on the day of the General Meeting approving the financial statements of the Company for 2013, i.e. in 14.05.2014.

During the meeting held on 14.05.2014, the Company's Supervisory Board appointed the current members of the Management Board, i.e. Mr. Piotr Wesołowski and Mr. Tomasz Sznajder for another three-year term of office.

Mr. Piotr Wesołowski was appointed as President of the Management Board and Mr. Tomasz Sznajder – as Vice-President.

Supervisory Board

As at 31.03.2014, the Company's Supervisory Board was composed of:



**a member of the Supervisory Board who meets the independence criteria indicated in Annex II to the Recommendation of the European Commission of 15 February 2005 on the role of non-executive or supervisory directors of listed companies and on the committees of the (supervisory) board and referred to in Article 13(5) of the Company's Articles of Association*

The profile of the Members of the Supervisory Board and the Management Board were presented in the Consolidated Annual Report for 2013, in Chapter I(7) of the Management Board's Report on the activity of the Polnord SA Capital Group.

In the first quarter of 2014, there were the following changes:

Date	Description of the event	Name and surname
	<i>Dismissal of all the Members of the Supervisory Board</i>	
29.01.2014	The Extraordinary Meeting of Shareholders made changes in the composition of the Supervisory Board of the Company. To enable the appointment of the Supervisory Board of the Company following the mode and principles set forth in § 13(2) of the Company's Articles of Association, the Extraordinary General Meeting of Shareholders of the Company changed the composition of the Supervisory Board:	Piotr Chudzik, Maciej Grelowski, Marcin Dukaczewski, Artur Jędrzejewski, Piotr Nadolski, Andrzej Podgórski, Zygmunt Roman
	<i>Appointing of 3 Members of the Supervisory Board</i>	
29.01.2014	Prokom Investments SA with its registered office in Gdynia, acting pursuant to § 13(2)(a) of the Company's Articles of Association, appointed 3 members of the Supervisory Board, i.e.:	Andrzej Podgórski – President of the Supervisory Board, Marcin Dukaczewski, Maciej Grelowski
	<i>Appointing of 4 Members of the Supervisory Board</i>	
29.01.2014	The remaining shareholders present at the Extraordinary Shareholder's Meeting, except PROKOM Investments Spółka Akcyjna with its registered office in Gdynia and its affiliates and entities acting in concert with that company, representing 25.89% of the total number of votes in the Company, acting pursuant to Article 13(2)(b) of the Company's Articles of Association – from 4 candidates proposed by shareholders representing at least 1% of the Company's share capital:	Piotr Nadolski – Vice-President of the Supervisory Board, Piotr Chudzik who meets the independence criteria indicated in Annex II to the Recommendation of the European Commission of 15 February 2005 on the role of non-executive or supervisory directors of listed companies and on the committees of the (supervisory) board and referred to in § 13(5) of the Company's Articles of Association, Artur Jędrzejewski and Zygmunt Roman.

After the balance sheet date, the composition of the Supervisory Board did not change.

Information on shares or rights for shares (options) of Polnord SA held by Members of the Management and Supervisory Bodies of Polnord SA

Table 5. Company shares held by members of the Management Board and Supervisory Board at 31.03.2014 and 15.05.2014

Name	Function	Number of shares
Piotr Wesołowski	President of the Management Board	38,227
Tomasz Sznajder	Vice- President of the Management Board	26,877
Marcin Dukaczewski	Member of the Supervisory Board	7,115

In Q1 2014 and in the period until the date of publication of this Report no changes in the holdings of Company's shares of the abovementioned members of the Management Board and Supervisory Board occurred.

9 SHAREHOLDERS HOLDING AT LEAST 5% OF THE TOTAL NUMBER OF VOTES AT THE GENERAL MEETING OF THE COMPANY

According to the Company's knowledge, as at 31.03.2014, the following shareholders held shares vested with at least 5% of votes at the General Meeting:

Table 6. Shareholding of Polnord SA as at 31.03.2014

Shareholder	Number of shares/votes	Par value of shares [PLN]	% of share capital/votes
Prokom Investments SA in Gdynia	6,451,416	12,902,832	19.77
Osiedle Wilanowskie Sp. z o.o. in Gdynia (subsidiary of od Prokom Investments SA)	1,508,492	3,016,984	4.62
Pioneer Pekao Investment Management SA in Warsaw (all customers of PPIM)*	3,119,628	6,239,256	9.56
SEB Asset Management SA	1,752,593	3,505,186	5.37
Other shareholders (total)	19,800,898	39,601,796	60.68
TOTAL	32,633,027	65,266,054	100.00

* of which Pioneer Fundusz Inwestycyjny Otwarty holds 2,858,188 shares in the share capital of the Company, corresponding to 2,858,188 votes, representing 8.76% of the total number of votes and in the capital

The following changes took place in Q1 2014 in the composition of the Company's shareholder:

Date of notification to the Company	Name of entity notifier	Description of the event
23.01.2014	SEB Asset Management SA	<i>The increase in engagement up to the level of 5.37% of the total number of votes at the General Meeting.</i> The above change is due to the acquisition of the Company's shares on 21 January 2014. Upon the change in the share, SEB Asset Management S.A. holds 1,752,593 shares in the share capital of the Company, corresponding to 1,752,593 votes, representing 5.37% of the share capital of the Company and 5.37% of total votes at the general meeting.
28.01.2014	Templeton Asset Management Ltd. with its registered office in Singapore – an indirect subsidiary of Franklin Resources Inc	<i>Decreasing the share of the clients and funds managed by Templeton Asset Management Ltd. in the total amount of shares in the Company by approx. 2% and on the decrease of the share held by Templeton Emerging Markets Investment Trust, with its registered office in the United Kingdom, and exceeding the 10% share in the overall number of votes in Polnord.</i> The above change was caused by the sale of 400 thousand shares of Polnord by Templeton Emerging Markets Investment Trust which took place on 21 January 2014. Upon concluding the transaction of the Company shares sale, the customers and funds managed by Templeton Asset Management Ltd. hold a total of 2,893,477 of the Company's shares, out of which 2,893,477 shares are held by Templeton Emerging Markets Investment Trust, which represent 8.87% of the share capital and are vested with 2,893,477 votes, accounting for 8.87% in the overall number of votes in the Company.

24.02.2014	Templeton Asset Management Ltd. with its registered office in Singapore – an indirect subsidiary of Franklin Resources Inc.	<p><i>Change in the share of the clients and funds managed by Templeton Asset Management Ltd. in the total amount of shares in the Company by and exceeding the 5% share in the overall number of votes in Polnord by Templeton Emerging Markets Investment Trust, with its registered office in the United Kingdom.</i></p> <p>The above change was caused by the sale of 139,911 shares of Polnord by Templeton Emerging Markets Investment Trust which took place on 13 February 2014. Upon concluding the transaction of the Company shares sale, the customers and funds managed by Templeton Asset Management Ltd. hold a total of 1,492,920 of the Company's shares, out of which 1,492,920 shares are held by Templeton Emerging Markets Investment Trust, which represent 4.57% of the share capital and are vested with 1,492,920 votes, accounting for 4.57% in the overall number of votes in the Company.</p>
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The following changes took place after the balance sheet date in the composition of the Company's shareholder:

Date of notification to the Company	Name of entity notifier	Description of the event
		<p><i>The increase in direct engagement up to the level of 21.08% and of direct engagement up to the level of 25.70% of the total number of votes at the General Meeting.</i></p> <p>The above change is due to the acquisition, on the basis of two civil contracts, concluded on 11.04.2014 with third parties, of 428,387 shares of the Company.</p>
11.04.2014	Prokom Investments SA	<p>As a result of the acquisition of shares of the Company, Prokom has:</p> <ol style="list-style-type: none"> i. directly 6,879,803 shares in the share capital of the Company, corresponding to 6,879,803 votes, representing 21.08% of the share capital of the Company and 21.08% of total votes, and ii. indirectly, together with Osiedle Wilanowskie, a total of 8,388,295 shares of the Company, corresponding to 8,388,295 votes, representing 25.70% of the share capital of the Company and 25.70% of total votes.

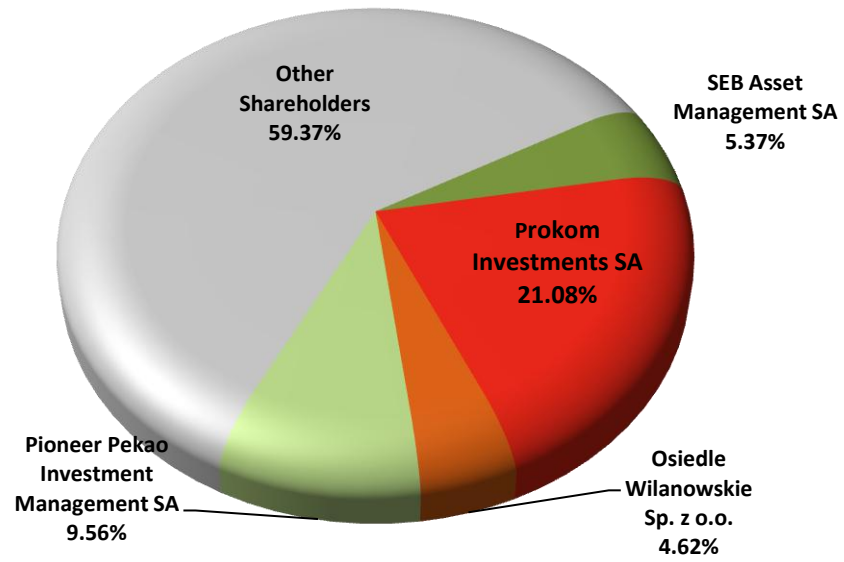
As at 15.05.2014 the Company's shareholders included:

Table 7. Composition of the Polnord Capital Group SA as at 15.05.2014

Shareholder	Number of shares/votes	Par value of shares [PLN]	% of share capital/votes
Prokom Investments SA in Gdynia	6,879,803	13,759,606	21.08
Osiedle Wilanowskie Sp. z o.o. in Gdynia (subsidiary of od Prokom Investments SA)	1,508,492	3,016,984	4.62
Pioneer Pekao Investment Management SA in Warsaw (all customers of PPIM)*	3,119,628	6,239,256	9.56
SEB Asset Management SA	1,752,593	3,505,186	5.37
Prokom Investments SA in Gdynia	19,372,511	38,745,022	59.37
TOTAL	32,633,027	65,266,054	100.00

** of which Pioneer Fundusz Inwestycyjny Otwarty holds 2,858,188 shares in the share capital of the Company, corresponding to 2,858,188 votes, representing 8.76% of the total number of votes and in the capital*

Diagram 3. Composition of the Polnord Capital Group SA as at 15.05.2014



II. ACTIVITIES OF THE CAPITAL GROUP

1 OPERATIONAL ACTIVITIES OF THE GROUP

1.1. Information on the number of units sold

The table below presents information on the number of premises sold by the Polnord Group within particular projects as well as the Group's offer as at 31.03.2014. In Q1 2014, the companies of the Polnord Capital Group sold 307 premises (after taking into account cancellations and additional reservation contracts).

Table 8. Sales and offer as at 31.03.2014

Project	General information				Premises sold (net-including cancellations)		Offer as at 31.03.2014
	Usable area (sq. m)	Number of premises	Commission to use data	Company implementing the project	until 31.12.2013	including Q1	
Part I – projects implemented by the wholly owned subsidiaries of Polnord SA							
Warsaw							
Commissioned project							
Śródmieście Wilanów (build. A)	9 532	170	IVQ 2013	Śródmieście Wilanów	169	-	1
Projects under development							
Śródmieście Wilanów (build. C)	10 565	162	IIIQ 2014*	Śródmieście Wilanów	139	7	16
Śródmieście Wilanów (bulid. D)	9 533	189	IIQ 2015*	Śródmieście Wilanów	75	75	39
Neptun	6 204	109	II/III Q2015*	Polnord Żąbki Neptun	16	16	77
Tricity							
Commissioned project							
Ostoja Myśliwska I-II	13 706	242	2011-2012	Polnord Apartamenty	225	4	13
2 Potoki I	7 475	162	IVQ 2012	Polnord Apartamenty	145	5	12
2 Potoki II	7 142	162	IVQ 2013	Polnord Apartamenty	70	17	75
2 Potoki III (build. 1-3)	4 468	96	IVQ 2012	Polnord Apartamenty	17	-	79
2 Potoki III (build. 4-5)	2 771	60	IIQ 2013	Polnord Apartamenty	-	-	60
Sopocka Rezydencja	9 672	162	IQ 2012	Polnord Sopot II	146	6	10
Projects under development							
Dwa Tarasy I	7 336	162	IVQ 2014*	Polnord Dwa Tarasy	28	45	89
Olsztyn							
Commissioned project							
Osiedle Tęczowy Las (build. 4)	4 590	91	IIIQ 2012	OTL Polnord	88	1	2
Osiedle Tęczowy Las (build. 5)	5 838	103	IVQ 2013	OTL Polnord	75	9	19
Projects under development							
Osiedle Tęczowy Las (build. 6)	6 743	149	IIQ 2015*	OTL Polnord	3	8	138
Szczecin							
Commissioned project							
Ku Słońcu I	12 203	222	IVQ 2011	Polnord Szczecin Ku Słońcu	191	10	21

Ku Słońcu II (build. 2)	7 657	157	IVQ 2012	Polnord Szczecin Ku Słońcu	144	3	10
Projects under development							
Ku Słońcu II (build. 1)	7 701	158	IVQ 2014*	Polnord Szczecin Ku Słońcu	25	26	107
Łódź							
Commissioned project							
City Park I-III	14 833	235	2009-2012	Polnord Łódź City Park	228	3	4
Projects started in 2014							
City Park IV	10 965	209	IQ 2016*	Polnord Łódź City Park	-	-	209
Total - Commissioned project	99 887	1 862			1 498	58	306
Total - Projects under development	59 047	1 138			286	177	675
Including projects started in 2014	10 965	209			-	-	209
Total Part I	158 934	3 000			1 784	235	981
Part II – projects implemented by the companies jointly controlled by Polnord SA							
Warsaw							
Commissioned project							
Ostoja Wilanów II-VI	98 250	1 146	2009-2011	Fadesa Polnord	1 138	-1	9
Projekty w realizacji							
Ostoja Wilanów VII	19 430	324	IIQ 2014*	Fadesa Polnord	245	26	53
Projects started in 2014							
Ostoja Wilanów V	9 203	136	IQ 2016*	Fadesa Polnord	-	-	136
Tricity							
Projects under development							
Aquasfera (Pacific)	11 114	213	IIQ 2015*	Semeko Aquasfera	76	20	117
Wrocław							
Commissioned project							
Osiedla Innova I-V	21 150	421	2012-2013	Osiedle Innova	413	8	-
Projects under development							
Osiedle Innova VI	3 194	56	IIIQ 2014*	Osiedle Innova	23	6	27
Osiedle Innova VII	3 260	56	IIIQ 2014*	Osiedle Innova	12	13	31
Projects started in 2014							
Osiedle Moderno	7 245	158	IVQ 2015*	Osiedle Moderno	-	-	158
Total - Commissioned project	119 400	1 567			1 551	7	9
Total - Projects under development	53 446	943			356	65	522
Including projects started in 2014	16 448	294			-	-	294
Total Part II	172 846	2 510			1 907	72	531
Total - Commissioned project	219 287	3 429			3 049	65	315
Total - Projects under development	112 493	2 081			642	242	1 197
Including projects started in 2014	27 413	503			-	-	503
Total Part I and II	331 780	5 510			3 691	307	1 512

* Planned date of commissioning for use

Data not weighted with Polnord's share in the project

1.2. Project started in 2014

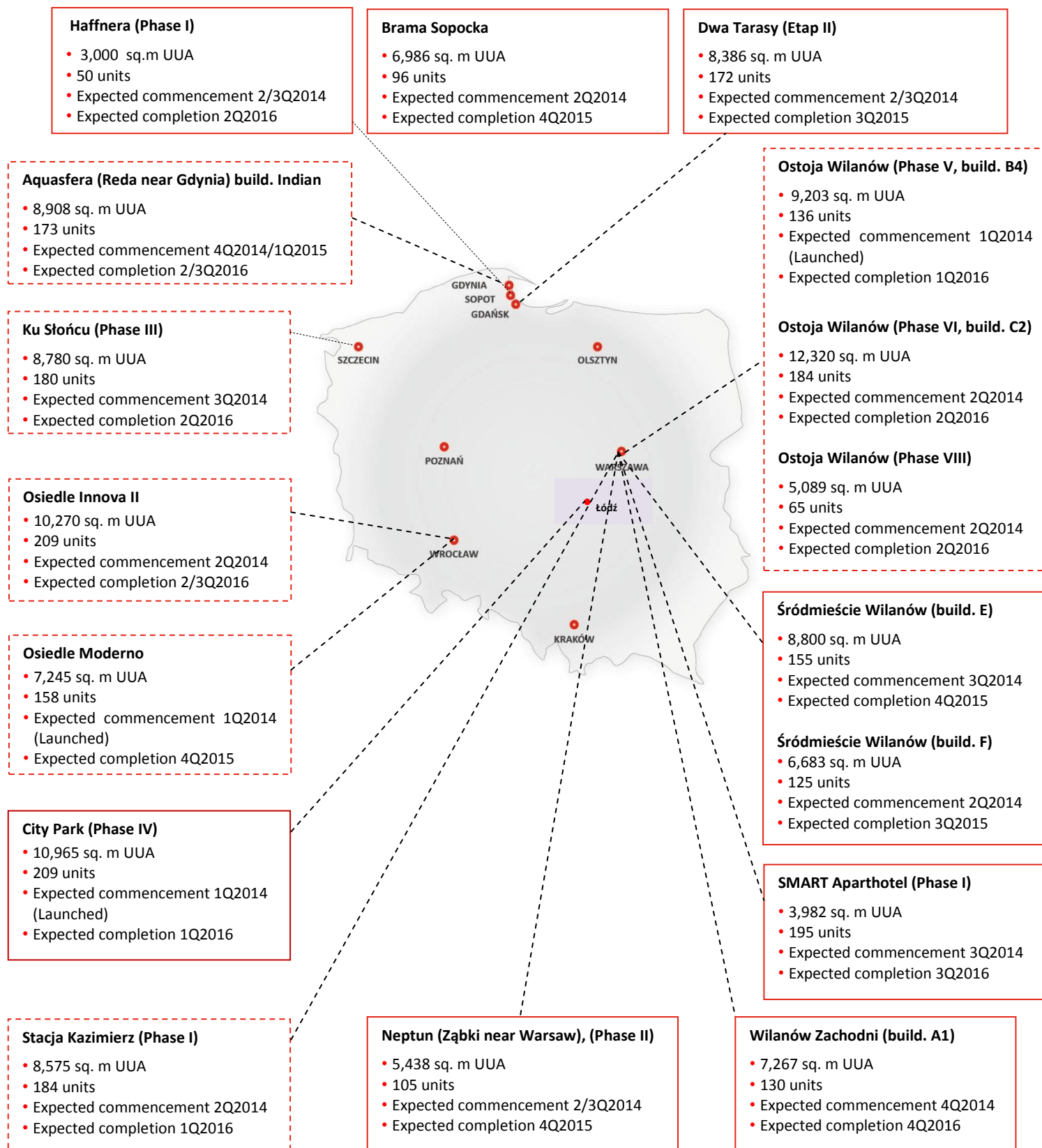
In Q1 2014, the Group launched three projects under which 503 flats shall be built in Warsaw, Wrocław and Łódź with a total area of 27,413 sq. m (marked in green in Table 8).

1.3. Project to be launched

In 2014 the Group plans to launch 14 investments of which 9 constitute subsequent phases of projects already being implemented. The other 5 are the investments being initiated, by Polnord itself or with partners, in new attractive locations in Warsaw, Tricity, Wrocław and Szczecin. Projects to be launched create a potential to expand the offer by about 2,023 premises with their total usable area of approx. 104.485 thousand sq. m.

Multi-stage development Project, which are scheduled to be launched by the end of 2014, are described below:

Diagram 4. Projects to be launched at 01.01.2014-31.03.2014



— Investments planned to be launched independently (by the wholly owned subsidiaries of Polnord)

- - - Investments planned to be launched, implemented by companies jointly controlled by Polnord

1.4. Land purchase

In Q1 2014 the Group did not purchase any land.

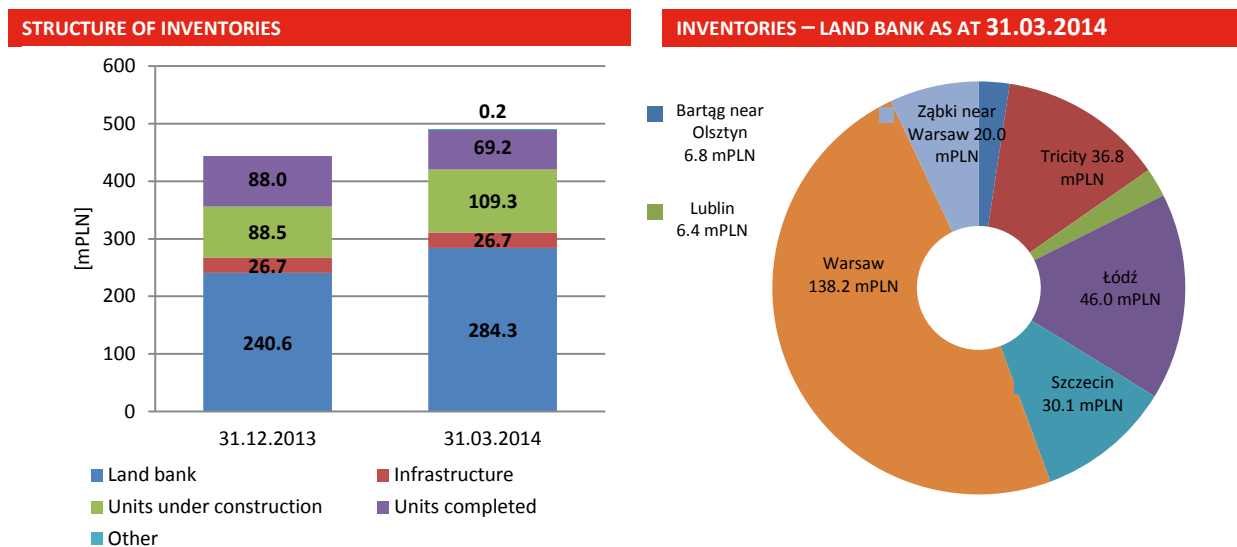
1.5. Statement of inventories and investment properties

The graphs below present the current statement of inventories and investment properties along with the breakdown of land bank classified as both inventories and investment property. Due to the changes in accounting standards, resulting in a change in the method of consolidation with effect from 01.01.2014, the data as of 31.12.2013 were restated for comparability with the data of the Q1 2014, which means that the transformed data as of 31.12.2013 do not take into account the proportional recognition of assets and liabilities of jointly controlled entities in the consolidated balance sheet of the Group.

Inventory

In comparison to the status as of 31.12.2013, the value of inventories increased by nearly PLN 46 million. The change in value of inventories is mainly due to the re-zoning and release of units. In Q1 2014, the special purpose vehicle acquired from Polnord SA the parcel No 2/101 located in Warsaw, where the Smart Aparthotel project shall be implemented. Due to the planned start of the project in the near future, the classification of the parcel was changed from investment property to inventories. This event has been reflected in the report in the amount of PLN 53 million. Within the land bank included in the inventory, the land held by the Group in Warsaw is the largest item – it constitutes over 49% of the total value of the land included in the inventory.

Figure 4. Structure of inventories



The most significant item of the land bank of PLN 60 million is land in Wilanów held for Śródmieście Wilanów investment, both for phases being implemented and planned to be implemented. The available land in Wilanów will enable the construction of 15,500 sq. m of usable area, excluding building D to be implemented within Śródmieście Wilanów investment (building E and F).

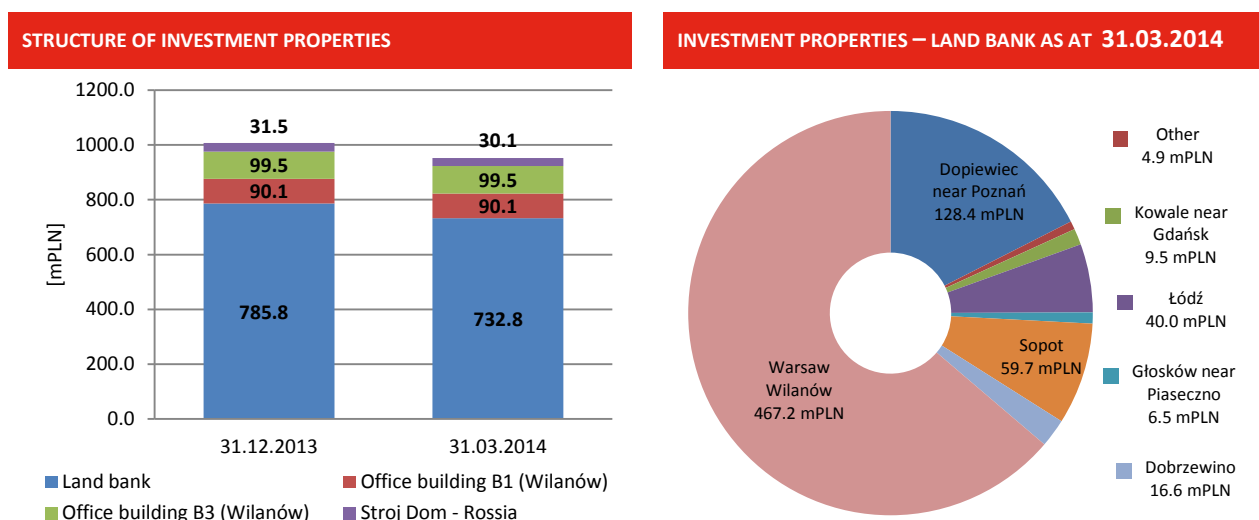
A portion of Group's inventories constitutes collateral for the repayment of loans received by Group Companies to finance development projects and for bonds. As of 31.03.2014 the carrying amount of inventories encumbered with the mortgage collateral was PLN 234,045 thousand and as at 31.12.2013 (restated for comparability purposes due to changes in accounting standards) it amounted to PLN 216,073 thousand.

Investment property

As of 31.03.2014, the value of investment properties amounted to PLN 952 million and was about PLN 54 million lower than at the end of 2013. This decrease is attributable mainly to the reclassification of the parcel No 2/101, described in the inventories section.

A portion of Group's investments properties constitutes collateral for the repayment of loans received by Group Companies to finance development projects and for bonds. As of 31.03.2014 the carrying amount of inventories encumbered with the mortgage collateral was PLN 901,781 thousand and as at 31.12.2013 (restated for comparability purposes due to changes in accounting standards) it amounted to PLN 866,170 thousand.

Figure 5. Structure of investment properties



Detailed information on the plots with the highest value along with their intended use is presented below.

Table 9. List of plots of the highest value located in Wilanów

Location	Plot No.	Area [sq. m]	Reported value [PLN '000]	Investment plans
Warsaw Wilanów*	2/70	93,581	147,671	The area adjacent to the planned S2 Warsaw Southern bypass. The plot available for service and residential purposes. Possibility to build up the plot by 95,6 thousand sq. M. The Company does not expect to implement an investment on this plot in the 3 years.
Warsaw Wilanów*	2/48	72,421	88,933	The plot designated for residential buildings and facilities for public services as well as sports and recreational facilities. The Company does not expect to implement an investment on this plot in the 3 years. The Company considers applying for a change in the land development plan.
Warsaw Wilanów*	2/244, 2/245, 2/246, 2/247, 2/248 (2/101 before)	29,023	53,008	The whole area intended for SMART Aparthotel investment whose implementation will begin in 2014. On 29.01.2014, the Company received a decision approving the first phase of the construction project involving more than 190 units which will be located on plots 2/245, 2/246 and 2/247. On 20 March 2014, the Company filed an application for a building permit.

Location	Plot No.	Area [aq. m]	Reported value [PLN '000]	Investment plans
Warsaw Wilanów*	2/96 2/228	30,899	53,263	The plots constitute a single area in the vicinity of the planned S2 Warsaw Southern bypass. In 2014, a housing estate with the total usable area of approximately 30 thousand sq. m is planned to be designed.
Warsaw Wilanów*	9/1 9/2 9/3 (9 before)	21,627	38,410	Plot is located adjacent to plots 2/96 and 2/228. A housing estate with the total usable area of approximately 20 thousand sq. m is planned to be designed in this area.
Warsaw Wilanów*	2/241, 2/242, 2/243 2/239, 2/240 (2/115, 2/97 before)	23,211	27,842	The Company signed a preliminary agreement on a sale of the land concerned.
TOTAL		270,762	409,127	

*The listed plots in Wilanów represent 88% of the value of investment land located in Warsaw, classified as investment properties,. Most of this land is located in the southern part of Miasteczko Wilanów south of Plaskowicka Bis and Aleja Rzeczypospolitej. These areas are well connected to the city centre, have full technical support and infrastructure. In the neighbourhood there are social, education and medical facilities. There are plans to build a large shopping centre in surrounding areas.



Table 10. List of plots of the highest value located in other locations

Location	Plot No.	Area [sq. M]	Reported value [PLN '000]	Investment plans
Dopiewiec near Poznań	188/1 184/6 184/7 184/8	497,447	128,395	The land is covered by the local master plan. According to its provisions, the development yield is approximately 346 thousand sq. m, but the Company plans approx. 173 thousand sq. m of the residential and 34 thousand sq. m of retail space, so as to preserve the natural landscape of the plots. The Letter of Intent was signed with the Nickel Development Sp. z o.o company.
Sopot	38	28,047	59,666	The estimated development yield assumes a possibility of implementing multi-family houses with approximately 7 thousand sq. m of living space, aparthotel-type buildings with the area of approximately 5.7 thousand sq. m, an office building with the area of approximately 7.9 thousand sq. m and a hotel building with 140-150 rooms. The Company assumes obtain a construction permit for residential approx. 8 thousand sq. m of retail space in 2014.
Łódź	568/30 568/32 568/33	19,474	40,042	Possibly of implementing multi-family residential development with approximately 44 thousand sq. m of living space, with services on the ground floors of approximately 2.5 thousand sq. m of retail space.
Dobrzewino	224/6 224/8	145,194	16,624	The land is covered by the local master plan. According to its provisions, the land may be divided into approximately 139 plots of approximately 1,000 sq. m each on which four-family houses may be built.
Kowale near Gdańsk	109/54	40,672	9,477	The land is designated for residential development with approximately 8,5 thousand sq. m of living space and for service facilities with the area of approximately 3.3 thousand sq. m. the Company does not expect to implement any investment on this plot in the next 3 years.
Głusków near Piaseczno	18/3- 18/18 (18/2- 18/14 before)	42,468	6,511	30 single-family houses may be built on the plot. Outline planning permissions were obtained for 11 planned houses. A procedure aimed at obtaining outline planning permissions for other houses was started.
TOTAL		773,302	260,715	

2 DEVELOPMENT PROJECTS INCLUDED IN THE INCOME STATEMENT

Table 11 presents development Project that are included in the financial results of the Group for Q1 2014.

In the period between 01.01.2014 and 31.03.2014 the Group delivered 343 units to Customers.

Table 11. Financial result per project for the period of 01.01.2014-31.03.2014

Project	1Q2014						
	Premises delivered to customers		Premises sold to be delivered	Revenue		Gross profit on sales	
	Units	Area of premises [sq. m]	Units	[PLN'000]	[%]	[PLN'000]	[%]
Part I – projects implemented by the wholly owned subsidiaries of Polnord SA							
Warsaw							
Śródmieście Wilanów (build. A)	22	1 449	11	9 945	32%	1 740	17%
Tricity							
Apartamenty Albatros	1	139	-	420	1%	8	2%
Ostoja Myśliwska I	3	358	6	1 748	6%	480	27%
Ostoja Myśliwska II	6	465	3	2 107	7%	445	21%
2 Potoki I	1	35	4	137	0%	22	16%
2 Potoki II	12	497	17	2 064	7%	316	15%
2 Potoki III (build. 1-3)	1	49	1	178	1%	15	8%
Sopocka Rezydencja	8	567	4	4 820	16%	8	-
Olsztyn							
Osiedle Tęczowy Las (build. 4)	1	48	1	219	1%	66	30%
Osiedle Tęczowy Las (build. 5)	18	987	16	4 046	13%	579	14%
Szczecin							
Ku Słońcu I	6	422	8	1 886	6%	7	-
Ku Słońcu II (build. 2)	10	468	-	2 175	7%	117	5%
Łódź							
City Park II	2	224	1	1 019	3%	57	6%
City Park III	1	54	-	238	-	5	2%
Total Part I	92	5 763	131	31 002	100%	3 864	12%
Part II – projects implemented by the companies jointly controlled by Polnord SA							
Warsaw							
Ostoja Wilanów II-VII	206	12 425	50	91 710	89%	19 585	21%
Wrocław							
Osiedle Innova I-VII	22	1 120	59	6 326	6%	1 454	23%
Tricity							
Aquasfera	23	1 018	32	5 284	5%	1 265	24%
Total Part II	251	14 562	141	103 320	100%	22 304	22%
Total Part I and II	343	20 325	272	134 322	100%	26 168	19%

Data not weighted with Polnord's share in the project

3 COMMENTARY TO THE CONSOLIDATED INCOME STATEMENT

Table 12. Selected items of the Consolidated Income Statement

Specification in thousands of PLN	For the period from 01.01.2014 to 31.03.2014	For the period from 01.01.2013 to 31.03.2013 <i>transformed data</i>
Sales revenue	37 048	34 835
Revenue from sales of products, goods and materials	33 274	32 169
<i>from related parties</i>		
Revenue from sale of services	208	110
<i>from related parties</i>	120	
Lease revenue	3 566	2 556
<i>from related parties</i>	22	
Prime cost of sale	(29 867)	(32 048)
Gross profit (loss) on sales	7 181	2 787
Revaluation of investment property	(189)	21 480
Selling costs	(1 308)	(1 214)
General administrative expenses	(5 091)	(6 042)
Other operating revenue	2 234	416
Other operating expenses	(1 080)	(6 409)
Gross operating profit (loss)	1 747	11 018
Financial revenue	961	3 973
Financial expenses	(7 535)	(9 976)
Share in profit of associated measured with equity method	5 786	(1 258)
Gross profit (loss)	959	3 757
Income tax	1 457	(2 353)
Net profit (loss) on continued operations	2 416	1 404
Net profit (loss) on discontinued operations	(111)	51
Net profit (loss) for the financial year	2 305	1 455

With effect from 2014, due to the changes in accounting standards, Fadesa Polnord Poland Sp. z o.o. and its subsidiaries ("Fadesa") are consolidated using the equity method, which means that there were changes in the presentation in the consolidated financial statements: In the consolidated profit and loss account, the results of Fadesa for the current period were included in one item – Share in profit of associate measured with the equity method, instead of the previous pro rata recognition of income and expenses. In order to ensure the comparability, the data for the corresponding period of the previous year have been restated accordingly.

In Q1 2014, the Polnord Capital Group generated net profit in the amount of PLN 2,305 thousand and its sales revenues reached the level of PLN 37,048 thousand. The most important item of revenues are revenues from the sales of products, goods and materials in the amount of PLN 33,274 thousand generated mainly by the 92 units constructed within the housing projects located in Warsaw, Tricity, Olsztyn, Szczecin and Łódź. Gross return on sales in the reporting period amounted to 19.4%, compared to the same period last year – 8%. The development activities of the Group was also reflected in the position – Share in the profit of the entity valued with the equity method, which was influenced by the release of 251 apartments built within the projects carried out by the jointly-controlled companies (Fadesa, Semeko

Aquasfera Sp. z o.o.) and due to the changes of the principles concerning the consolidations not included in the revenues.

Due to the fact that in accordance with IAS 18 revenues and costs on developing activity are recognized in the income statement at the moment of handing over the units to their buyers, the gross result on the sale does not reflect the sales activities performed in the particular period (sale agreement may be concluded much earlier than the unit is handed over, i.e. at each stage of the investment implementation, not only upon its completion). Therefore the expected result of sales activities (of the fully subsidiary and jointly controlled companies) in Q1 2014 was presented in Table 1 in Chapter I(4) of this Report.

The cost of sales and general management in Q1 2014 amounted to PLN 6,399 thousand and were lower by 12% compared to PLN 7,256 thousand in the corresponding period of the previous year.

Other operating revenues in the reporting period amounted to PLN 2,234 thousand, of which PLN 1,463 thousand constitutes a penalty charged in the net amount of one of the general contractors implementing the investment in Warsaw for untimely execution of the construction works. In addition, the amount of other operating revenues was affected by the release of the provision for the liabilities towards the subcontractors in the amount of PLN 438 thousand, as a result of the favorable settlement of litigation.

Other operating expenses amounted to PLN 1,080 thousand. These are mainly the provisions for liabilities of the Group in the amount of PLN 587 thousand, as a result of the bankruptcy application filed by one of the general contractors.

The financial revenues in the amount of PLN 961 thousand constitute mainly the accrued interest on loans granted to the companies consolidated with the equity method. A small amount constitute the revenues from interest on bank deposits.

The financial expenses in the reporting period amounted to PLN 7,535 thousand, of which PLN 6,590 thousand represent interest on bank loans and bonds and PLN 916 thousand represent a negative exchange rate differences.

The item Share in the profit of the entity valued with the equity method representing the amount of PLN 5,786 thousand, of which PLN 5,100 thousand is the share in the profits of Fadesa (49%) had a significant impact on the Group's net profit. The remaining amount relates to the Semeko Aquasfera Sp. z o.o. companies and all the Stacja Kazimierz companies – where Polnord holds 50% of shares.

The implementation of new investments and the continuation of existing ones along with measures to further optimize the Polnord Group's operating costs will positively influence the results of operations in subsequent reporting periods.

4 NOTES ON SEASONAL AND CYCLICAL NATURE OF CAPITAL GROUP'S OPERATIONS

Due to the settlement of development projects with percentage of completion method in accordance with IAS 18, the Company recognises revenue from the sale of units only after handing over units to customers, which always follows a project delivery, i.e. after completion of construction. Delivery dates of individual residential projects result from the construction cycle, which usually ends in the second half of the year.

5 ISSUE OF SECURITIES

Issue of shares

In Q1 2014 the Company issued no shares.

Issue of bonds

In Q1 2014, Polnord issued bonds with their total nominal value of PLN 50 million, including:

Table 13. Bond issue in Q1 2014

Bond issue in Q1 2014			
Date of the issue	Date of maturity	Overall par value of bonds [PLN '000]	Issuing agent
11.02.2014	11.02.2017	50,000	Noble Securities SA
TOTAL		50,000	

Redemption of bonds

In the IQ2014, Polnord issued bonds of a total nominal value of PLN 26.5 million:

Table 14. Buy/out of bonds in Q1 2014

Buy/out of bonds in Q1 2014			
Buyout date	Date of maturity	Overall par value of bonds [PLN '000]	Issuing agent
12.02.2014*	13.05.2016	10,000	SGB Bank SA
17.02.2014*	31.03.2014	13,570	DM IDM SA
31.03.2014	31.03.2014	2,946	DM IDM SA
TOTAL		26,516	

* *partial redemption*

6 INDEBTEDNESS OF THE CAPITAL GROUP

As at 31.03.2014, the amount of liabilities:

- for issued bonds together with the repayment schedule was as follows:

Table 15. Indebtedness from the issued bonds [mPLN]

Issue date	Offering party	Debt as at 31.12.2013	Buy/out of bonds in Q1 2014	Debt as at 31.03.2014	Bonds redemption schedule (par value) [mPLN]				Maturity
		par value [mPLN]			2-4Q 2014	2015	2016	2017	
29.03.2012	DM IDM	16.5	-16.5	0.0					31.03.2014
28.06.2012	mBank	30.0		30.0		30.0			26.06.2015
12.07.2012	mBank	10.0		10.0		10.0			26.06.2015
20.08.2012	SGB Bank	60.0		60.0			60.0		20.08.2016
05.09.2012	mBank	10.0		10.0		10.0			26.06.2015
21.09.2012	SGB Bank	8.5		8.5			8.5		21.09.2016
26.09.2012	mBank	39.5		39.5		39.5			28.09.2015
24.10.2012	DM Banku BPS	24.0		24.0		24.0			24.10.2015
16.01.2013	DM Banku BPS	19.0		19.0			19.0		16.01.2016
18.01.2013	DM Banku BPS	20.0		20.0			20.0		18.01.2016
22.01.2013	DM Banku BPS	26.5		26.5			26.5		22.01.2016
13.05.2013	SGB Bank	46.0	-10.0	36.0			36.0		13.05.2016
11.02.2014	Noble	0.0	50.0	50.0				50.0	11.02.2017
		310.0	23.5	333.5	0.0	113.5	170.0	50.0	

* the amount does not include accrued interest on the bonds, which amounts to PLN 4.1 million

As at the 31.03.2014 Polnord's debt due to bonds issued was PLN 333.5 million.

- for loans taken out (excluding interest accrued) together with the repayment schedule:

Table 16. Summary of loans of Polnord SA Capital Group [in mPLN]

Borrower	Bank	Type	Current limit [mPLN]	Debt as at 31.03.2014 without interest [mPLN]	Schedule of capital repayment (current debt) [mPLN]				Maturity date
					2Q2014	3Q2014	4Q2014	after 2014	
Loans of Polnord SA and 100% subsidiaries of Polnord SA									
Polnord SA	mBank SA	overdraft	25.0	7.0	7.0				27.06.2014
Polnord SA	DZ Bank Polska SA	overdraft	37.0	19.1	19.1				31.05.2014
Wilanów Office Park - Budynek B1 Sp. z o.o.	PKO BP SA	refinance	62.8	62.8				62.8	31.12.2030
Wilanów Office Park - Budynek B3 Sp. z o.o.	PKO BP SA	development (B3)	36.1	36.1	0.3	0.5	0.5	34.8	30.04.2025
Polnord Apartamenty Sp. z o.o.	Alior Bank SA	development	3.7	3.7	1.9	1.9			30.09.2014
	PKO BP SA	development	13.0	13.0	0.1	6.3	0.1	6.4	30.09.2015
Polnord Szczecin Ku Słońcu Sp. z o.o.	PKO BP SA	development	24.6	24.6	12.6	7.4	4.6		30.11.2014
Polnord Gdańsk Dwa Tarasy Sp. z o.o.	Alior Bank SA	development	12.0	-					31.12.2015
Polnord Warszawa-Ząbki Neptun Sp. z o.o.	Bank BPS SA	Investment (land)	16.2	16.2			0.4	15.8	31.12.2019
Loans:				182.6	41.0	16.1	5.6	119.9	

Due to the changes in accounting standards, including in particular IFRS 11 in terms of the proportionate consolidation, with effect from 01.01.2014, Fadesa Polnord Poland Sp. z o.o. and its subsidiaries ("Fadesa") are consolidated using the equity method, which means that in the consolidated balance sheet, Fadesa was included in the assets – Investments in associates measured with the equity method, while the debt due to the loans is not recognized (the proportional recognition of assets and liabilities of Fadesa in the consolidated balance sheet was stopped).

Pursuant to the new consolidation principles (capital + interest) as of 31.03.2014, the gross debt amounted to PLN 520.1 million, while the net debt amounted to PLN 510.3 million.

III. FINANCIAL INFORMATION

1 PRELIMINARY INFORMATION FOR THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The condensed consolidated financial statements of the Group were prepared as at 31.03.2014 and cover the period from 01.01.2014 to 31.03.2014, and they contain relevant comparative data as at 31.12.2013 and 31.12.2012 and for the period from 01.01.2013 to 31.03.2013.

The duration of the Parent Company and companies comprising the Group as at 31.01.2014 is indefinite.

1.1. Basis for the preparation of the consolidated financial statements

These consolidated financial statements have been prepared in line with the historical cost principle, except for investment property, financial assets available for sale and warrants granted (Managerial Options), which are measured at fair value. Except for the above items, the statements do not contain any items that are measured with another method, according to the principles adopted by the Group.

The consolidated financial statements are presented in thousands of Polish zloty, unless indicated otherwise.

Certain information and disclosures, which in accordance with the International Financial Reporting Standards (IFRS) as adopted by the European Union ("EU") are usually presented along with the annual consolidated financial statements, were either condensed or excluded in accordance with the IAS 34 "Interim financial reporting" (IAS 34).

These interim condensed consolidated financial statements do not include all information and disclosures required in the annual consolidated financial statements and should be read in conjunction with the consolidated financial statements of the Group prepared in accordance with the International Financial Reporting Standards as adopted by the EU for the year ended 31.12.2013.

The consolidated financial statements were prepared under the assumption that the Group companies will continue as a going concern in the foreseeable future. Therefore, as of the date of the approval of these Financial statements for publication no circumstances are identified that would indicate a threat to the ability of Group's companies to continue as a going concern.

1.2. Statements of compliance

These consolidated financial statements were prepared in accordance with relevant IFRS. The IFRS include the standards and interpretations approved by the International Accounting Standards Board (IASB) and the International Financial Reporting Interpretations Committee (IFRIC).

The financial statements of the majority of subsidiaries were prepared in accordance with the accounting principles (policy) resulting from the International Financial Reporting Standards and related interpretations published in the form of European Commission regulations and to the extent not regulated in those Standards - in accordance with the provisions of the Accounting Act and implementing regulations issued on the basis thereof. The remaining financial statements of the subsidiaries were prepared in compliance with the regulations resulting from the Accounting Act, while relevant adjustments and restatements in accordance with IAS/IFRS principles were included in the consolidated financial statements for the purposes of consolidation of the Capital Group.

The Group applied in these consolidated financial statements all International Financial Reporting Standards effective in relation to periods beginning on or after 01.01.2014 and standards which had become effective before 31.03.2014.

The Group analysed the new standards and interpretations as well as amendments to the already existing standards and interpretations.

The amendments in standards and interpretations, except for the necessary new disclosures, and changes in consolidation as described in point 1.5, do not affect the financial results presented in these consolidated financial statements.

1.3. Important estimates and assumptions

Estimates and judgements are verified continuously. They result from historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. In relation to 31.12.2013 the Capital Group did not change significantly its judgements and estimates.

In accordance with the accounting policy investment properties are valued at fair value. In order to estimate this value the Group uses the services of experts registered in the Central Register of Property Valuers.

Deferred tax is another estimated item. Group companies create deferred tax asset only if a subsequent use of the asset created is likely.

1.4. Measurement currency and presentation currency

Items disclosed in the financial statements of the individual Group companies are presented in the currency of the main economic environment in which the given company operates (functional currency).

The functional currency and the presentation currency of the parent company is Polish zloty (PLN).

The presentation currency of the Group's financial statements is Polish zloty (PLN).

The functional currency of some Group companies is a currency other than Polish zloty (PLN). Financial statements of such companies, prepared in their functional currencies, are included in these consolidated financial statements following their translation into PLN in accordance with IAS 21.

Financial statements of foreign entities are translated into the Polish currency as follows:

- relevant balance sheet items at the average exchange rate, determined by the National Bank of Poland as at the balance sheet date;
- relevant items of the income statement at the exchange rate being the arithmetic mean of the average exchange rates determined by the National Bank of Poland as at each day ending a financial month. Foreign exchange differences arising from such translation are recognised directly in equity as a separate component. Upon a disposal of a foreign entity the aggregate deferred foreign exchange differences recognised in equity, concerning a particular foreign entity, are recognised in the income statement.

Table 17. Foreign exchange rates

Currency	Exchange rates used for the balance sheet valuation purposes		Exchange rates used for the purposes of valuation of income statement items	
	31.03.2014	31.12.2013	01.01.2014 - 31.03.2014	01.01.2013 – 31.03.2013
USD	3.0344	3.0120	3.0629	3.1714
EUR	4.1713	4.1472	4.1894	4.1738
RUB	0.0852	0.0914	0.0860	0.1038

1.5. Significant accounting policies

The Group's financial year is a calendar year, i.e. the period from 1 January till 31 December.

Books of account of the Parent Company are kept in the registered office of Poland SA in Gdynia, at Śląska 35/37.

The Group continues the accounting policies described in detail in Consolidated Annual Report for 2013, in section Consolidated Financial Statements, except for changes to the rules of consolidation describe below.

Due to the entry into force on 01.01.2014 of the new consolidation standards, in particular IFRS 11 eliminating the proportionate consolidation, the joint ventures of POLNORD SA, i.e. Fadesa Polnord Polska Sp. z o.o. together with its subsidiaries were consolidated as of the beginning of 2014 using the equity method. Therefore, from 2014, the proportional recognition of assets and liabilities of the jointly controlled entities in the consolidated balance sheet of the POLNORD SA Group was stopped while the recognition of the investments in the carrying value of net assets was introduced. The figures for the corresponding periods were restated accordingly by using new consolidation standards retrospectively.

1.6. Differences between financial results and a recently published forecast

The Capital Group did not publish a forecast of its 2014 results.

1.7. Balance of provisions

As compared to the amount as at 31.12.2013, the amount of provisions disclosed in the consolidated financial statements as at 31.03.2014 decreased by PLN 3,591 thousand, including the deferred tax liability which decreased by PLN 1,589 thousand.

2 FACTORS AND EVENTS, IN PARTICULAR ONES, THAT HAD A MATERIAL IMPACT ON FINANCIAL RESULTS ACHIEVED

In the first quarter of 2014, there were no factors or events in the Polnord Capital Group, in particular untypical ones, that would have had a material impact on the reported financial results.

3 CONSOLIDATED INCOME STATEMENT

Specification in thousands of PLN	For the period from 01.01.2014 to 31.03.2014	For the period from 01.01.2013 to 31.03.2013 <i>transformed data</i>
Sales revenue	37 048	34 835
Revenue from sales of products, goods and materials	33 274	32 169
<i>from related parties</i>		
Revenue from sale of services	208	110
<i>from related parties</i>	120	
Lease revenue	3 566	2 556
<i>from related parties</i>	22	
Prime cost of sale	(29 867)	(32 048)
Gross profit (loss) on sales	7 181	2 787
Revaluation of investment property	(189)	21 480
Selling costs	(1 308)	(1 214)
General administrative expenses	(5 091)	(6 042)
Other operating revenue	2 234	416
Other operating expenses	(1 080)	(6 409)
Gross operating profit (loss)	1 747	11 018
Financial revenue	961	3 973
Financial expenses	(7 535)	(9 976)
Share in profit of associated measured with equity method	5 786	(1 258)
Gross profit (loss)	959	3 757
Income tax	1 457	(2 353)
Net profit (loss) on continued operations	2 416	1 404
Net profit (loss) on discontinued operations	(111)	51
Net profit (loss) for the financial year	2 305	1 455
Attributable to:		
Shareholders of the parent company	2 305	1 455
Minority shareholders		

Earnings per share - basic	For the period from 01.01.2014 to 31.03.2014	For the period from 01.01.2013 to 31.03.2013
Net profit (loss) for the period	2 305	1 455
Net profit (loss) on discontinued operations for the period	(111)	51
Net profit (loss) on continued operations for the period	2 416	1 404
Average weighted number of ordinary shares for the period	32 633 027	25 633 027
Net earnings (losses) per ordinary share (PLN)	0,07	0,06
Net profit (loss) on discontinued operations, per ordinary share (PLN)	(0,00)	0,01
Net profit (loss) on continued operations, per ordinary share (PLN)	0,07	0,05

Earnings per share - diluted	For the period from 01.01.2014 to 31.03.2014	For the period from 01.01.2013 to 31.03.2013
Net profit (loss) for the period	2 305	1 455
Net profit (loss) on discontinued operations for the period	(111)	51
Net profit (loss) on continued operations for the period	2 416	1 404
Interest on convertible bonds		
Net profit (loss) for the period used to calculate diluted earnings per share	2 305	1 455
Net profit (loss) on discontinued operations, for the period used to calculate diluted earnings per share	(111)	51
Net profit (loss) on continued operations, for the period used to calculate diluted earnings per share	2 416	1 404
Dilution effect:		
Share options	3 763	
Convertible bonds		
Average weighted diluted number of ordinary shares for the period	32 636 790	25 633 027
Net diluted earnings (losses) per ordinary share (PLN)	0,07	0,06
Net diluted profit (loss) on discontinued operations, per ordinary share (PLN)	(0,00)	0,01
Net diluted profit (loss) on continued operations, per ordinary share (PLN)	0,07	0,05

Annualised earnings per share - basic	For the period from 01.04.2013 to 31.03.2014	For the period from 01.04.2012 to 31.03.2013
Net profit (loss) for the period	5 608	25 318
Net profit (loss) on discontinued operations for the period	(3 946)	(2 453)
Net profit (loss) on continued operations for the period	9 554	27 771
Average weighted number of ordinary shares for the period	27 550 835	24 496 817
Net earnings (losses) per ordinary share (PLN)	0,20	1,03
Net profit (loss) on discontinued operations, per ordinary share (PLN)	(0,14)	(0,10)
Net profit (loss) on continued operations, per ordinary share (PLN)	0,35	1,13

Annualised earnings per share - diluted	For the period from 01.04.2013 to 31.03.2014	For the period from 01.04.2012 to 31.03.2013
Net profit (loss) for the period	5 608	25 318
Net profit (loss) on discontinued operations for the period	(3 946)	(2 453)
Net profit (loss) on continued operations for the period	9 554	27 771
Interest on convertible bonds		6 973
Net profit (loss) for the period used to calculate diluted earnings per share	5 608	32 291
Net profit (loss) on discontinued operations, for the period used to calculate diluted earnings per share	(3 946)	(2 453)
Net profit (loss) on continued operations, for the period used to calculate diluted earnings per share	9 554	34 744
Dilution effect:		
Share options	931	
Convertible bonds		1 574 681
Average weighted diluted number of ordinary shares for the period	27 551 766	26 071 498
Net diluted earnings (losses) per ordinary share (PLN)	0,20	1,24
Net diluted profit (loss) on discontinued operations, per ordinary share (PLN)	(0,14)	(0,09)
Net diluted profit (loss) on continued operations, per ordinary share (PLN)	0,35	1,33

4 CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Specification in thousands of PLN	For the period from 01.01.2014 to 31.03.2014	For the period from 01.01.2013 to 31.03.2013 <i>transformed data</i>
Net profit (loss) for the financial year	2 305	1 455
Other comprehensive income:	(1 256)	856
Items that may be reclassified to profit or loss in the future:		
Valuation of financial assets available for sale		
Foreign exchange gains/losses on translation	(1 256)	856
Other		
Income tax on components of other comprehensive income		
Comprehensive income for the period	1 049	2 311
Attributable to:		
Shareholders of the parent company	1 049	2 311
Minority shareholders		

5 CONSOLIDATED STATEMENT OF FINANCIAL POSITION (BALANCE SHEET)

Specification in thousands of PLN	As at 31.03.2014	As at 31.12.2013 <i>transformed data</i>	As at 31.12.2012 <i>transformed data</i>
ASSETS			
Fixed assets	1 347 946	1 396 604	1 273 551
Tangible fixed assets	11 990	12 192	12 999
Investment property	952 512	1 006 897	944 631
Intangible assets	582	581	814
Investments in associates measured with equity method	182 655	176 868	162 361
Financial assets	9 275	9 275	19 425
Deferred tax assets	56 853	56 914	40 305
Long-term receivables	134 058	133 856	92 995
Goodwill	21	21	21
Current assets	754 904	716 989	875 474
Inventories	489 740	443 862	518 969
Trade and other receivables	128 246	121 800	175 491
Other short-term financial assets	104 181	100 404	119 350
Receivables due to VAT, other taxes, customs duties, insurance and other	13 584	8 087	12 562
Income tax receivables	125	11	1 048
Prepayments and accrued income	9 204	8 554	4 730
Cash and cash equivalents	9 824	34 271	43 324
TOTAL ASSETS	2 102 850	2 113 593	2 149 025

Specification in thousands of PLN	As at 31.03.2014	As at 31.12.2013 <i>transformed data</i>	As at 31.12.2012 <i>transformed data</i>
LIABILITIES			
Equity (attributable to shareholders of the parent)	1 371 159	1 370 110	1 327 558
Share capital	65 266	65 266	51 266
Share premium	1 061 668	1 061 668	1 028 116
Foreign exchange differences on translation of a foreign operation	(2 916)	(1 660)	(295)
Other reserve capitals	265 963	265 963	228 799
Retained profits/Uncovered losses	(18 822)	(21 127)	19 672
Total equity	1 371 159	1 370 110	1 327 558
Long-term liabilities	507 767	484 391	485 821
Interest-bearing bank loans and borrowings	452 271	427 205	424 437
Provisions	448	153	196
Other liabilities	1 014	1 410	3 215
Deferred income tax provision	54 031	55 620	56 686
Prepayments and accrued income	3	3	1 287
Short-term liabilities	223 924	259 092	335 646
Trade and other liabilities	18 294	26 504	27 970
Current long-term portion of bank loans and borrowings	56 782	66 488	36 222
Short-term revolving loans			788
Other short-term loans and borrowings	11 088	44 315	164 823
Liabilities due to VAT, other taxes, customs duties, insurance and other	10 273	5 348	1 560
Prepayments and accrued income	1 780	1 976	2 516
Advance payments received	63 054	49 511	42 443
Provisions	62 653	64 950	59 324
Total liabilities	731 691	743 483	821 467
TOTAL EQUITY AND LIABILITIES	2 102 850	2 113 593	2 149 025

6 OFF-BALANCE SHEET ITEMS

Specification in thousands of PLN	As at 31.03.2014	As at 31.12.2013 <i>transformed data</i>	As at 31.12.2012 <i>transformed data</i>
Contingent liabilities			
Liabilities due to compensations	16 250	16 250	26 250
Other contingent liabilities	2 523	2 523	2 523
Total contingent liabilities	18 773	18 773	28 773
Contingent assets			
Claims related to the infrastructure	142 327	142 327	
Tort claims from the Capital City of Warsaw	123 036	123 036	
Total contingent assets	265 363	265 363	

7 CONSOLIDATED CASH FLOW STATEMENT

Specification in thousands of PLN	For the period from 01.01.2014 to 31.03.2014	For the period from 01.01.2013 to 31.03.2013 <i>transformed data</i>
Cash flows from operating activities		
Gross profit (loss)	848	3 808
Adjustments:	5 294	(14 517)
Share in profit of associated measured with equity method	(5 786)	1 258
Depreciation and amortisation	195	254
Net interest and dividends	6 536	6 793
Profit/(loss) on investing activities	(641)	(21 494)
(Increase)/decrease in receivables	(11 187)	(543)
(Increase)/decrease in inventories	8 733	4 213
Increase/(decrease) in short-term liabilities excluding loans and borrowings	9 509	(1 248)
Change in prepayments and accruals	52	(3 892)
Change in provisions	(1 935)	79
Income tax paid	(185)	(42)
Other	3	105
Net cash generated by operating activities	6 142	(10 709)
Cash flows from investing activities		
Inflows	612	25 370
Sale of tangible fixed assets and intangible assets	48	13
Dividends received	1	
Interest received	63	857
Repayment of loans granted	500	5 100
Redemption of third party bonds		19 400
Outflows	(4 447)	(741)
Purchase of investment properties	(28)	
Purchase of investment properties	(278)	(741)
Purchase of financial assets	(25)	
Loans granted	(4 116)	
Net cash used in investing activities	(3 835)	24 629
Cash flows from financing activities		
Inflows	50 000	82 871
Inflows from issuance of shares		
Inflows from loans/borrowings taken out		17 371
Inflows from issuance of bonds	50 000	65 500
Outflows	(76 754)	(91 601)
Repayment of finance lease liabilities	(15)	(46)
Repayment of loans/borrowings	(41 469)	(13 449)
Interest paid	(8 754)	(12 590)
Redemption of bonds	(26 516)	(65 500)
Other		(16)
Net cash generated by financing activities	(26 754)	(8 730)
Net increase(decrease) in cash and cash equivalents	(24 447)	5 190
Net foreign exchange gains/losses		
Cash and cash equivalents at the beginning of the period	34 271	43 324
Cash and cash equivalents at the end of the period, of which	9 824	48 514
Restricted cash	28	114

8 STATEMENT OF CHANGES IN CONSOLIDATED EQUITY

Specification in thousands of PLN

	Attributable to shareholders of the parent company						Non-controlling interest	Total equity
	Share capital	Share premium	Foreign exchange differences on translation of a foreign operation	Other reserve capitals	Retained profits/uncovered (losses)	Total		
As at 01.01.2013	51 266	1 028 116	(295)	228 799	19 672	1 327 558	1 327 558	
Total comprehensive income			856		1 455	2 311	2 311	
As at 31.03.2013	51 266	1 028 116	561	228 799	21 127	1 329 869	1 329 869	
Share issue	14 000	36 050				50 050	50 050	
Share issue costs		(2 498)				(2 498)	(2 498)	
Result carried forward from previous period				45 557	(45 557)			
Managerial Option scheme				234		234	234	
Total comprehensive income			(2 221)	(8 627)	3 303	(7 545)	(7 545)	
As at 31.12.2013	65 266	1 061 668	(1 660)	265 963	(21 127)	1 370 110	1 370 110	
As at 01.01.2014	65 266	1 061 668	(1 660)	265 963	(21 127)	1 370 110	1 370 110	
Total comprehensive income			(1 256)		2 305	1 049	1 049	
As at 31.03.2014	65 266	1 061 668	(2 916)	265 963	(18 822)	1 371 159	1 371 159	

9 SEGMENT REPORTING

The basic model of classifying the Group's reporting is based on industry segments and the supplementary model is based on geographical segments.

The Group settles the transactions between the segments in the same way as for non-related entities, using the current market prices.

The table below present the data on revenues and profits as well as some of the assets and liabilities of the Group's individual industry segments.

An operating segment is a segment of the Group that is involved in a business which may generate revenues and incur expenses, such as revenues and expenses related to transactions with other segments of the Group. The operating result of each operating segment is regularly reviewed by the Group's main decision-making body for operating activities, which decides on the allocation of resources to a segment and evaluates the segment's business results. There is separate financial information about every segment.

The operating result of each segment which is reported to the Group's decision-making bodies for operating activities includes items which may be directly allocated to a given segment as well as items which may be allocated indirectly, based on reasonable grounds. Unallocated items mainly involve joint (corporate) assets (mainly related to the company's management), costs related to the company's registered office as well as income tax assets and liabilities.

The Group mainly operates in Poland. In Q1 2014, the group has not achieved revenue from continued operations outside the Poland.

In Q1 2014, no revenue on discontinued operations was generated outside Poland.

For the period from 01.01.2014 to 31.03.2014 or as at 31.03.2014	Continued operations							Discontinued operations	Total of operations	
	(Residential) Property development		Commercial projects	General construction	Other	Eliminations	Unallocated items	Total		Other
	POLNORD Group	FADESA Group								
Revenue										
Sales to external customers	31 093		3 489				2 324	36 906		36 906
Sales between segments	4				2 100	(9 545)	7 583	142		142
Total segment revenues	31 097		3 489		2 100	(9 545)	9 907	37 048		37 048
Result										
Gross profit (loss) on segment sales	3 934		3 044				203	7 181		7 181
Revaluation of investment property			(189)					(189)		(189)
General administrative costs and costs of sales	(4 559)		(431)		(636)		(773)	(6 399)	(94)	(6 493)
Other operational revenues and expenses	1 054		(46)				146	1 154	(38)	1 116
Profit (loss) on continued operations before tax and financial costs	429		2 378		(636)		(424)	1 747	(132)	1 615
Financial revenues due to interest	15						8	23		23
Other financial revenues							938	938	23	961
Financial costs	(2 490)		(2 130)		(10)		(2 905)	(7 535)	(2)	(7 537)
Share in profit of associated companies	686	5 100						5 786		5 786
Profit (loss) before tax and minority interest	(1 360)	5 100	248		(646)		(2 383)	959	(111)	848
Income tax	348		89		(251)		1 271	1 457		1 457
Net profit (loss) for the financial year	(1 012)	5 100	337		(897)		(1 112)	2 416	(111)	2 305
Assets and liabilities										
Segment assets	491 552		205 289		283 925			980 766	2 449	983 215
including cash	6 607		2 512		140		565	9 824		9 824
Investments in associates measured with equity method	11 987	170 668						182 655		182 655
Unallocated assets							936 980	936 980		936 980
Total assets	503 539	170 668	205 289		283 925		936 980	2 100 401	2 449	2 102 850
Segment liabilities and provisions	145 495		115 168		2 632			263 295	5 035	268 330
including credit commitments	57 498		98 942				363 701	520 141		520 141
Unallocated liabilities							463 361	463 361		463 361
Equity							1 371 159	1 371 159		1 371 159
Total liabilities and equity	145 495		115 168		2 632		1 834 520	2 097 815	5 035	2 102 850

IV. NOTES AND EXPLANATIONS

1 OTHER SIGNIFICANT EVENTS IN THE FIRST QUARTER OF 2014

Agreements concluded by and between the Capital Group of Polnord and Korporacja Budowlana Dom Sp. z o.o. for implementation of housing projects

As a result of conclusion of the agreement on 24.01.2014, by and between Śródmieście Wilanów Sp. z o.o. (a wholly owned subsidiary of Polnord) and Korporacja Budowlana Dom Sp. z o.o. ("KB Dom"), the value of agreements concluded by and between the companies from the Capital Group of Polnord SA and KB Dom during the period of the last 12 months totaled PLN 134 million and exceeded 10% of the equity of Polnord. The subject matter of the aforesaid agreements is the provision of services in respect of implementation of housing projects situated in the area of Tricity, Olsztyn and Warsaw.

More details are presented in the current report No. 10/2014 of 24.01.2014.

2 LITIGATIONS PENDING BEFORE COURT, RELEVANT ARBITRATION AUTHORITIES, OR PUBLIC ADMINISTRATION AUTHORITIES

The below described proceedings relate to the largest receivables of the group and were conducted between 01.01.2014 and 31.03.2014 by Polnord SA or its subsidiaries. The detailed description of the actions initiated in 2013 was contained in the Consolidated Annual Report for 2013, publicly announced on 21.03.2014.

In the first quarter of 2014 there were proceedings related to receivables of Polnord SA whose total value constituted at least 10% of the Company's equity.

Table 18. Claims sold

Road compensatory receivables from the Capital City of Warsaw	Date of the agreement	Area in question	Amount received	Potential receipts
Receivable I (sold to Bank PBP SA)	29.06.2011	15,9 ha	PLN 101,5 million	
Receivable II (sold to Bank PBP SA)	17.07.2012	6,74 ha	PLN 43,4 million	
Supplementary agreement under contracts (participation in cash surplus over PLN 144,9 million)	27.12.2012		PLN 20 million	PLN 5 million

Table 19. Claims under litigation

Road compensatory receivables from the Capital City of Warsaw	Date of submission	Claim amount	Case status	Receivables in consolidated financial statements
Tort damages from the capital City of Warsaw	16.09.2013	PLN 123,0 million	Case pending (value of the claim increases over time)	-
Compensation for 10 hectares of areas dedicated for public roads *	28.06.2013	PLN 182,2 million	Motion to initiate negotiations was filed	PLN 39,9 million
Compensation for water and sewage infrastructure from MPWIK	Date of submission	Claim amount	Case status	Receivables in consolidated financial statements
Claim for compensation for non-contractual use of the water and sewage infrastructure in Miasteczko Wilanów	25.04.2012	PLN 11,8 million **	Case pending (value of the claim increases over time)	} PLN 72 million
Claim for take-over, for remuneration, of the water and sewage network in Miasteczko Wilanów	05.03.2013	PLN 57,3 million **	Case pending	
Claim for take-over, for remuneration, of the sanitary sewerage in Miasteczko Wilanów		Approx PLN 55 million	In preparation	

* Claim is pursued by Polnord through the SPV, 10 H Sp. z o.o. with its registered office in Gdynia ** The amount of the principal claim does not include statutory interest

3 THE INFORMATION ON THE CONCLUSION BY POLNORD SA OR ITS SUBSIDIARY OF ONE OR MORE TRANSACTIONS WITH RELATED PARTIES, IF THEY ARE MATERIAL, INDIVIDUALLY OR JOINTLY, AND IF THEY ARE NOT ARM'S-LENGTH TRANSACTIONS

In the reporting period there were no significant transactions other than arm's-length transactions.

4 INFORMATION ON LOAN OR BORROWING GUARANTEES OR SURETIES GRANTED BY POLNORD SA AND ITS SUBSIDIARIES TO ONE ENTITY IF THE TOTAL VALUE OF THE EXISTING GUARANTEES OR SURETIES REACHES AT LEAST 10% OF THE EQUITY OF POLNORD SA

In the first quarter of 2014, neither Polnord nor any of its Group companies granted a surety in the amount exceeding 10% of the Company's equity.

Table 20. Summary of active sureties as at 31.03.2014

	Total value of guarantees and sureties granted to: [PLN '000]		Total [PLN '000]
	Group companies	non-Group companies	
Polnord SA	220,875	2,523	223,398
Total	220,875*	2,523	223,398

* in Consolidated Financial Statements are eliminated

5 OTHER INFORMATION SIGNIFICANT FOR THE ASSESSMENT OF THE PERSONNEL, ECONOMIC AND FINANCIAL STANDING, FINANCIAL RESULT AND ANY CHANGES IN THESE ASPECTS OF BUSINESS, NECESSARY TO ASSESS THE GROUP'S CAPACITY TO MEET ITS OBLIGATIONS

Important information for the assessment of the personnel, material and financial situation as well as the financial result and changes thereto is provided for in Chapter II - Activity of the Capital Group - and in Section 6 below.

6 FACTORS WHICH WILL INFLUENCE GROUP'S FINANCIAL PERFORMANCE FOR AT LEAST THE UPCOMING QUARTER

The key factors which may affect the Group's financial standing include:

- success of the strategy adopted by the Group in 2012;
- the economic condition of the residential market, including prices of residential units;
- availability of external sources of financing for development companies;
- banks' policies on granting mortgage loans to natural persons and the level of interest rates;
- the Act on the protection of the rights of buyers of residential units or single-family houses – "Property Development Act";
- timely, on schedule completion of development projects and timely delivery;
- amendments to legal provisions which may affect the demand on the market of products offered by the Company;
- obtaining required administrative decisions within statutory time limits;
- objectives and price limits of the government programme "Flat for the Young";
- Fund of flats for rent programme;
- macro-economic factors.

7 EVENTS OCCURRING AFTER THE BALANCE SHEET DATE NOT INCLUDED IN THESE FINANCIAL STATEMENTS THAT MAY AFFECT FUTURE FINANCIAL RESULTS

The following events occurred after the balance sheet date:

- Conclusion of a loan agreement

On 03.04.2014, the Company concluded an investment loan agreement with Getin Noble Bank SA with its registered office in Warsaw for up to PLN 37 million with the final repayment date on 20.12.2016.

The loan is to finance the entire repayment of Polnord's debt in DZ BANK AG Deutsche Zentral-Genossenschaftsbank, Frankfurt am Main Spółka Akcyjna Branch in Poland, formerly: DZ BANK POLSKA SA, resulting from the loan agreement notified by the Company in the current report No. 14/2012 on 20.06.2012.

More details are presented in the current report No. 21/2014 of 03.04.2014.

8 INFORMATION ON DISTRIBUTED (OR DECLARED) DIVIDENDS

In the presented period Polnord SA neither declared nor distributed any dividends. On 14.05.2014, the Company's Ordinary General Meeting decided to fully allocate Polnord SA 2013 net profit to supplementary capital.

V. CONDENSED INDIVIDUAL INTERIM FINANCIAL STATEMENTS OF THE PARENT COMPANY- POLNORD SA

In connection with the merger of Polnord SA with PD Development Sp. z o.o., Polnord Łódź I Sp. z o.o., Polnord Łódź III Sp. z o.o. and Polnord Nieruchomości Inwestycyjne Sp. z o.o. by means of a transfer of all assets of the companies being acquired to the acquiring company Polnord SA (merger by acquisition), condensed individual interim financial statements contain comparative data, the so-called "combined data" determined as if the merger took place at the beginning of the previous financial year. The merger of the companies was effected on 02.04.2013 pursuant to the pooling of interests method. The share of Polnord SA in the capital of all absorbed companies amounted to 100%.

1 INDIVIDUAL INCOME STATEMENT

Specification in thousands of PLN	For the period from 01.01.2014 to 31.03.2014	For the period from 01.01.2013 to 31.03.2013	For the period from 01.01.2013 to 31.03.2013
		<i>combined data</i>	<i>published data</i>
Sales revenue	9 948	5 393	5 467
Revenue from sales of products, goods and materials	2 261		
from related parties			
Revenue from sale of services	7 541	5 322	5 388
from related parties	7 530	5 289	5 369
Lease revenue	146	71	79
from related parties	54	18	27
Prime cost of sale	(2 263)		
Gross profit (loss) on sales	7 685	5 393	5 467
Revaluation of investment property		(1 643)	(592)
Result on sale of investment property	(21 071)		
Selling costs	(2 950)	(575)	(571)
General administrative expenses	(5 399)	(6 842)	(6 716)
Other operating revenue	451	26	26
Other operating expenses	(304)	(6 396)	(6 396)
Gross operating profit (loss)	(21 588)	(10 037)	(8 782)
Financial revenue	68	10 565	10 565
Financial expenses	(7 782)	(10 310)	(8 444)
Gross profit (loss)	(29 302)	(9 782)	(6 661)
Income tax	5 518	1 150	899
Net profit (loss) on continued operations	(23 784)	(8 632)	(5 762)
Net profit (loss) on discontinued operations	(111)	51	51
Net profit (loss) for the financial year	(23 895)	(8 581)	(5 711)

2 INDIVIDUAL STATEMENT OF COMPREHENSIVE INCOME

Specification in thousands of PLN	For the period from 01.01.2014 to 31.03.2014	For the period from 01.01.2013 to 31.03.2013 <i>combined data</i>	For the period from 01.01.2013 to 31.03.2013 <i>published data</i>
Net profit (loss) for the financial year	(23 895)	(8 581)	(5 711)
Other comprehensive income:			
Items that may be reclassified to profit or loss in the future:			
Valuation of financial assets available for sale			
Income tax on components of other comprehensive income			
Comprehensive income for the period	(23 895)	(8 581)	(5 711)

3 INDIVIDUAL STATEMENT OF FINANCIAL POSITION (BALANCE SHEET)

Specification in thousands of PLN	As at 31.03.2014	As at 31.12.2013
ASSETS		
Fixed assets	1 588 357	1 640 201
Tangible fixed assets	12 112	12 313
Investment property	732 789	785 785
Intangible assets	582	581
Investments in subsidiaries, jointly-controlled subsidiaries and associates	643 998	643 998
Financial assets	12 055	12 920
Deferred tax assets	29 876	27 864
Long-term receivables	156 945	156 740
Current assets	226 668	213 267
Inventories	77 839	80 056
Trade and other receivables	128 763	92 167
Other short-term financial assets	12 413	12 529
Receivables due to VAT, other taxes, customs duties, insurance and other	764	512
Prepayments and accrued income	6 324	5 474
Cash and cash equivalents	565	22 529
TOTAL ASSETS	1 815 025	1 853 468
LIABILITIES		
Equity	1 337 525	1 361 420
Share capital	65 266	65 266
Share premium	1 059 721	1 059 721
Other reserve capitals	245 294	245 294
Retained profits/Uncovered losses	(32 756)	(8 861)
Long-term liabilities	361 022	324 541
Interest-bearing bank loans and borrowings	333 500	293 500
Provisions	153	153
Other liabilities		13
Deferred income tax provision	27 369	30 875
Short-term liabilities	116 478	167 507
Trade and other liabilities	18 897	33 367
Current long-term portion of bank loans and borrowings	19 113	24 062
Other short-term loans and borrowings	11 089	47 575
Liabilities due to VAT, other taxes, customs duties, insurance and other	9 482	2 058
Prepayments and accrued income	46	147
Advance payments received	1 628	2 676
Provisions	56 223	57 622
Total liabilities	477 500	492 048
TOTAL EQUITY AND LIABILITIES	1 815 025	1 853 468

4 OFF-BALANCE SHEET ITEMS

Specification in thousands of PLN	As at 31.03.2014	As at 31.12.2013
Contingent liabilities		
Loan repayment surety	220 875	265 675
Liabilities due to compensations	16 250	16 250
Other contingent liabilities	2 523	2 523
Total contingent liabilities	239 648	284 448
Contingent assets		
Tort claims from the Capital City of Warsaw	123 036	123 036
Total contingent assets	123 036	123 036

5 INDIVIDUAL CASH FLOW STATEMENT

Specification in thousands of PLN	For the period from 01.01.2014 to 31.03.2014	For the period from 01.01.2013 to 31.03.2013 <i>combined data</i>	For the period from 01.01.2013 to 31.03.2013 <i>published data</i>
Cash flows from operating activities			
Gross profit (loss)	(29 413)	(9 731)	(6 610)
Adjustments:	15 744	11 049	8 093
Depreciation and amortisation	194	233	233
Net interest and dividends	6 798	1 329	(482)
Profit/(loss) on investing activities	21 119	1 629	578
(Increase)/decrease in receivables	(5 128)	(5 487)	5 953
(Increase)/decrease in inventories	2 217	(834)	(10 328)
Increase/(decrease) in short-term liabilities excluding loans and borrowings	(8 108)	17 333	14 948
Change in prepayments and accruals	51	(3 204)	(2 846)
Change in provisions	(1 399)	50	37
Net cash generated by operating activities	(13 669)	1 318	1 483
Cash flows from investing activities			
Inflows	98	26 711	26 011
Sale of tangible fixed assets and intangible assets	48	13	13
Sale of financial assets		700	
Interest received	50	798	798
Repayment of loans granted		5 800	5 800
Redemption of third party bonds		19 400	19 400
Outflows	(116)	(8 496)	(8 647)
Purchase of investment properties	(28)		
Purchase of financial assets	(25)		
Loans granted	(63)	(8 496)	(8 647)
Net cash used in investing activities	(18)	18 215	17 364
Cash flows from financing activities			
Inflows	53 820	70 615	70 615
Inflows from issuance of shares			
Inflows from loans/borrowings taken out	3 820	5 115	5 115
Inflows from issuance of bonds	50 000	65 500	65 500
Outflows	(62 097)	(75 874)	(75 173)
Repayment of finance lease liabilities	(15)	(38)	(37)
Repayment of loans/borrowings	(28 860)		
Interest paid	(6 706)	(9 636)	(9 636)
Redemption of bonds	(26 516)	(65 500)	(65 500)
Other		(700)	
Net cash generated by financing activities	(8 277)	(5 259)	(4 558)
Net increase (decrease) in cash and cash equivalents	(21 964)	14 274	14 289
Net foreign exchange gains/losses			
Cash and cash equivalents at the beginning of the period	22 529	17 842	17 651
Cash and cash equivalents at the end of the period, of which	565	32 116	31 940
Restricted cash	29	114	28

6 STATEMENT OF CHANGES IN EQUITY

Specification in thousands of PLN	Share capital	Share premium	Other reserve capitals	Retained profits/uncovered (losses)	Total
As at 01.01.2013 pre-merger	51 266	1 026 169	224 131	50 581	1 352 147
Merger by acquisition	228 452		15 877	(23 402)	220 927
Adjustments in connection with the merger	(228 452)		(36 902)	736	(264 618)
As at 01.01.2013 after the merger	51 266	1 026 169	203 106	27 915	1 308 456
Total comprehensive income				(8 581)	(8 581)
As at 31.03.2013 after the merger	51 266	1 026 169	203 106	19 334	1 299 875
Share issue	14 000	36 050			50 050
Share issue costs		(2 498)			(2 498)
Result carried forward from previous period			50 581	(50 581)	
Managerial Option scheme			234		234
Total comprehensive income			(8 627)	22 386	13 759
As at 31.12.2013	65 266	1 059 721	245 294	(8 861)	1 361 420
As at 01.01.2014	65 266	1 059 721	245 294	(8 861)	1 361 420
Total comprehensive income				(23 895)	(23 895)
As at 31.03.2014	65 266	1 059 721	245 294	(32 756)	1 337 525

Gdynia, 15.05.2014

Piotr Wesołowski

Tomasz Sznajder

Katarzyna Brzózka

President of the
Management BoardVice-President of the
Management Board

Chief Accountant