# LC CORP GROUP

**CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014**

**WITH THE STATUTORY AUDITOR'S OPINION**

| | | | |
|---|---|---|---|
| ................................................ | ................................................ | ................................................ | ................................................ |
| Dariusz Niedośpiał<br>President of the Management Board | Joanna Jaskólska<br>Vice President of the Management Board | Mirosław Kujawski<br>Member of the Management Board | Tomasz Wróbel<br>Member of the Management Board |
| ................................................ | ................................................ | ................................................ | |
| Małgorzata Danek<br>Member of the Management Board | Lidia Kotowska<br>Chief Accountant | Marzena Matysiak<br>Consolidation Manager | |

## Consolidated statement of financial position of the LC Corp Group as at 31 December 2014 *(PLN '000)*

| | Note | 31 December 2014 | 31 December 2013 |
|---|---|---|---|
| **Assets** | | | |
| **A. Non-current assets** | | **1,594,368** | **1,459,758** |
| 1. Intangible assets | 14 | 291 | 372 |
| 2. Property, plant and equipment | 15 | 4,721 | 4,716 |
| 2.1. Tangible assets | | 4,715 | 4,523 |
| 2.2. Tangible assets under construction | | 6 | 193 |
| 3. Non-current receivables | 16 | 6,948 | 2,073 |
| 4. Investment property | 18 | 1,565,160 | 1,434,661 |
| 5. Non-current prepayments and accrued income | 24 | 69 | 88 |
| 6. Deferred tax assets | 12.3 | 17,179 | 17,848 |
| **B. Current assets** | | **1,046,384** | **954,190** |
| 1. Inventories | 20 | 729,555 | 721,592 |
| 2. Trade and other receivables | 21 | 23,400 | 39,165 |
| 3. Income tax receivable | | 113 | 446 |
| 4. Current financial assets | 22 | 5,332 | 1,636 |
| 5. Cash and cash equivalents | 23 | 286,435 | 190,319 |
| 6. Current prepayments and accrued income | 24 | 1,549 | 1,032 |
| **C. Non-current assets classified as held for sale** | | 0 | 0 |
| **Total assets** | | **2,640,752** | **2,413,948** |
| | | | |
| **Equity and liabilities** | | | |
| **A. Equity** | | **1,255,153** | **1,184,776** |
| **I. Equity attributable to shareholders of the parent undertaking** | | **1,255,153** | **1,184,776** |
| 1. Share capital | 26.1 | 447,558 | 447,558 |
| 2. Other funds | 26.2 | 731,275 | 663,616 |
| 3. Net profit (loss) | | 76,320 | 73,602 |
| **II. Equity attributable to non-controlling interest** | | **0** | **0** |
| **B. Non-current liabilities** | | **1,043,684** | **924,076** |
| 1. Non-current loans and bonds payables | 27 | 815,616 | 681,114 |
| 2. Non- current liabilities arising from the acquisition of a subsidiary | 28 | 142,897 | 175,572 |
| 3. Non-current trade and other payables | 29.1 | 0 | 0 |
| 4. Provisions | 30 | 22 | 22 |
| 5. Deferred tax liability | 12.3 | 85,149 | 67,368 |
| **C. Current liabilities** | | **341,915** | **305,096** |
| 1. Current loans and bonds payables | 27 | 106,896 | 119,548 |
| 2. Current liabilities arising from the acquisition of a subsidiary | 28 | 38,996 | 41,264 |
| 3. Current trade and other payables | 29.1 | 67,941 | 77,667 |
| 3. Income tax payable | | 151 | 47 |
| 4. Provisions | 30 | 311 | 12,617 |
| 5. Accrued expenses and revenue | 31 | 127,620 | 53,953 |
| **Total equity and liabilities** | | **2,640,752** | **2,413,948** |

| | | | |
|---|---|---|---|
| ……………………………………… | ……………………………………… | ……………………………………… | ……………………………………… |
| Dariusz Niedośpiał<br>President of the Management Board | Joanna Jaskólska<br>Vice President of the Management Board | Mirosław Kujawski<br>Member of the Management Board | Tomasz Wróbel<br>Member of the Management Board |
| ……………………………………… | ……………………………………… | ……………………………………… | |
| Małgorzata Danek<br>Member of the Management Board | Lidia Kotowska<br>Chief Accountant | Marzena Matysiak<br>Consolidation Manager | |

## Consolidated statement of comprehensive income of the LC Corp Group as at 31 December 2014 *(PLN '000)*

| | Note | Year ended 31 December 2014 | Year ended 31 December 2013 |
|---|---|---|---|
| **Operating activity** | | | |
| **Sales revenue** | | **358,843** | **209,221** |
| Revenue from sales of services | 11.1 | 116,198 | 50,118 |
| Revenue from sales of goods and products | 11.1 | 242,645 | 159,103 |
| **Cost of sales** | 11.2 | **(225,290)** | **(139,437)** |
| **Pre-tax profit on sales** | | **133,553** | **69,784** |
| Gain (loss) on disposal of non-current non-financial assets | | (128) | (7) |
| Revaluation of non-current non-financial assets | 18 | 66,355 | 55,508 |
| Valuation allowances for inventories | 20 | (43,061) | (15,452) |
| Selling and distribution costs | 11.2 | (10,043) | (7,164) |
| General administrative expenses | 11.2 | (16,284) | (15,111) |
| Other operating income | 11.5 | 13,652 | 1,200 |
| Other operating expenses | 11.6 | (1,895) | (1,208) |
| **Operating profit (loss)** | | **142,149** | **87,550** |
| Financial income | 11.7 | 4,710 | 8,260 |
| Financial expenses | 11.8 | (46,745) | (11,243) |
| **Pre-tax profit (loss)** | | **100,114** | **84,567** |
| Corporate income tax (tax expense) | 12.1 | (23,794) | (10,965) |
| **Net profit on business activities** | | **76,320** | **73,602** |
| **Discontinued operations** | | | |
| Profit (loss) on discontinued operations | | 0 | 0 |
| **Net profit (loss)** | | **76,320** | **73,602** |
| **Other comprehensive income** | | | |
| *Items to be reclassified to profit/(loss) in the following reporting periods:* | | | |
| Financial assets available for sale | | 69 | 84 |
| Cash flow hedges | | (7,128) | 235 |
| Income tax relating to other components of comprehensive income | | 1,116 | (60) |
| **Other comprehensive income for the year, net value** | | **(5,943)** | **259** |
| **Total comprehensive income for the year** | | **70,377** | **73,861** |

| | | | |
|---|---|---|---|
| ......................................<br>Dariusz Niedośpiał<br>President of the Management Board | ......................................<br>Joanna Jaskólska<br>Vice President of the Management Board | ......................................<br>Mirosław Kujawski<br>Member of the Management Board | ......................................<br>Tomasz Wróbel<br>Member of the Management Board |
| ......................................<br>Małgorzata Danek<br>Member of the Management Board | ......................................<br>Lidia Kotowska<br>Chief Accountant | ......................................<br>Marzena Matysiak<br>Consolidation Manager | |

(PLN'000)

| | Note | Year ended 31 December 2014 | Year ended 31 December 2013 |
|---|---|---|---|
| Profit attributable to: | | | |
| Equity holders of the Parent | | 76,320 | 73,602 |
| Non-controlling interest | | 0 | 0 |
| | | **76,320** | **73,602** |
| Comprehensive income attributable to: | | | |
| Equity holders of the Parent | | 70,377 | 73,861 |
| Non-controlling interest | | 0 | 0 |
| Net profit (loss) attributable: | | **70,377** | **73,861** |
| Profit (loss) per share attributable to equity holders of the Parent (basic) (PLN) | 13 | 0.17 | 0.16 |
| Profit (loss) per share attributable to equity holders of the Parent (diluted) (PLN) | 13 | 0.17 | 0.16 |

.................................................. Dariusz Niedośpiał, President of the Management Board

.................................................. Joanna Jaskólska, Vice President of the Management Board

.................................................. Mirosław Kujawski, Member of the Management Board

.................................................. Tomasz Wróbel, Member of the Management Board

.................................................. Małgorzata Danek, Member of the Management Board

.................................................. Lidia Kotowska, Chief Accountant

.................................................. Marzena Matysiak, Consolidation Manager

## Consolidated statement of cash flows of the LC Corp Group for the year ended 31 December 2014 *(PLN '000))*

| | Note | Year ended 31 December 2014 | Year ended 31 December 2013 |
|---|---|---|---|
| **A. Cash flows from operating activities** | | | |
| **I. Pre-tax profit (loss)** | | **100,114** | **84,567** |
| **II. Total adjustments** | | **46,199** | **(70,298)** |
| 1. Depreciation and amortization | | 647 | 577 |
| 2. Foreign exchange gains (losses) | | 17,247 | (1,941) |
| 3. Interest and distributions from profit (dividends) | | 31,607 | 18,652 |
| 4. Profit (loss) on investing activities | | (2) | 5 |
| 5. Change in provisions | | (12,306) | 12,220 |
| 6. Change in inventories | | (7,963) | (18,125) |
| 7. Change in receivables | | 10,890 | 16,564 |
| 8. Change in current liabilities (net of loans and borrowings) | 25.1 | 8,829 | 247,598 |
| 9. Change in accruals and deferrals | | 73,169 | 7,524 |
| 10. Corporate income tax | | (3,792) | (3,381) |
| 11. Other adjustments | 25.2 | (72,127) | (349,991) |
| **III. Net cash provided by (used in) operating activities (I±II))** | | **146,313** | **14,269** |
| **B. Cash flows from investing activities** | | | |
| **I. Cash provided by investing activities** | | **2** | **9** |
| 1. Sale of intangible assets and property, plant and equipment | | 2 | 9 |
| 2. Sale of investment property | | 0 | 0 |
| 3. Cash provided by financial assets | | 0 | 0 |
| **II. Cash used in investing activities** | | **(115,238)** | **(114,123)** |
| 1. Acquisition of intangible assets and property, plant and equipment | | (710) | (669) |
| 2. Investment property | | (72,528) | (98,454) |
| 3. Cash used on financial assets | | (42,000) | (15,000) |
| **III. Net cash provided by (used in) investing activities (I–II)** | | **(115,236)** | **(114,114)** |
| **C. Cash flows from financing activities** | | | |
| **I. Cash provided by financing activities** | | **238,410** | **169,311** |
| 1. Net proceeds from issue of shares and additional contributions to equity | | 0 | 0 |
| 2. Increase in loans and borrowings | | 188,910 | 119,311 |
| 3. Issue of debt securities | | 49,500 | 50,000 |
| **II. Cash used in financing activities** | | **(173,371)** | **(62,372)** |
| 1. Repayment of loans and borrowings | | (52,225) | (30,711) |
| 2. Redemption of debt securities | | (89,000) | (11,020) |
| 3. Interest paid | | (32,146) | (20,641) |
| **III. Net cash provided by (used in) financing activities (I–II)** | | **65,039** | **106,939** |
| **D. Total net cash flow (A.III±B.III±C.III)** | | **96,116** | **7,094** |
| **E. Balance-sheet change in cash, including:** | | **96,116** | **7,094** |
| –change in cash on account of foreign exchange | | 0 | 0 |
| **F. Cash at beginning of period** | | **190,319** | **153,028** |
| **G. Cash at end of period (F±D)** | 23 | **286,435** | **190,319** |
| - restricted cash | | 20 | 20 |

| | | | |
|---|---|---|---|
| ................................................ | ................................................ | ................................................ | ................................................ |
| Dariusz Niedośpiał<br>President of the Management Board | Joanna Jaskólska<br>Vice President of the Management Board | Mirosław Kujawski<br>Member of the Management Board | Tomasz Wróbel<br>Member of the Management Board |
| ................................................ | ................................................ | ................................................ | |
| Małgorzata Danek<br>Member of the Management Board | Lidia Kotowska<br>Chief Accountant | Marzena Matysiak<br>Consolidation Manager | |

## Consolidated statement of changes in equity of the LC Corp Group for the year ended 31 December 2014 *(PLN '000)*

| | *Share capital* | *Other capital* | | *Net profit/(loss)* | ***Total capital allocated to the shareholders of the parent undertaking*** | ***Non-controlling interests*** | ***Total equity*** |
|---|---|---|---|---|---|---|---|
| | | *Reserve funds, other capital reserves and retained earnings* | *Other funds* | | | | |
| **As at 1 January 2014** | **447,558** | **660,249** | **3,367** | **73,602** | **1,184,776** | **0** | **1,184,776** |
| *Net profit for 2014* | *0* | *0* | *0* | *76,320* | *76,320* | *0* | *76,320* |
| *Other comprehensive income for 2014* | *0* | *0* | *(5,943)* | *0* | *(5,943)* | *0* | *(5,943)* |
| **Total comprehensive income for 2014** | **0** | **0** | **(5,943)** | **76,320** | **70,377** | **0** | **70,377** |
| Profit from the previous period transferred to retained earnings | 0 | 73,602 | 0 | (73,602) | 0 | 0 | 0 |
| **As at 31 December 2014** | **447,558** | **733,851** | **(2,576)** | **76,320** | **1,255,153** | **0** | **1,255,153** |

| | *Share capital* | *Other capital* | | *Net profit/(loss)* | ***Total capital allocated to the shareholders of the parent undertaking*** | ***Non-controlling interests*** | ***Total equity*** |
|---|---|---|---|---|---|---|---|
| | | *Reserve funds, other capital reserves and retained earnings* | *Other funds* | | | | |
| **As at 1 January 2013** | **447,558** | **559,140** | **3,108** | **69,278** | **1,079,084** | **0** | **1,079,084** |
| *Net profit for 2013* | *0* | *0* | *0* | *73,602* | ***73,602*** | *0* | ***73,602*** |
| *Other comprehensive income for 2013* | *0* | *0* | *259* | *0* | ***259*** | *0* | ***259*** |
| **Total comprehensive income for 2013** | **0** | **0** | **259** | **73,602** | **73,861** | **0** | **73,861** |
| Profit from the previous period transferred to retained earnings | 0 | 69,278 | 0 | (69,278) | **0** | 0 | **0** |
| Settlement of the acquisition of a subsidiary | 0 | 31,831 | 0 | 0 | **31,831** | 0 | **31,831** |
| **As at 31 December 2013** | **447,558** | **660,249** | **3,367** | **73,602** | **1,184,776** | **0** | **1,184,776** |

| | | | | |
|---|---|---|---|---|
| ............................................ | ............................................ | ............................................ | ............................................ | ............................................ |
| Dariusz Niedośpiał<br>President of the Management Board | Joanna Jaskólska<br>Vice President of the Management Board | Mirosław Kujawski<br>Member of the Management Board | Tomasz Wróbel<br>Member of the Management Board | Małgorzata Danek<br>Member of the Management Board |
| ............................................ | ............................................ | | | |
| Lidia Kotowska<br>Chief Accountant | Marzena Matysiak<br>Consolidation Manager | | | |

# ACCOUNTING PRINCIPLES (POLICIES) AND ADDITIONAL EXPLANATORY NOTES

## 1. General information

The LC Corp Group (the "Group") consists of LC Corp S.A. and its subsidiary companies (see Note 2). The Group's consolidated financial statements cover the year ended 31 December 2014 and contain comparable data for the year ended 31 December 2013 and as at 31 December 2013.

LC Corp S.A. (the "Parent Undertaking", the "Company") was established by the Notarial Deed dated 3 March 2006. The Parent Undertaking's registered office is situated in Wrocław, Poland, at ul. Powstańców Śląskich 2-4. The Parent Undertaking has been entered into the Business Register of the National Court Register maintained by the District Court for Wrocław-Fabryczna in Wrocław, VI Commercial Division of the National Court Register, under KRS No. 0000253077.

The Company has been assigned statistical identification number REGON 020246398.

The Parent Undertaking and the Group's subsidiaries have been established for an indefinite period. The Group's primary activity includes:

- PKD 6420Z Activities of financial holding companies
- PKD 6820Z Rental and management of own or leased real estate
- PKD 4110Z Completion of construction projects related to putting up buildings
- PKD 6810Z Purchase and sale of real estate on own account
- PKD 4120Z Construction works related to the putting up of residential and non-residential buildings

LC Corp B.V., controlled by Mr Leszek Czarnecki, is the Parent Undertaking of LC Corp S.A. and the whole Group.

(PLN'000)

## 2. LC Corp Group's composition

As at 31 December 2014 and as at 31 December 2013 the LC Corp Group comprised the following subsidiaries of LC Corp S.A.:

| Company name | Registered office | Effective share of LC Corp S.A. 31 December 2014 | 31 December 2013 |
|---|---|---|---|
| Arkady Wrocławskie S.A. | Wrocław | 100% | 100% |
| Sky Tower S.A. | Wrocław | 100% | 100% |
| Warszawa Przyokopowa Sp. z o.o. **(a)** | Wrocław | 100% (indirectly and directly) | 100 % |
| Kraków Zielony Złocień Sp. z o.o. | Wrocław | 100% | 100% |
| LC Corp Invest I Sp. z o.o. | Wrocław | 100% (indirectly and directly) | 100% (indirectly and directly) |
| LC Corp Invest II Sp. z o.o. | Wrocław | 100% | 100% |
| LC Corp Invest III Sp. z o.o. | Wrocław | 100% | 100% |
| LC Corp Invest VII Sp. z o.o. | Wrocław | 100% | 100% |
| LC Corp Invest VIII Sp. z o.o. | Wrocław | 100% | 100% |
| LC Corp Invest IX Sp. z o.o. | Wrocław | 100% | 100% |
| LC Corp Invest X Sp. z o.o. | Wrocław | 100% | 100% |
| LC Corp Invest XI Sp. z o.o **(b)** | Wrocław | 100% | 100% |
| LC Corp Invest XII Sp. z o.o **(c)** | Wrocław | 100% | 100% |
| LC Corp Invest XV Sp. z o.o. | Wrocław | 100% | 100% |
| LC Corp Invest XV Sp. z o.o. Projekt 1 Sp. k. | Wrocław | 100% (indirectly) | 100% (indirectly) |
| LC Corp Invest XV Sp. z o.o. Projekt 2 Sp. k | Wrocław | 100% (indirectly) | 100% (indirectly) |
| LC Corp Invest XV Sp. z o.o. Projekt 3 Sp. k. | Wrocław | 100% (indirectly) | 100% (indirectly) |
| LC Corp Invest XV Sp. z o.o. Projekt 4 Sp. k. | Wrocław | 100% (indirectly) | 100% (indirectly) |
| LC Corp Invest XV Sp. z o.o. Projekt 5 Sp. k. | Wrocław | 100% (indirectly) | 100% (indirectly) |
| LC Corp Invest XV Sp. z o.o. Projekt 6 Sp. k. | Wrocław | 100% (indirectly) | 100% (indirectly) |
| LC Corp Invest XV Sp. z o.o. Projekt 7 Sp. k. | Wrocław | 100% (indirectly) | 100% (indirectly) |
| LC Corp Invest XV Sp. z o.o. Projekt 8 Sp. k. | Wrocław | 100% (indirectly) | 100% (indirectly) |
| LC Corp Invest XV Sp. z o.o. Projekt 9 Sp. k. | Wrocław | 100% (indirectly) | 100% (indirectly) |
| LC Corp Invest XV Sp. z o.o. Projekt 10 Sp. k. | Wrocław | 100% (indirectly) | 100% (indirectly) |
| LC Corp Invest XV Sp. z o.o. Projekt 11 Sp. k.**(d)** | Wrocław | 100% (indirectly) | - |
| LC Corp Invest XV Sp. z o.o. Projekt 14 Sp. k. **(e)** | Wrocław | 100% (indirectly and directly) | 100% (indirectly and directly) |
| LC Corp Invest XV Sp. z o.o Finance S.K.A. | Wrocław | 100% (indirectly and directly) | 100% (indirectly and directly) |
| LC Corp Invest XV Sp. z o.o Investments S.K.A. | Wrocław | 100% (indirectly and directly) | 100% (indirectly and directly) |
| LC Corp Invest XVI Sp. z o.o. | Wrocław | 100% | 100% |
| LC Corp Invest XVII Sp. z o.o. | Wrocław | 100% | 100% |
| LC Corp Invest XVII Sp. z o.o. Projekt 20 Sp. k. | Wrocław | 100% (indirectly and directly) | 100% (indirectly and directly) |
| LC Corp Invest XVIII Sp. z o.o. **(f)** | Wrocław | 100% | - |
| LC Corp Invest XVIII Sp. z o.o. Real Estate S.K.A **(g)** | Wrocław | 100% (indirectly and directly) | - |

As at 31 December 2014 and as at 31 December 2013 the Parent Undertaking's share in the total vote in its subsidiary undertakings was equal to its participation in the share capital of these undertakings.

(a) On 17 October 2014, a resolution was adopted on an increase in the share capital of Warszawa Przyokopowa Sp. z o.o. of PLN 30,001,000 by the creation of new shares that were taken up by LC Corp Invest XVIII Sp. z o.o. (10 shares) and LC Corp Invest XVIII Sp. z o.o. Real Estate S.K.A. (300,000 shares), which thus became the company's new shareholders. Both companies belong to the LC Corp Group and are wholly controlled by the Issuer. The increase in the share capital was registered by the Registration Court of KRS on 24 October 2014.

(b) On 14 May 2014, the District Court for Wrocław-Fabryczna, VI Commercial Division of the National Court Register (KRS), registered a change in the amount of the share capital of LC Corp Invest XI Sp. z o.o. The Company's new share capital totals PLN 41,000,000.00. LC Corp S.A. holds all shares in this company.

(c) On 28 May 2014, the District Court for Wrocław-Fabryczna, VI Commercial Division of KRS registered a change in the amount of the share capital of LC Corp Invest XII Sp. z o.o. The Company's new share capital totals PLN 24,800,000.00. LC Corp S.A. holds all shares in this company.

(d) On 29 August 2014, a new Group's company was registered – LC Corp Invest XV Spółka z ograniczoną odpowiedzialnością Projekt 11 Spółka komandytowa. LC Corp Invest VII Sp. z o.o. and LC Corp Invest VIII Sp. z o.o. are the company's limited partners, whereas LC Corp Invest XV Sp. z o.o. is the company's general partner, representing the company and managing its affairs.

(e) On 12 May 2014, the District Court for Wrocław-Fabryczna, VI Commercial Division of KRS, registered, under KRS number 0000508947, LC Corp Invest XV Spółka z ograniczoną odpowiedzialnością Projekt 14 Spółka komandytowa, having its registered office in Wrocław, which was established as a result of the transformation of LC Corp Invest XV Spółka z ograniczoną odpowiedzialnością Projekt 14 Spółka komandytowo-akcyjna, having its registered office in Wrocław. The transformation took place pursuant to Art. 551.1 of the Act of 15 September 2000, the Code of Commercial Partnerships and Companies. The Company is represented by the general partner (LC Corp Invest XV Sp. z o.o.).

(f) On 24 July 2014, LC Corp S.A. acquired 100 shares in the share capital of Aberdare Sp. z o.o., having its registered seat in Warsaw, having the total par value of PLN 5,000.00 and representing 100% of the company's share capital, and thus became its sole shareholder. On 15 September 2014, the change was registered of the company's name Aberdare Sp. z o.o. to LC Corp Invest XVIII sp. z o.o., where LC Corp S.A. holds 100% of the shares in the share capital, thus being its sole shareholder.

(g) On 24 July 2014, LC Corp S.A. acquired 1,000 shares, having the total par value of PLN 50,000.00, of Aberdare Sp. z o.o. – XXIV – S.K.A. (currently under the name LC Corp Invest XVIII Sp. z o.o. Real Estate S.K.A.), having its registered seat in Wrocław, and thus became the company's sole shareholder. The company is represented by its general partner, LC Corp Invest XVIII Sp. z o.o. On 14 October 2014 the change of the name and registered office of Aberdare Sp. z o.o. XXIV S.K.A. was registered. The company's new name is LC Corp Invest XVIII Spółka z ograniczoną odpowiedzialnością Real Estate S.K.A. and its registered office is located in Wrocław.

## 3. Composition of the Management Board of the Parent Undertaking

In the reporting period the composition of the Management Board of LC Corp S.A. did not change and as at 31 December 2014 the Board comprised the following:

- Dariusz Niedośpiał – President of the Management Board
- Joanna Jaskólska – Vice President of the Management Board
- Mirosław Kujawski – Member of the Management Board
- Tomasz Wróbel – Member of the Management Board
- Małgorzata Danek – Member of the Management Board

## 4. Approval of the consolidated financial statements

These consolidated financial statements were approved by the Management Board for publication on 20 March 2015.

## 5. Significant values based on professional judgement and estimates

### 5.1. Professional judgement

The professional judgement of the management had the biggest significance, apart from accounting estimates, in the process of applying accounting rules (policy) in relation to the issues listed below.

Determination of the moment when, upon the sale of residential premises, the risk is transferred to the client

The moment of transferring the risk to the client determines when the revenue from sales of residential and retail premises can be recognized.

Upon the sale of residential and retail premises, the risk is transferred to the client when the following conditions are fulfilled:

(i) obtaining the occupancy permit for the buildings;

(ii) payment of 100% of the value of the premises, based on the developer agreement or preliminary agreement;

(iii) acceptance of the premises by the client, evidenced by the delivery and acceptance protocol;

(iv) signing of the developer agreement or notarial deed transferring the title.

Investment property under construction

As at 31 December 2014, Silesia Star – Stage 2, the property investment in Katowice, given the advancement of construction and the inability to reliably estimate the fair value as well as the value of capital expenditure on the construction of the office complex, is valued at historical cost. Investment properties are described in Note 18.

### 5.2. Uncertainty of estimates

The Board of the Parent Undertaking used their best knowledge of applied standards and interpretations, and also the methods and principles of valuation of particular items of the enclosed consolidated financial statements. The preparation of the financial statements in accordance with IFRS required from the Company Board to make some assessments and assumptions, reflected in these statements. The actual results may vary from these assessments.

The basic assumptions concerning the future are discussed below as well as other key reasons for doubts occurring as at the end of the reporting period and entailing a significant risk of considerable adjustment of the balance-sheet value of assets and equity and liabilities in the following accounting year.

Deferred tax asset

The Group recognizes a deferred tax asset based on the assumption that, in the future, some tax profit is to be obtained enabling its utilization. The worsening of tax results produced in the future could cause that this assumption might become groundless. Deferred tax is presented in Note 12.3.

(PLN'000)

Fair value of investment properties

At the end of each quarter of an accounting year, the Group independently measures the fair value of its investment properties, based on the agreed model of investment capitalization. At the end of each accounting year, the fair value of investment properties is established or verified by an independent valuer. Investment properties are described in Note18.

Fair value of forward financial instruments

The fair value of forward financial instruments measured at fair value through profit or loss is determined on the last day of each quarter of the financial year and at the end of each financial year based on the valuation made by an institution dedicated to the professional valuation of such financial transactions (including the Bank) or based on a financial model that allows measurement and is approved by the Statutory Auditor.

Fair value of interest rate swap (IRS) instruments

The fair value of interest rate swap instruments covered by cash flow hedge accounting, with cash flows measured at fair value through equity, is determined on the last day of each quarter of the financial year and at the end of each financial year based on the valuation made by an institution dedicated to the professional valuation of such financial transactions (including the Bank) or based on a financial model that allows measurement and is approved by the Statutory Auditor.

Valuation allowances for inventories

At the end of each reporting period the Management Board verifies if there is any evidence pointing to a loss of value of its property development projects under completion, on the basis of sales reports, market research and other available evidence. Should the risk of a loss of value occur, valuation allowances are estimated by means of the DCF method, which is used to establish valuation allowances for inventories. The DCF method is based on discounted cash flows generated within approved investment schedules and proceeds from sales of flats, taking account of the selling price of one square metre of usable floor space, in accordance with the current market situation. The discount rate takes account of the weighted average cost of external and own capital (WACC).

The amount of inventory valuation allowances was estimated as at 31 December 2014 and may be subject to change depending on the future fluctuations of the market prices of land, sale prices of flats, construction costs, project completion schedules and discount rate calculations. The actual results may vary from these estimates which were calculated on the grounds of data available as at the reporting date. It is also related to the uncertainty regarding the proper estimation of the market conditions in the following years. Consequently, valuation allowances may change in the next financial periods. Inventories and valuation allowances for inventories are presented in Note 20.

The table below shows significant estimates as at 31 December 2014 and 31 December 2013.

| | **31 December 2014** | **31 December 2013** |
|---|---|---|
| Deferred tax asset | 17,179 | 17,848 |
| Fair value of investment property | 1,532,039 | 1,359,625 |
| Fair value of forward instruments | (167) | 511 |
| Fair value of interest rate swap instruments | (8,633) | (1,507) |
| Deferred tax liability | (85,149) | (67,368) |
| Valuation allowance for inventories | (118,833) | (81,071) |

## 6. Basis for the preparation of the consolidated financial statements

These consolidated financial statements were prepared using the historical cost method, except for investment properties and derivative instruments, which are measured at fair value.

The consolidated financial statements are presented in thousand zlotys ('PLN'), and all values, if not indicated otherwise, are given in PLN '000.

The consolidated financial statements were prepared on the assumption that the Group companies would continue as a going concern in the foreseeable future. As at the day of approval of these consolidated financial statements, no circumstances were identified implying any threats to the continuation of the Group companies' business activity.

### 6.1. Declaration of compliance

These consolidated financial statements of LC Corp Capital Group were drawn up in accordance with the International Financial Reporting Standards ("IFRS") in their form approved by the EU.

IFRS comprise the standards and interpretations approved by International Accounting Standards Board ("IASB") and the International Financial Reporting Interpretations Committee ("IFRIC").

### 6.2. Currency of the measurement and currency of the financial statements

The currency of the measurement of the Parent Undertaking and other companies included in these consolidated financial statements and the currency of these consolidated financial statements is the Polish zloty.

## 7. Changes in the applied accounting rules

The accounting principles (policies) adopted for the preparation of these consolidated financial statements are coherent with the principles described in the consolidated financial statements of the Group for the year ended 31 December 2013, except for the application of the following amendments to standards and new interpretations effective for annual periods beginning on 1 January 2014.

- *IFRS 10 Consolidated Financial Statements and IAS 27 Separate Financial Statements*

  IFRS 10 replaces a part of former IAS 27 "Consolidated and Separate Financial Statements" in the scope of consolidated financial statements and introduces a new definition of control. IFRS 10 may cause changes affecting the consolidated group with regard to the possibilities of consolidating entities that up till now were subject to consolidation or, conversely, it does not introduce any changes regarding consolidation procedures and methods for transaction settlements in the consolidated financial statements. The application of the above changes had no impact on the Group's financial situation and business results.
- *IFRS 11 Joint Arrangements and IAS 28 Investments in Associates and Joint Ventures*

  The application of the standard may result in the changed valuation method for joint arrangements (e.g. the arrangements classified earlier as entities subject to joint control and measured using the proportional method may be classified at present as joint ventures, which involves their measurement using the equity method). *IAS 28 was amended and contains the guidelines for the application of the equity method for joint ventures.* The application of the above changes had no impact on the Group's financial situation and business results.
- *IFRS 12 Disclosure of Interests in Other Entities*

  IFRS 12 contains a number of disclosures regarding the entity's interests in subsidiary, associated or jointly controlled undertakings. The application of the standard may result in the presentation of more extensive disclosures in the financial statements, including, among others:
  - key financial information, including the risk related to the Company's entities
  - disclosure of interests in unconsolidated structured entities and risks related to such entities
  - information about each undertaking in which there are significant non-controlling interests

- disclosure of significant judgements and assumptions adopted for the purpose of classifying respective entities as subsidiary, jointly controlled or associated undertakings.

The application of the above changes had no impact on the Group's financial situation and business results.

- *Investment Entities – amendments to IFRS 10, IFRS 12 and IAS 27*

  These amendments introduce the concept of investment entities that are exempt from the obligation to consolidate subsidiary entities, which, after the implementation of the amendments, measure their subsidiary entities at fair value through profit or loss. The application of the above changes had no impact on the Group's financial situation and business results.

- *Offsetting Financial Assets and Financial Liabilities – amendments to IAS 32*

  The amendments made to IAS 32 clarify the concept and consequences of the valid legal right to offset a financial asset and a financial liability and describe in detail the criteria for offsetting for gross settlements systems (such as clearing houses). The application of the above changes had no impact on the Group's financial situation and business results.

- *Recoverable Amount Disclosures for Non-Financial Assets – amendments to IAS 36*

  The amendments eliminated the unintended consequences of IFRS 13 with regard to the disclosures required under IAS 36. Furthermore, the amendments introduce additional disclosures concerning the recoverable value for assets or cash generating units (CGU), for which an impairment was recognized or reversed in a given period, when the value in use corresponds to the fair value less costs to sell. The application of the above changes had no impact on the Group's financial situation and business results.

- *Novation of Derivatives and Continuation of Hedge Accounting – amendments to IAS 39*

  Amendments to IAS 39 regarding the hedge accounting after the novation of derivatives release from the obligation to cease the application of hedge accounting when the novation fulfils the specific criteria, described in IAS 39.

The Group did not decide to choose the option of early application of any standard, interpretation, or amendment to an existing standard which was published but has not yet become effective.

The above changes had no impact on the Group's financial situation and business results.

## 8. New standards and interpretations, which were published and approved by the EU, but have not become effective yet

The following standards and interpretations were issued by the International Accounting Standards Board or the International Financial Reporting Interpretations Committee, but have not become effective yet:

- *IFRS 9 Financial Instruments (published on 24 July 2014)* – applicable to annual periods beginning on or after 1 January 2018 – by the date of approval of these financial statements not endorsed by the EU,
- *IFRIC 21 Levies (published on 20 May 2013)* – applicable to annual periods beginning on or after 1 January 2014, in the EU applicable to annual periods beginning on or after 17 June 2014 at the latest,
- *Amendments to IAS 19 Defined Benefit Plans*: *Employee Contributions (published on 21 November 2013)* – applicable to annual periods beginning on or after 1 July 2014, in the EU applicable to annual periods beginning on or after 1 February 2015 at the latest,
- *Amendments arising from the review of IFRS 2010-2012 (published on 12 December 2013)* – some of the amendments are applicable to annual periods beginning on or after 1 July 2014, and some are applicable on a prospective basis to transactions effected on or after 1 July 2014, in the EU applicable to annual periods beginning on or after 1 February 2015 at the latest,
- *Amendments arising from the review of IFRS 2011-2013 (published on 12 December 2013)* – applicable to annual periods beginning on or after 1 July 2014, in the EU applicable to annual periods beginning on or after 1 January 2015 at the latest,

- *IFRS 14 Regulatory Deferral Accounts (published on 30 January 2014)* – applicable to annual periods beginning on or after 1 January 2016 – no decision has been taken yet regarding the time when the European Financial Reporting Advisory Group (the "EFRAG") will carry out the respective stages of the works leading to the approval of this standard – by the date of approval of these financial statements not endorsed by the EU,
- *Amendments to IFRS 11 Accounting for Acquisitions of Interests in Joint Operations (published on 6 May 2014)* – applicable to annual periods beginning on or after 1 January 2016 – by the date of approval of these financial statements not endorsed by the EU,
- *Amendments to IAS 16 and IAS 38 Clarification of Acceptable Methods of Depreciation and Amortization (published on 12 May 2014)* – applicable to annual periods beginning on or after 1 January 2016 – by the date of approval of these financial statements not endorsed by the EU,
- *IFRS 15 Revenue from Contracts with Customers (published on 28 May 2014)* – applicable to annual periods beginning on or after 1 January 2017 – by the date of approval of these financial statements not endorsed by the EU,
- *Amendments to IAS 16 and IAS 41 Agriculture: Bearer Plants (published on 30 June 2014)* – applicable to annual periods beginning on or after 1 January 2016 – by the date of approval of these financial statements not endorsed by the EU,
- *Amendments to IAS 27 Equity Method in Separate Financial Statements (published on 12 August 2014)* – applicable to annual periods beginning on or after 1 January 2016 – by the date of approval of these financial statements not endorsed by the EU,
- *Amendments to IFRS 10 and IAS 28 Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (published on 11 September 2014)* – applicable to annual periods beginning on or after 1 January 2016 – by the date of approval of these financial statements not endorsed by the EU,
- *Amendments arising from the review of IFRS 2012-2014 (published on 25 September 2014)* – applicable to annual periods beginning on or after 1 January 2016 – by the date of approval of these financial statements not endorsed by the EU,
- *Amendments to IFRS 10, IFRS 12 and IAS 28 Investment Entities: Applying the Consolidation Exception (published on 18 December 2014 )* – applicable to annual periods beginning on or after 1 January 2016 – by the date of approval of these financial statements not endorsed by the EU,
- *Amendments to IAS 1 Disclosure Initiative (published on 18 December 2014)* – applicable to annual periods beginning on or after 1 January 2016 – by the date of approval of these financial statements not endorsed by the EU.

The Group does not expect any significant influence of the above standards and interpretations on the accounting principles (policy) applied by the Group.

## 9. Significant accounting principles

### 9.1. Consolidation rules

The consolidated financial statements are composed of financial statements of LC Corp S.A. and all subsidiary undertakings controlled by LC Corp S.A. prepared for the year ended 31 December 2014 and contain comparable data for the year ended 31 December 2013 and as at 31 December 2013.

The financial statements of the subsidiary undertakings are prepared for the same reporting period as the financial statements of the Parent Undertaking or for the period from their setup (if they were set up in 2014) to 31 December 2014, by adopting coherent accounting principles based on uniform accounting principles applied to transactions and economic events of a similar nature.

In order to eliminate any discrepancies in the applied accounting principles, adjustments are introduced.

All significant balances and transactions between the Group's entities, including unrealized gains resulting from transactions within the Group, are eliminated. Unrealized losses are eliminated, unless they prove the occurrence of a loss of value.

The subsidiary undertakings are subject to consolidation in the period from the day of taking control over them by the Group and cease to be consolidated from the day the control stops. The exercise of control by the Parent Undertaking takes place when it holds directly or indirectly, through its subsidiary undertakings, more than half the vote in a given entity, unless it can be proved that this shareholding is not tantamount to the exercise of control. The exercise of control also takes place when the Company is able to influence the financial and operating policy of a given entity.

### 9.2. Business combinations of entities under common control

A business combination involving entities or businesses under common control is a business combination in which all of the combining entities or businesses are, directly or indirectly, controlled by the same party or parties both before and after the business combination, and such common control is not transitory.

IFRS 3 *Business Combinations* does not apply to a business combination of entities or businesses under common control. In such a situation, according to IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*, in the absence of a standard or interpretation that specifically applies to a transaction, the management may, using its professional judgment, develop accounting principles (policies), taking account of, for example, the most current regulations and application guidelines, drawn up by other entities making standards based on the assumptions of conceptual frameworks similar to IFRS. The accounting policy developed by the entity's management must not be inconsistent with any of the standards or interpretations under IFRS or the assumptions of the conceptual framework for these standards.

Based on the above principles, as the accounting policy used to account for business combinations under common control the Group adopted the pooling of interests method. The pooling of interests method consists in adding together particular items of relevant assets, liabilities, equity, revenues and costs of the companies to be combined, as at the date of their merger, having adjusted them using uniform valuation methods and after the following eliminations:

- mutual receivables and liabilities and other settlements of a similar nature of the merging entities,
- revenues and costs of business transactions made in a given accounting year before the combination of the merging entities,
- profit or loss on business transactions made before the combination of the merging entities, included in the values of assets, liabilities and equity to be combined,
- share capital of the acquired entity and non-controlling interests; after this elimination has been made the difference between the other capital and the acquisition price of the entity is recognized in the other capital.

Business combinations based on the pooling of interests method do not lead to the identification and recognition of any goodwill or negative goodwill or to the identification and recognition of any additional assets and liabilities, except for those resulting from the above book values.

### 9.3. Fair value measurement

The Group measures financial instruments such as instruments available for sale and derivative instruments as well as non-financial assets such as investment properties at fair value at each balance sheet date.

Fair value is defined as the price that would be received after selling an asset or paid to transfer a liability in a transaction carried out under the usual conditions of asset disposal between market participants at the measurement date in the current market conditions. A fair value measurement assumes that the transaction to sell an asset or transfer a liability occurs:

- on the main market for the asset or liability,
- in the absence of the main market, on the most advantageous market for such asset or liability.

Both the main market and the most advantageous market must be available to the Group.

The fair value of an asset or liability is measured on the assumption that during the determination of the price of such asset or liability market participants act in their best economic interest.

The fair value of a non-financial asset takes into account the ability of a market participant to generate economic benefits through the greatest and best use of such asset or its disposal to another market participant that would provide the greatest and best use of the asset.

The Group uses valuation techniques that are appropriate to the circumstances and for which sufficient data are available to measure fair value, with the maximum use of the relevant observable inputs and minimal use of unobservable inputs.

All assets and liabilities that are measured at fair value or whose fair value is disclosed in the financial statements are classified in the fair value hierarchy as described below, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 – Quoted (unadjusted) prices in active markets for identical assets or liabilities,
- Level 2 - Valuation techniques for which the lowest level of input that is significant to the fair value measurement as a whole is directly or indirectly observable,
- Level 3 - Valuation techniques for which the lowest level of input that is significant to the fair value measurement as a whole is unobservable.

### 9.4. Tangible assets

Tangible assets include:

- land (including the right of perpetual usufruct) which is not investment property or investment property under construction or inventory,
- buildings which are not investment property (including cooperative ownership right to premises, ownership right to premises),
- civil engineering facilities,
- machinery and equipment,
- means of transport,
- other objects

complete and in a proper operating condition on receipt for use, of an expected period of use longer than a year, intended for own needs.

Property, plant and equipment are disclosed according to the acquisition/production cost less depreciation and impairment charges. The initial value of tangible assets includes their acquisition price increased by all costs directly related to their acquisition and adaptation to a proper operating condition. The cost also includes the cost of replacing components of machinery and equipment at the time it is incurred, if the criteria of recognition are fulfilled. Costs incurred after the date of handing over a tangible asset for use, such as costs of maintenance and repair, are charged to the statement of comprehensive income at the time they are incurred.

At the moment of their acquisition tangible assets are divided into components of significant value, to which a separate period of useful economic life can be assigned. The costs of major overhauls also represent a component.

Depreciation is calculated with the straight-line method for an assessed period of useful economic life of a given asset, lasting:

| Type | Period in years |
|---|---|
| Machinery and technical equipment | 5 |
| Office equipment | 2 |
| Other means of transport | 5 |
| Investments in third-party tangible assets | 10 (or the term of the contract, if shorter) |
| Computers | 3 |

If during the preparation of the financial statements the circumstances occurred indicating the possible impairment of any tangible assets, such assets are reviewed for possible impairment. If there is any objective evidence of impairment and the balance-sheet value exceeds the assessed recoverable value, the value of these assets or cash-generating centres to which they belong is decreased to the level of the recoverable value. The recoverable value corresponds to the higher of: fair value less selling costs of the asset or its value in use, respectively. While assessing the value in use, the projected cash flows are discounted to their current value by applying a gross discount rate, which reflects the current market assessment of the time value of money and the risk typical for a given asset. In the case of an asset which does not generate cash independently, the recoverable value is established for the cash-generating centre which owns the asset. Impairment charges are recognized in profit or loss.
A given item of property, plant and equipment can be removed from the statement of financial position after its disposal or in the case when no economic advantages resulting from the further use of such item are expected. All profits or losses resulting from the removal of a given asset from the statement of financial position (calculated as the difference between potential net proceeds from sales and the balance-sheet value of a given item) are disclosed in profit or loss in the period during which such removal was effected.
The final value, period of usage and method of depreciation of assets are verified and, if necessary, adjusted, at the end of each accounting year.
During each overhaul, its cost is disclosed in the balance-sheet value of property, plant and equipment, if the criteria of disclosure are met.

### 9.5. Tangible assets under construction

Tangible assets under construction concern tangible assets being built or assembled and are disclosed according to the acquisition or production cost. Tangible assets under construction are not subject to depreciation by the time they are built and handed over for use.

Land and the right of perpetual usufruct of land allotted for the construction of tangible assets are disclosed as tangible assets under construction by the time such assets are handed over for use.

### 9.6. Investment property

Investment property is defined as land, a building or part of a building, which the company treats as a source of rental income or keeps on account of an increase in its value. The condition for disclosure under this item of the statement of financial position is:

- the probability of obtaining economic benefits on account of possessing the property,
- the possibility of the reliable determination of the acquisition or production cost.

The initial disclosure of investment property occurs at the acquisition price allowing for the transaction costs (among others, direct costs associated with finalizing rental agreements). The balance-sheet value of an asset includes the cost of replacing a part of the investment property at the time it is incurred, provided that the disclosure criteria are met and it does not include the cost of the current maintenance of such property. After the initial disclosure, investment property is disclosed at fair value. Profits or losses resulting from the changes of the fair value of investment property are disclosed in the statement of comprehensive income in the period when they arose.

Investment property is removed from the statement of financial position when it is disposed of or in the case of a permanent withdrawal of a given investment property from use, when no future advantages from its disposal are expected. All profits and losses resulting from the removal of an investment property from the statement of financial position are disclosed in profit and loss in the period when the removal was effected.

Transfer of assets to investment property is made only when there is a change in the way of their use, confirmed by finishing the use of an asset by the owner or entering into an operating lease contract. However, if an asset used by the owner becomes an investment property, the Group applies principles described in section 'Tangible assets' up to the day of change in the way of using the property. In the case of transferring assets from inventories to investment properties, the difference between the fair value of the property established at the day of transfer and its previous balance-sheet value is disclosed in the statement of comprehensive income. When the Group completes the construction or production of investment property, the difference between the fair value of the property established at the day of transfer and its previous balance-sheet value, is disclosed in the statement of comprehensive income under Revaluation of non-current non-financial assets.

In the case of the transfer of investment property to assets used by the owner or to inventories, the supposed cost of such asset, which will be accepted to be disclosed in another category, equals the fair value of the property established as at the day of change in its use.

Fair value is established by an independent valuer or based on an agreed model of investment capitalization.

### 9.7. Investment property under construction

Property under construction intended to be used as investment property in the future is disclosed as investment property.

For investment properties the Group uses a fair value measurement model, hence investment properties under construction are also measured at fair value.

However, in the case the fair value of investment property under construction cannot be reliably assessed on a continuous basis, such investment property under construction is measured using the historical cost model, until one of two dates, whichever is earlier: the date of completing the building process or the time when the fair value can be reliably assessed.

Apart from acquisition or production costs, the costs of investment property under construction include the commission for agents on account of effecting contracts on office space rental.

### 9.8. Goodwill

Goodwill arising on the acquisition of a business entity is recognized initially at the purchase price representing the excess of

- the sum of:
  (i) the payment made,
  (ii) the amount of any non-controlling interests in the acquired entity, and
  (iii) in the case of a business combination carried out in stages, the fair value at the date of acquisition of the share in the acquired entity's capital, previously held by the acquiring entity.
- over the net amount, established as at the date of acquisition of the value of identifiable acquired assets and assumed liabilities.

After its initial recognition, goodwill is stated at cost less accumulated impairment charges. Goodwill is tested for impairment annually or more frequently if there are any reasons for it. Goodwill is not subject to amortisation.

As at the day of assuming control, the acquired goodwill is allocated to every cash-generating unit which may benefit from synergies resulting from the merger. Each unit or group of units to which goodwill was allocated:

- corresponds to the lowest level in the Group at which goodwill is monitored for internal management purposes, and
- is not larger than one operating segment determined in accordance with IFRS 8 Operating Segments.

Impairment is determined by estimating the recoverable value of the cash-generating unit relevant to a given part of goodwill. If the recoverable value of the cash-generating unit is lower than its balance-sheet value, impairment charges are recognized. If goodwill represents a part of the cash-generating unit and a part of the business of the cash-generating unit is disposed of, for the purpose of calculating gains or losses on disposal of the part of business the goodwill connected with the sold business is included in its balance-sheet value.

Goodwill sold in such circumstances is measured using the relative value of the sold business and the value of the retained part of the cash-generating unit.

### 9.9. Intangible assets

Intangible assets are the acquired assets having a useful economic life on the day of receipt for use such as:

- property rights, proprietary copyrights, licences, concessions, rights to: designs, inventions, patents, trademarks, decorative patterns and utility models,
- costs of development work with positive results,
- goodwill,
- know-how

of an expected useful life longer than one year, used for the needs of the conducted business activity or rented out, leased or given to use on the basis of a similar contract.

Intangible assets acquired in a separate transaction are initially stated at acquisition or production cost. Intangible assets acquired in a business combination are initially recognized at fair value determined at the business combination date. After initial recognition, intangible assets are measured at acquisition or production cost less amortization and impairment charges. Expenditures on intangible assets produced in-house, except for activated expenditures incurred on development work, are not activated and are disclosed in the costs of the period when they were incurred.

The Group determines if the useful life of intangible assets is definite or indefinite. Intangible assets with a definite useful life are amortized over their economic useful life and tested for impairment each time there are indications thereof. The period and method of amortization of intangible assets with a definite useful life are verified at least at the end of each financial year. Changes in the expected useful life or expected method of consuming economic benefits derived from a given asset are disclosed by a change of the period or amortization method, respectively, and treated as changes of estimates. Amortization charges of intangible assets with a definite useful life are disclosed in the statement of comprehensive income in the category which corresponds to the function of a given intangible asset.

Intangible assets with indefinite useful lives and intangible assets which are not yet in use are tested for impairment once a year in relation to individual assets or at the level of the cash-generating unit. Other intangible assets are checked annually for any indications of impairment. Periods of use are also annually verified and, if necessary, adjusted with effect from the beginning of the financial year.

As at 31 December 2014 and as at 31 December 2013 there were no intangible assets of an indefinite period of use. The summary of the principles applied in relation to the Group's intangible assets, except for goodwill, is presented below:

| | **Patents and licences** | **Computer software and other** |
|---|---|---|
| Period of use | Indefinite. For patents and licences used on the basis of an agreement concluded for a definite period, this period is adopted, taking into account an additional period for which the useful life may be extended. | 2 years |
| Applied method of amortization | Values of an indefinite period of useful life are not amortized or subject to revaluation. | straight-line method |
| Produced in-house or acquired | Acquired | Acquired |
| Tested for impairment / verification of recoverable | An indefinite period of useful life – annually or if there are indications of | Annual assessment if there are indications of impairment. |

| | | |
|---|---|---|
| amount | impairment.<br>For others – annual assessment if there are indications of impairment. | |

As at 31 December 2014 and as at 31 December 2013 there were no patents or licences with an indefinite period of useful life.

Profits or losses resulting from the removal of intangible assets from the statement of financial position are measured on the basis of the difference between net proceeds from sale and the balance-sheet value of a given asset and are disclosed in the statement of comprehensive income at the time of its derecognition.

### 9.10. Recoverable value of non-current non-financial assets

At the end of each reporting period, the Group assesses whether there is any objective evidence that the assets are impaired. If any such evidence exists, the Group assesses the recoverable value of these assets, i.e. determines whether the current book value of a given asset is higher than the value that can be obtained from its further use or sale. If the balance-sheet value of a given asset or a cash-generating unit exceeds its recoverable value, its impairment is recognized and an impairment charge is made to arrive at the established recoverable value. Impairment charges are recognized through profit or loss. The recoverable value corresponds to the higher of: fair value less selling costs or the value in use of a given asset or cash-generating unit.

The recoverable value is determined for individual assets, unless a given asset does not generate separate cash inflows, largely independent of those generated by other assets or asset groups. If the balance-sheet value of an asset is higher than its recoverable value, the value of the asset is impaired and impairment charges are recognized up to the established recoverable value. While assessing the value in use, the projected cash flows are discounted to their present value using a pre-tax discount rate which reflects current market assessments of the time value of money and the risks specific to the asset. Impairment charges related to the assets used in the continued operations are disclosed under the cost categories corresponding to the function of the asset with respect to which impairment has been identified.

At the end of each reporting period, the Group assesses whether there is any objective evidence that the impairment charge which was disclosed in previous periods in relation to a given asset is unnecessary or if it should be diminished. If any such evidence exists, the Group assesses the recoverable value of this asset. The previously disclosed impairment charge is reversed only if since the recognition of the last impairment charge there was a change of estimates used to establish the recoverable value of a given asset. In this case, the balance-sheet value of the asset is increased to its recoverable value. The increased amount cannot exceed the balance-sheet value of the asset which would be established (after deducting depreciation) if the impairment charge was not disclosed at all in relation to this asset in the previous years. The reversal of the impairment charge of an asset is disclosed immediately as income. In the following periods, after the reversal of the impairment charge, the depreciation charge concerning a given asset is adjusted in a way that makes it possible, during the rest of the period of use of this asset, to write off systematically its verified balance-sheet value less the end value.

### 9.11. Inventories

"Inventories" disclose expenditures incurred, concerning unsold flats intended for sale. Such expenditures include the right of perpetual usufruct of land or land, construction costs relating to works performed by subcontractors in connection with the building of flats, capitalized costs including the costs of external financing, costs of planning and design, mark-ups of administrative expenses directly connected with the construction project and other costs relating to such projects.

Initially, inventories are disclosed at their production cost. After the initial disclosure, inventories are measured at the lower of: acquisition/production cost and net realizable value.

### 9.12. Trade and other receivables

Trade and other receivables are recognized and disclosed at amounts initially invoiced, taking account of bad debt. Bad debt is estimated when the collection of the full amount of receivables is no longer probable. Bad debt is written off in the statement of comprehensive income when its uncollectibility is found out.

If the effect of the time value of money is significant, the value of receivables is determined by discounting the projected future cash flows to their present value using a gross discount rate reflecting the current market assessments of the time value of money. If the discount method is applied, an increase in receivables over time is recognized as financial income.

### 9.13. Cash and cash equivalents

Cash and short-term deposits shown in the statement of financial position comprise cash on hand and in a bank account, and short-term deposits with the initial maturity of up to three months.

The balance of cash and cash equivalents disclosed in the consolidated statement of cash flows consists of the above-defined monetary assets and their equivalents.

Cash in foreign currencies is valued as at the reporting day at the mid-exchange rate quoted by the National Bank of Poland. Foreign exchange differences relating to cash and cash equivalents in foreign currencies and foreign currency operations are included in the statement of comprehensive income.

### 9.14. Financial assets

Financial assets are classified as falling into the following categories:

- Financial assets held to maturity,
- Financial assets measured at fair value through profit or loss,
- Borrowings granted and receivables,
- Financial assets available for sale,

Held-to-maturity assets are non-derivative financial assets, quoted on an active market, with fixed or determinable payments and fixed maturity that the Group has the positive intention and ability to hold to maturity, other than:

- those designated upon initial recognition as measured at fair value through profit or loss,
- those designated as available for sale,
- those that meet the definition of borrowings and receivables.

Held-to-maturity financial assets are measured at amortized cost calculated using the effective interest rate method. Held-to-maturity financial assets are classified as non-current assets if their maturity exceeds 12 months from the end of the reporting period.

Financial assets acquired in order to gain on short-term price changes are classified as financial assets measured at fair value through profit or loss. Derivatives are also classified as held for trading unless they are treated as effective hedge instruments or financial guarantee agreements. Financial assets measured at fair value through profit or loss are measured at fair value, taking into account their market value as at the end of the reporting period and excluding sales transaction costs. Changes in the value of these financial instruments are recognized in the statement of comprehensive income as financial income or expenses. Financial assets measured at fair value through profit or loss are presented in current assets. If the contract contains one or more embedded derivatives, the whole contract can be classified as falling into the category of financial assets measured at fair value through profit or loss. It does not apply to the cases where an embedded derivative does not have any significant impact on cash flows from the contract or the separation of an embedded derivative is specifically prohibited. At their initial recognition financial assets can be classified as falling into the category of assets measured at fair value through profit or loss if the following criteria are met:

(i) such classification eliminates or significantly reduces the lack of integrity in treatment when both valuation and rules of recognition of profit or loss are subject to different regulations, or

(ii) assets form a part of the group of financial assets that are managed and measured at fair value in accordance with the documented strategy for risk management, or

(iii) financial assets include embedded derivatives which should be recognized separately.

As at 31 December 2014 and as at 31 December 2013 no financial assets were classified as falling into the category of assets measured at fair value through profit or loss.

Borrowings granted and receivables include non-derivative financial assets with set or foreseeable payments, not listed on any active market. They are included in current assets if their maturity does not exceed 12 months from the end of the reporting period. Borrowings granted and receivables with maturity exceeding 12 months from the end of the reporting period are presented in non-current assets.

All the remaining financial assets are financial assets available for sale. Financial assets available for sale are measured at fair value, without any transaction costs being deducted, taking into account the market value as at the end of the reporting period. In the case there are no quotations on the active market and there is no possibility of measuring their fair value reliably by applying alternative methods, financial assets available for sale are valued at acquisition cost, adjusted for impairment charges. A positive and negative difference between the fair value of assets available for sale (if the active market exists or fair value can be reliably measured) and their acquisition cost, reduced by deferred tax, is recognized in revaluation reserves. Impairment losses on assets available for sale are recognized in the statement of comprehensive income as financial expenses.

The purchase and sale of financial assets are initially recognized as at the date of the transaction. At its initial recognition a financial asset is measured at fair value, increased, in the case of the financial asset not classified as measured at fair value through profit or loss, by transaction costs that can be allocated directly to its acquisition.

A financial asset is derecognized from the statement of financial position when the Group loses control over contractual rights forming the given financial instrument. Typically, this happens when the instrument is sold or all cash flows related to this instrument are transferred to an independent third party.

## 9.15. Impairment of financial assets

At each balance sheet date, the Group assesses whether there is any objective evidence that a financial asset or a group of financial assets is impaired.

### Financial assets carried at amortized cost

If there is objective evidence that a loss has occurred due to the impairment of granted borrowings and receivables carried at amortized cost, an impairment charge is equal to the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future losses on account of bad debt that have not been incurred yet), discounted using the original (i.e. determined at initial recognition) effective interest rate. The balance sheet value of the asset is reduced directly through the calculation of impairment charges. The amount of the loss is recognized in profit or loss.

First, the Group verifies if there is any objective evidence pointing to an impairment of particular financial assets that are individually significant, and evidence of impairment of financial assets that are not individually significant. If the review reveals that there is no evidence of impairment of the individually examined financial asset, irrespective of whether it is significant or not, the Group adds this asset to the group of financial assets characterised by a similar credit risk and assesses them jointly for impairment. Assets that are individually verified for impairment and for which an impairment charge was disclosed or it was considered that the current charge should not be changed are excluded from the joint assessment of the group of assets for impairment.

If in the following period the impairment charge decreases and the decrease can be objectively related to an event occurring after the recognition of such impairment, the previously recognized impairment charge is reversed. Any further reversal of the impairment charge is disclosed in profit or loss to the extent to which the balance-sheet value of the asset at the reversal date does not exceed its amortized cost.

### Financial assets carried at cost

If there is objective evidence that an impairment loss has been incurred on an unquoted equity instrument that is not disclosed at fair value because its fair value cannot be reliably measured or on a related derivative that has to be settled through the delivery of such unquoted equity instrument, the impairment charge is determined as the difference between the balance sheet value of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for similar financial assets.

### Financial assets available for sale

If there is objective evidence that the financial asset available for sale is impaired, the difference between the acquisition price of the asset (less any principal repayments and amortization) and its current fair value, less any impairment charges on that asset previously recognized in profit or loss, is derecognized from equity and reclassified into profit or loss. Reversals of impairment charges on equity instruments classified as available for sale cannot be recognized in profit or loss. If in the following period, the fair value of a debt instrument available for sale increases and such increase can be objectively related to an event occurring after the impairment charge has been recognized in profit or loss, the amount of the reversal is recognized in profit or loss.

## 9.16. Embedded derivatives

Embedded derivatives are separated from the host contracts and accounted for as derivatives if all of the following conditions are met:

- the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract;
- a separate instrument with the same realization terms as the embedded derivative would meet the definition of a derivative;
- a hybrid (combined) instrument is not measured at fair value and changes in its fair value are not recognized in the statement of comprehensive income.

Embedded derivatives are accounted for in a similar way as independent derivatives which are not designated as hedging instruments.

The scope in which, according to IAS 39, economic features and risk characteristic of the embedded derivative in a foreign currency are closely related to economic features and risk characteristic of the host contract, also includes situations when the currency of the host contract is commonly used in contracts to purchase or sell non-financial items on the market where a given transaction takes place.

As at 31 December 2014 and as at 31 December 2013 there were no embedded derivatives.

## 9.17. Hedging instruments

Derivatives used to hedge against the interest rate risk and currency risk include in particular FX forwards and interest rate swaps. Derivative financial instruments of this type are measured at fair value.

The fair value of FX forwards is established by reference to the current forward rates of contracts with similar maturity. The fair value of interest rate swaps is established by reference to the market value of similar instruments.

Hedge accounting distinguishes between hedging instruments such as:

- fair value hedges, protecting against the risk of changes in the fair value of a recognized asset or liability, or
- cash flow hedges, protecting against the changes in cash flows attributable to a specific risk connected with a recognized asset, liability or forecast transaction, or
- a net investment hedge of a foreign operation.

In the case of fair value hedges which qualify for hedge accounting, the gain or loss on revaluation of the hedging instrument is recognized immediately as profit or loss. Any gains or losses on the hedged item, attributable to the hedged risk, adjust the balance-sheet value of the hedged item and are also recognized as profit or loss. If an adjustment is made to the balance-sheet value of a hedged interest-bearing financial instrument, such adjustment is charged to the net financial result in such a manner that it may be fully amortized before the instrument's maturity date.

In the case of cash flow hedges which qualify for hedge accounting, the portion of gain or loss on the hedging instrument that is determined to be an effective hedge is recognized directly in other comprehensive income, while the portion determined to be an ineffective hedge is recognized directly in profit or loss.

If a hedged forecast transaction subsequently results in the recognition of a financial asset or a financial liability, the associated gains or losses that were recognized in other comprehensive income and accumulated in equity are transferred to the statement of comprehensive income in the same period or periods during which the acquired asset or assumed liability affects profit or loss.

If the hedge of a forecast transaction subsequently results in the recognition of a non-financial asset or a non-financial liability, or a forecast transaction for a non-financial asset or non-financial liability becomes a firm commitment for which fair value hedge accounting is applied, gains or losses which were recognized in other comprehensive income, are reclassified from equity into profit or loss in the same period or periods during which the acquired non-financial asset or assumed non-financial liability affects profit or loss.

Hedges of a net investment in a foreign operation, including a hedge of a monetary item that is accounted for as part of the net investment, are recognized in a way similar to cash flow hedges. Gains or losses on the hedging instrument relating to the effective portion of the hedge are recognized as other comprehensive income while any gains or losses relating to the ineffective portion are recognized in profit or loss. On disposal of the foreign operation, the value of gains or losses recorded previously in other comprehensive income is reclassified from equity to profit or loss as an adjustment resulting from reclassification.

Gains or losses arising from a change in the fair value of derivatives which do not meet the conditions for the application of special hedge accounting, are recognized directly in the net financial result for the current period.

The Group ceases to apply the principles of hedge accounting when the hedging instrument expires or is sold, the instrument's use is approaching an end or the instrument is exercised, or when the hedge no longer meets the criteria for hedge accounting. In such a case the total gain or loss on the hedging instrument, disclosed in other comprehensive income and accumulated in equity, continues to be recognized in equity until the forecast transaction takes place. If the Group no longer expects a forecast transaction to take place, the total net gain or loss recognized in equity is posted to the net financial result for the current period.

In the year ended 31 December 2013 the Group introduced cash flow hedge accounting and continued it in the year 2014.

## 9.18. Financial liabilities

Trade payables are valued at the amounts initially invoiced.

Financial liabilities classified as falling into the group measured at fair value through profit or loss are measured at fair value and other financial liabilities are measured at amortized cost using the effective interest rate method.

### Interest bearing loans, borrowings and debt securities

All loans, borrowings and debt securities are initially recognized at fair value, net of acquisition costs associated with the loan or borrowing.

After their initial recognition, all interest-bearing loans, borrowings and debt securities are subsequently measured at amortized cost, using the effective interest rate method, except for financial liabilities designated as hedged items, which are subject to the principles of hedge accounting, or liabilities qualified at initial recognition as financial instruments measured at fair value through profit or loss.

Costs related to the acquisition of a loan or borrowing, discounts and premiums received at the moment of liability settlement are taken into account when calculating the amortized cost.

Gains and losses are recognized in the statement of comprehensive income at the moment of liability removal from the statement of financial position as well as during the relevant periods of the instrument's life cycle, using the effective interest rate method.

### 9.19. Provisions

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, such that an outflow of resources embodying economic benefits is certain or highly probable to be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Provisions for onerous contracts and liabilities are measured at a justified, reliably assessed value.

Provisions are charged to operating expenses, other operating expenses or financial expenses, depending on circumstances from which the liability results.

Costs relating to a specified provision are disclosed in the statement of comprehensive income, net of any reimbursements. In case the time value of money is a material factor, the provision is measured using the present value of future cash flows at the gross discount rate which reflects the current market estimates of the time value of money and the risk related to the specified liability. If the discount method is applied, the increase in the provision over time will be recognized as financial expenses.

The provision is decreased by the occurrence of a loss or liability for which it was created, and unused provisions (because the risk of losses, for which the provisions were created, ceased or diminished) are reversed and credited to the accounts to which they were previously charged.

### 9.20. Retirement benefits

Under the Group's remuneration plans, its employees are entitled to retirement benefits. The retirement benefits are paid once at retirement. The amount of retirement benefits depends on the number of years of service and an employee's average remuneration. The Group creates a provision for future retirement benefits in order to allocate costs to relevant periods. In accordance with IAS 19, retirement benefits are classified as post-employment benefit plans. The present value of those liabilities is estimated as at the end of each reporting period by an independent actuary. The accumulated liabilities equal discounted future payments, considering employee rotation, and relate to the period up to the end of the reporting period. Demographic data and information on employee rotation are based on historical records. Actuarial gains and losses are recognized in the statement of comprehensive income.

The re-measurement of liabilities on account of employee benefits relating to defined benefit plans, including actuarial gains and losses, is recognized in other comprehensive income and is not further reclassified to profit or loss.

### 9.21. Share-based remuneration

The employees (including management board members) of the Group may receive share-based payments, which means that they render services in exchange for shares or rights to obtain shares ('transactions settled in equity instruments').

#### *Transactions settled in equity instruments*

The cost of such equity transactions with employees is measured at fair value at the date when such rights are granted.

The cost of transactions settled in equity instruments is recognized together with an associated increase in equity in the period in which the conditions regarding effectiveness/results were met and which ends on the day in which specified employees become fully entitled to such benefits ('entitlement date'). The cumulative cost recognized on account of transactions settled in equity instruments at the end of each reporting period up to the entitlement date reflects the elapsed portion of the period in which the entitlement is gained and the number of awards, the eligibility for which – in the opinion of the Management Board of the Parent Undertaking as of that date, based on the possibly best estimates of the number of equity instruments – will be finally acquired.

No costs are recognized on account of awards the eligibility for which is finally not acquired, except for the awards in the case of which the eligibility depends on the market conditions. The eligibility for such awards is treated as acquired regardless of whether the market conditions are fulfilled or not, provided that all other non-market conditions and employment conditions are met.

(PLN'000)

In the case the conditions for granting awards settled in equity instruments are modified, costs are recognized, in order to meet the minimum requirements, as if there were no modifications to the conditions. Furthermore, costs are recognized on account of each increase in the transaction value resulting from modifications, measured as at the day of change.

If an award settled in equity instruments is cancelled, it is handled as if the eligibility for it was acquired on the day of cancellation and all costs on account of the award which were not recognized yet are recognized immediately. However, if a cancelled award is replaced by a new award, defined as a substitute award on the day it is granted, the cancelled award and the new award are treated as if they represented the modification of the original award, i.e. as described in the paragraph above.

The dilutive effect of the issued options is taken account of when earnings per share are determined, as an additional share dilution.

### 9.22. Own shares

Own (treasury) shares are measured according to their acquisition cost.

### 9.23. Equity

Equity consists of:

- share capital
- reserve funds
- other capital reserves
- other capital

Equity is measured at its par value compliant with the articles of association. Reserve funds are measured as the excess of the issue price over the par value of the shares, reduced by the costs associated with the share issue and increased/decreased by approved profits/losses in the previous years, including the consolidation adjustments of such profits/losses. Other capital reserves are measured at the amount of revaluation to fair value of the purchase of a significant asset, less deferred tax. Other capital is measured at fair value of granted management options.

### 9.24. Valuation of assets and liabilities expressed in foreign currencies

As at the end of the reporting period:

assets and liabilities denominated in foreign currencies (except for shares in subordinated undertakings valued by equity method) are measured at the mid-exchange rate quoted by the National Bank of Poland at that date.

During the financial year:

1) operations of sale and purchase of foreign currencies and operations of payment of receivables or payables are measured at the buy or sale rate of the bank providing services to the undertaking,
2) other operations are valued at the mid-exchange rate quoted for the given currency by the National Bank of Poland, effective on the day preceding the operation, unless a different rate was established in the customs declaration or another document binding on a given undertaking.

The foreign exchange gains and losses resulting from translation are recognized in financial income (expenses), respectively, or, in cases determined by the accounting principles (policy), capitalized in the value of assets. Non-cash assets and liabilities are recognized at their historical cost in foreign currency and disclosed at the historical exchange rate effective as at the transaction date. Non-cash assets and liabilities measured at fair value in a foreign currency are translated at the exchange rate effective as at the date of the fair value measurement.

| | 31 December 2014 | 31 December 2013 |
|---|---|---|
| EUR | 4.2623 | 4.1472 |
| USD | 3.5072 | 3.0120 |

## 9.25. Rules of valuation of contingent liabilities

A contingent liability is a probable liability which arises due to past events and whose existence will be confirmed only in the future on the occurrence of uncertain events (over which the undertaking does not have full control). A contingent liability can also be a current liability of the undertaking, which arises due to past events and cannot be valued credibly enough, or it is not probable that the fulfilment of this liability will cause any outflow of resources containing economic benefits. Therefore, such a liability is not presented in the statement of financial position, but it is described in additional information and explanatory notes to the financial statements.

## 9.26. Revenue

Revenue is recognized to the extent to which it is probable that the Group will obtain economic benefits related to a given transaction and when the amount of revenue can be reliably measured. Revenue is recognized net of VAT and rebates. When recognizing revenues the below presented criteria also apply.

### 9.26.1 Sale of goods and products

Revenue is recognized when significant risks and benefits related to the ownership of goods and products have passed to the buyer and the amount of revenue can be assessed in a reliable way. Revenue from the realization of instruments hedging cash flows adjusts the value of revenue from sales of goods and products.

#### Revenue from sales of flats

Revenue from the sale of residential and retail premises is disclosed only when basically all risks and benefits connected with the given premises are transferred to the customer and revenue can be reasonably valued.

The moment of transferring the risk to the client determines when revenue from sales of residential and retail premises can be recognized.

Upon the sale of residential and retail premises, the risk is transferred to the client when the following conditions are fulfilled:

(i) obtaining the occupancy permit for the buildings;

(ii) payment of 100% of the value of the premises, based on the developer agreement or preliminary agreement;

(iv) acceptance of the premises by the client, evidenced by the delivery and acceptance protocol;

(v) signing of the developer agreement or notarial deed transferring the title.

Costs associated with premises which have already been sold, and which will be incurred in the periods following the disclosure of sale (including costs of repairing faults and costs of finishing the common spaces), are assessed and disclosed in the statement of comprehensive income in the period when the sale of the given premises took place.

### 9.26.2 Sale of services

#### Revenue from rental

Revenue from the rental of investment properties is disclosed using the straight-line method for the period of rental in relation to open contracts.

### 9.26.3 Interest

Revenue is recognized gradually as interest accrues (taking into account the effective interest rate method, which discounts future cash inflows over the estimated period of use of financial instruments) in relation to the net book value of the given financial asset.

#### 9.26.4 Dividends

Dividends are recognized at the moment of establishing dividend rights for the shareholders.

### 9.27. Current tax

Current tax payables and receivables for the current period and previous periods are measured at the amounts of forecasted payments to the tax authorities (amounts recoverable from the tax authorities), using tax rates and tax regulations which were legally or actually effective as at the end of the reporting period.

### 9.28. Deferred tax

For the needs of financial reporting, a deferred tax liability is created with use of the balance-sheet liability method in relation to all temporary differences existing as at the end of the reporting period between the tax value of assets and liabilities and their balance-sheet value as disclosed in the financial statements.

Deferred tax liabilities are recognized with regard to all positive temporary differences:

- except for the cases where a deferred tax liability arises on account of the initial recognition of goodwill or the initial recognition of an asset or liability in the transaction that does not represent a business combination and does not have any impact on pre-tax profit or loss, taxable income or tax loss at the time of effecting it, and
- in the case of positive temporary differences resulting from investment in subsidiaries, associates and shares in joint ventures – except where the timing of the reversal of temporary differences can be controlled by the investor and where it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognized for all negative temporary differences as well as unused tax reliefs and unused tax losses carried-forward, to the extent to which it is probable that taxable income will be available, against which the above differences, reliefs and losses can be utilized:

- except for the cases where deferred tax assets related to negative temporary differences arise on account of the initial recognition of an asset or liability in the transaction that does not represent a business combination and does not have any impact on pre-tax profit or loss, taxable income or tax loss at the time of effecting it, and
- in the case of negative temporary differences resulting from investment in subsidiaries, associates and shares in joint ventures, a deferred tax asset is recognized in the statement of financial position only to the extent to which it is probable that the above temporary differences will reverse in the foreseeable future and a taxable income will be available from which negative temporary differences can be deducted.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced by the amount for which it is no longer probable that a taxable income will be available, sufficient for a partial or complete utilization of a deferred tax asset.

Deferred tax assets and liabilities are measured using the tax rates that are expected to apply in the period when the asset is realized or the liability is reversed, based on the tax rates (and tax laws) effective at the end of the reporting period or the ones whose enforcement in the future is certain as at the end of the reporting period.

Income tax relating to items recognized outside profit or loss is recognized outside profit or loss: in other comprehensive income relating to items recognized in other comprehensive income or directly in equity relating to items recognized directly in equity.

The Group offsets deferred tax assets with deferred tax liabilities if, and only if it possesses an enforceable legal right to set off current tax receivables with payables and when deferred income tax relates to the same taxpayer and the same tax authority.

### 9.29. Value added tax

Revenue, expenses, assets and liabilities are recognized net of value added tax, except:

- in the case when the value added tax paid at the acquisition of assets or services is not recoverable from the tax authorities; it is then disclosed accordingly as a part of the acquisition price of an asset or a part of a cost item, and
- receivables and liabilities which are disclosed including the amount of value added tax.

The net amount of value added tax recoverable from or payable to the tax authorities is disclosed in the statement of financial position as part of receivables or liabilities.

### 9.30. Borrowing costs

Borrowing costs allocated to the financing of the construction or production of tangible assets or investment properties and the construction of flats presented as inventories – work in progress are subject to capitalization. These costs comprise interest due up to the moment of handing an asset over to use, loss on foreign exchange differences up to the amount corresponding to the adjustment of the cost of interest to the interest level appropriate for the local currency, and gains on foreign exchange differences up to the amount of earlier losses capitalized on account thereof.

### 9.31. Prepayments

During the reporting period prepayments include, among others:

- costs of rent and lease paid in advance,
- costs of energy paid in advance,
- costs of property insurance,
- costs of charges for the right of perpetual usufruct,
- property tax,
- contributions to the employee benefit fund,
- other financial expenses charged in advance,
- commissions for effecting agreements on sales of flats,
- other costs relating to the following reporting periods (subscriptions, advance payments for fair events, costs of the provision of utility junctions, etc.).

Costs subject to activation in the prepayments and accrued income account are settled proportionally to the passage of time in the following financial periods to which they relate. Costs of effecting the sale of flats are settled upon obtaining revenue from the sale of flats.

### 9.32. Accrued expenses

Accrued expenses are created in the amount of probable liabilities due in the current reporting period, particularly resulting from:

1) the value of services provided by contractors, whose amount can be assessed in a reliable way,
2) the obligation to provide future services resulting from the current activity, whose amount can be assessed, although the date of their provision is not known yet, and which can include, among others:
    - costs of remuneration and mark-ups connected with the results of the period, but paid in the following reporting periods,
    - costs of auditing these financial statements and other costs relating to the reporting period.

### 9.33. Net profit (loss) per share

Basic profit/(loss) per share is calculated by dividing net profit/(loss) for the period attributable to ordinary shareholders of the Parent Undertaking by the average weighted number of issued ordinary shares occurring during the period.

Diluted profit/(loss) per share is calculated by dividing net profit/(loss) for the period attributable to ordinary shareholders of the Parent Undertaking (after deducting interest on depreciable preferred shares convertible to ordinary shares) by the average weighted number of issued ordinary shares occurring during a period, adjusted by the impact of diluting options and diluting depreciable preferred shares convertible to ordinary shares.

(PLN'000)

## 10. Information on segments of activity

For management purposes, the Group distinguishes three reporting operating segments:

- rental services segment
- development activity segment
- holding (other) activity segment

The Group performs the assessment of the results of operating segments on the basis of sales revenue and gross sales result. The results of other operating activity and financial activity are managed at the Group's level and are not allocated to operating segments.

The tables below present the data concerning revenues and profits in the Group's respective business segments for the year ended 31 December 2014 and for the year ended 31 December 2013 and assets and liabilities in the Group's respective business segments for the year ended 31 December 2014 and for the year ended 31 December 2013.

| Year ended 31 December 2014 | Activity related to rental services | Property development activity | Holding (other) activity | Total activity |
|---|---|---|---|---|
| **Total sales revenue** | **116,095** | **242,527** | **221** | **358,843** |
| **Pre-tax profit (loss) on sales - Segment result** | **81,704** | **51,628** | **221** | **133,553** |
| Unallocated revenues | | | | 84,717 |
| Unallocated expenses | | | | (118,156) |
| **Pre-tax profit (loss)** | | | | **100,114** |
| **As at 31 December 2014** | | | | |
| **Assets and liabilities** | | | | |
| **Total assets** | **1,656,615** | **936,976** | **47,161** | **2,640,752** |
| *including: non-current receivables* | 6,948 | *0* | *0* | *2,131* |
| *current financial assets* | 201 | *5,131* | *0* | *5,332* |
| *cash and other monetary assets* | 70,250 | *174,601* | *41,584* | *291,252* |
| **Total liabilities** | **790,611** | **408,582** | **186,406** | **1,385,599** |
| *including: liabilities on account of loans and bonds* | *677,991* | *244,521* | *0* | *922,512* |
| *liabilities on account of the acquisition of a subsidiary undertaking* | *0* | *0* | *181,893* | *181,893* |

(PLN'000)

| Year ended 31 December 2013 | Activity related to rental services | Property development activity | Holding (other) activity | Total activity |
|---|---|---|---|---|
| **Total sales revenue** | **49,664** | **159,097** | **460** | **209,221** |
| **Pre-tax profit (loss) on sales - Segment result** | **34,718** | **34,821** | **245** | **69,784** |
| Unallocated revenues | | | | 64,968 |
| Unallocated expenses | | | | (50,185) |
| **Pre-tax profit (loss)** | | | | **84,567** |
| **As at 31 December 2013** | | | | |
| **Assets and liabilities** | | | | |
| **Total assets** | **1,535,958** | **788,193** | **89,797** | **2,413,948** |
| *including: non-current receivables* | *2,073* | *0* | *0* | *2,073* |
| *current financial assets* | *642* | *994* | *0* | *1,636* |
| *cash and other monetary assets* | *72,025* | *41,162* | *77,132* | *190,319* |
| **Total liabilities** | **685,104** | **322,888** | **221,180** | **1,229,172** |
| *including: liabilities on account of loans and bonds* | *565,575* | *235,087* | *0* | *800,662* |
| *liabilities on account of the acquisition of a subsidiary undertaking* | *0* | *0* | *216,836* | *216,836* |

## 11. Revenues and Expenses

### 11.1. Revenues

| | Year ended 31 December 2014 | Year ended 31 December 2013 |
|---|---|---|
| Revenue from the rental of office space and the shopping and service centre and related services | 116,198 | 50,118 |
| **Revenue from the sale of services** | **116,198** | **50,118** |
| Revenue from the sale of flats | 242,643 | 159,085 |
| Other | 2 | 18 |
| **Revenue from the sale of goods and products** | **242,645** | **159,103** |

In 2014, the Group's operating activity related to the rental of commercial property was conducted in the Arkady Wrocławskie retail and office centre, the Sky Tower retail and office centre and the Wola Center office building. In December 2014, the construction of the first stage of the Silesia Star office building, intended for rental, was finished and the related activity will be started in 2015.

(PLN'000)

Future minimum payments on account of lease contracts, to which the Group is the leasing party, are as follows:

| | Year ended 31 December 2014 | Year ended 31 December 2013 |
|---|---|---|
| In the period of 1 year | 85,769 | 72,981 |
| In the period of 1 to 5 years | 224,145 | 238,883 |
| In the period of more than 5 years | 19,156 | 39,710 |
| | **329,070** | **351,574** |

Minimum payments relate to investment property lease contracts concluded as at 31 December 2014 and as at 31 December 2013, which are conventionally concluded for periods of 3 to 10 years, without a notice period, with the possibility of extending contracts for subsequent periods.

## 11.2. Expenses by type

| | Year ended 31 December 2014 | Year ended 31 December 2013 |
|---|---|---|
| Depreciation/Amortization | 647 | 577 |
| Consumption of materials and energy | 3,597 | 2,489 |
| Contracted services | 24,046 | 12,840 |
| Taxes and charges | 8,717 | 4,292 |
| Salaries and wages | 15,456 | 11,061 |
| Social security and other benefits | 1,949 | 1,409 |
| Other costs by type | 6,384 | 4,840 |
| Change in products and work in progress | 190,822 | 124,204 |
| **Total** | **251,617** | **161,712** |

| | Year ended 31 December 2014 | Year ended 31 December 2013 |
|---|---|---|
| Cost of sales | 225,290 | 139,437 |
| Selling and distribution expenses | 10,043 | 7,164 |
| General administrative expenses | 16,284 | 15,111 |
| **Total** | **251,617** | **161,712** |

## 11.3. Depreciation/amortization costs disclosed in the statement of comprehensive income

| | Year ended 31 December 2014 | Year ended 31 December 2013 |
|---|---|---|
| **Items disclosed in the cost of sales:** | **6** | **2** |
| Depreciation of tangible assets | 6 | 2 |
| Amortization of intangible assets | 0 | 0 |
| **Items disclosed in selling expenses:** | **220** | **202** |
| Depreciation of tangible assets | 219 | 202 |
| Amortization of intangible assets | 1 | 0 |
| **Items disclosed in general administrative expenses:** | **421** | **373** |
| Depreciation of tangible assets | 314 | 256 |
| Amortization of intangible assets | 107 | 117 |

(PLN'000)

### 11.4. Costs of employee benefits

| | Year ended 31 December 2014 | Year ended 31 December 2013 |
|---|---|---|
| Salaries and wages | 15,456 | 11,061 |
| Costs of social security | 1,613 | 1,167 |
| Costs of retirement benefits | 0 | 0 |
| Other post-employment benefits | 0 | 0 |
| Costs of share-based remuneration scheme | 0 | 0 |
| Other benefits | 336 | 242 |
| **Total costs of employee benefits, including:** | **17,405** | **12,470** |
| Items displayed in the cost of sales | 3,761 | 1,599 |
| Items displayed in selling expenses | 3,373 | 2,355 |
| Items displayed in general administrative expenses | 10,270 | 8,516 |

### 11.5. Other operating income

| | Year ended 31 December 2014 | Year ended 31 December 2013 |
|---|---|---|
| Net reversal of provisions for disputes and court proceedings | 11,995 | 10 |
| Net reversal of provisions for remedying construction faults and defects | 200 | 0 |
| Reversal of provisions recognized as accruals | 0 | 152 |
| Damages and compensations received | 508 | 718 |
| Other | 949 | 320 |
| **Total** | **13,652** | **1,200** |

### 11.6. Other operating expenses

| | Year ended 31 December 2014 | Year ended 31 December 2013 |
|---|---|---|
| Created net provisions for bad debt | 1,474 | 550 |
| Created net provisions for disputes and court proceedings | 0 | 236 |
| Created provisions for remedying construction faults and defects | 0 | 11 |
| Created provisions for liabilities on account of agreements with clients | 0 | 200 |
| Costs of court or enforcement proceedings | 16 | 76 |
| Other | 405 | 135 |
| **Total** | **1,895** | **1,208** |

(PLN'000)

### 11.7. Financial income

| | Year ended 31 December 2014 | Year ended 31 December 2013 |
|---|---|---|
| Bank interest received | 4,701 | 5,616 |
| Surplus of positive over negative foreign exchange differences | 0 | 2,609 |
| Other | 9 | 35 |
| **Total** | **4,710** | **8,260** |

### 11.8. Financial expenses

| | Year ended 31 December 2014 | Year ended 31 December 2013 |
|---|---|---|
| Interest on bonds and loans | 21,810 | 6,866 |
| Cost of discounting the acquisition of a subsidiary | 7,057 | 638 |
| Valuation of financial instruments | 679 | 2,683 |
| Surplus of negative over positive foreign exchange differences | 16,861 | 0 |
| Tax expense on share capital increases in subsidiaries | 158 | 865 |
| Other | 180 | 191 |
| **Total** | **46,745** | **11,243** |

## 12. Income tax

### 12.1. Tax expense

The main elements of tax expense for the year ended 31 December 2014 and the year ended 31 December 2013 include the following:

| | Year ended 31 December 2014 | Year ended 31 December 2013 |
|---|---|---|
| **Disclosed in profit or loss** | | |
| ***Current income tax*** | | |
| Current income tax expense | (4,228) | (3,050) |
| Adjustments of the current income tax from previous years | 0 | 0 |
| ***Deferred income tax*** | | |
| Timing differences and their reversal | (19,566) | (7,915) |
| **Tax expense shown in the consolidated profit or loss** | **(23,794)** | **(10,965)** |
| **Consolidated Statement of changes in equity** | | |
| Acquisition of a subsidiary | 0 | (1,092) |
| **Tax benefit/(tax expense) disclosed in equity** | **0** | **(1,092)** |
| **Consolidated Statement of Comprehensive Income** | | |
| Tax on net profit/(loss) on account of changes in the effective portion of cash flow hedges | 1,129 | (44) |
| Tax on unrealized profit/(loss) on financial assets available for sale | (13) | (16) |
| **Tax benefit/(tax expense) disclosed in other comprehensive income** | **1,116** | **(60)** |

(PLN'000)

## 12.2. Reconciliation of effective tax rate

The reconciliation of income tax on the gross financial result before tax according to the statutory tax rate, with income tax calculated according to the Group's effective tax rate for the year ended 31 December 2014 and 31 December 2013 is as follows:

| | Year ended 31 December 2014 | Year ended 31 December 2013 |
|---|---|---|
| Gross profit /(loss) before tax on continued operations | 100,114 | 84,567 |
| Profit /(loss) before tax on discontinued operations | 0 | 0 |
| **Gross profit/(loss) before tax** | **100,114** | **84,567** |
| **Tax according to the statutory tax rate binding in Poland: 19% (2013: 19%)** | **19,022** | **16,068** |
| Non-tax-deductible costs | 404 | 965 |
| Undisclosed/adjusted tax losses | (5,550) | 8,627 |
| Differences in tax value and balance-sheet value of inventories | 8,990 | (13,086) |
| Settlement of a discount of share acquisition price and interest for deferred payment | 2,793 | 236 |
| Other | (1,845) | (1,845) |
| **Tax according to the effective tax rate 24% (2013:13%)** | **23,794** | **10,965** |
| Income tax (expense) reported in the statement of comprehensive income | (23,794) | (10,965) |
| Income tax attributed to discontinued operations | 0 | 0 |
| | **(23,794)** | **(10,965)** |

## 12.3. Deferred income tax

Deferred income tax results from the following items:

| | Statement of Financial Position | | | Deferred income tax expenses for year ended | |
|---|---|---|---|---|---|
| | 31 Dec 2014 | 31 Dec 2013 | 1 Jan 2013 | 31 Dec 2014 | 31 Dec 2013 |
| ***Deferred tax liability*** | | | | | |
| Interest calculated, discounts on loans, bonds, bills and deposits | (15,503) | (14,423) | (24,240) | (1,080) | 9,817 |
| Valuation of investment properties | (62,723) | (49,525) | (40,954) | (13,198) | (8,571) |
| Difference in the value of tangible assets (tax and balance-sheet depreciation) | (27,806) | (18,676) | (11,935) | (9,130) | (6,741) |
| Other | (74) | (390) | (226) | 316 | (164) |
| **Gross deferred tax liability** | **(106,106)** | **(83,014)** | **(77,355)** | | |
| ***Deferred tax assets*** | | | | | |
| Provisions and deferrals | 350 | 794 | 702 | (444) | 92 |
| Interest calculated, discounts on loans, bonds and bills | 10,177 | 9,431 | 3,897 | 746 | 5,534 |
| Currency translation differences | 6,321 | 3,468 | 4,093 | 2,853 | (625) |
| Difference in tax and balance-sheet value of other assets | 2,232 | 5,940 | 23,013 | (3,708) | (17,073) |

(PLN'000)

| | | | | | |
|---|---|---|---|---|---|
| Losses that can be deducted from future taxable income | 17,630 | 13,493 | 5,158 | 4,137 | 8,335 |
| Other | 1,426 | 368 | 39 | 1,058 | 329 |
| **Gross deferred tax assets** | **38,136** | **33,494** | **36,902** | | |
| **Deferred tax expense** | | | | **(18,450)** | **(9,067)** |
| **Net deferred tax asset** | **17,179** | **17,848** | **18,572** | | |
| **Net deferred tax liability** | **(85,149)** | **(67,368)** | **(47,035)** | | |

Considering the specificity of the conducted activity, which involves the achievement of taxable revenue at a deferred time, the Group activates incurred tax losses until taxable income is achieved, taking into account the tax regulations concerning the possibility of settling such losses. The amount of an asset resulting from tax losses disclosed in deferred tax is presented in the table above.

As at 31 December 2014, the Group carried out an analysis of the recoverability of created and potential deferred tax asset and did not create a deferred tax asset on account of, among others, tax losses in companies in the amount of PLN 3,889,000 (PLN 8,021,000 as at 31 December 2013), which can be used within the maximum period of up to five years from the end of the reporting period, in which they occurred. In addition, the Group did not create a deferred tax asset in the amount of PLN 23,054,000 with regard to temporary differences between the balance-sheet and tax values of respective assets and equity and liabilities items (PLN 14,349,000 as at 31 December 2013).

## 13. Profit/(loss) per share

Basic profit/(loss) per share is calculated by dividing net profit/(loss) for the period attributable to ordinary shareholders of the Parent Undertaking by the average weighted number of issued ordinary shares occurring during the period.

Diluted profit/(loss) per share is calculated by dividing net profit/(loss) for the period attributable to ordinary shareholders of the Parent Undertaking (after deducting interest on depreciable preferred shares convertible to ordinary shares) by the average weighted number of issued ordinary shares occurring during the period (adjusted by the impact of diluting options and diluting depreciable preferred shares convertible to ordinary shares).

Data on profit and shares used to calculate the basic and diluted profit per share are presented below:

| | **Year ended 31 December 2014** | **Year ended 31 December 2013** |
|---|---|---|
| Average weighted number of issued ordinary shares used to calculate the basic profit per share | 447,558,311 | 447,558,311 |
| Impact of dilution: | | |
| Options for shares | 0 | 0 |
| Adjusted average weighted number of issued ordinary shares used to calculate the diluted profit per share | **447,558,311** | **447,558,311** |

(PLN'000)

| | Year ended 31 December 2014 | Year ended 31 December 2013 |
|---|---|---|
| Net profit/(loss) on continued operations | 76,320 | 73,602 |
| Profit/(loss) on discontinued operations | 0 | 0 |
| **Net profit/loss** | **76,320** | **73,602** |
| **Net profit/(loss) attributable to shareholders of the Parent, used to calculate profit per share** | **76,320** | **73,602** |
| Net profit/(loss) per share in PLN | 0.17 | 0.16 |
| Net diluted profit/(loss) per share in PLN | 0.17 | 0.16 |

## 14. Intangible assets

| Computer and other software | Year ended 31 December 2014 | Year ended 31 December 2013 |
|---|---|---|
| **Net value as at 1 January** | **372** | **347** |
| Increase – acquisition | 28 | 89 |
| Increase – other (*) | 0 | 53 |
| Decrease (sale, liquidation, transfer) | 0 | 0 |
| Decrease – other | 0 | 0 |
| Amortization charge for the period | (109) | (117) |
| Impairment charge | 0 | 0 |
| **As at 31 December** | **291** | **372** |

(*)*Increase - other* in 2013 are related to the acquisition of a subsidiary

| | | |
|---|---|---|
| **As at 1 January** | | |
| Gross value | 2,378 | 2,019 |
| Amortization and impairment charge | (2,006) | (1,672) |
| **Net value** | **372** | **347** |
| | | |
| **As at 31 December** | | |
| Gross value | 2,187 | 2,378 |
| Amortization and impairment charge | (1,896) | (2,006) |
| **Net value** | **291** | **372** |

(PLN'000)

## 15. Property, plant and equipment

| Year ended 31 December 2014 | Land and buildings | Means of transport | Plant and equipment | Tangible assets under construction | Total |
|---|---|---|---|---|---|
| **Net value as at 1 January 2014** | **184** | **628** | **3,711** | **193** | **4,716** |
| Increase – acquisition | 0 | 0 | 0 | 682 | 682 |
| Increase – other | 0 | 0 | 0 | 0 | 0 |
| Increase – from tangible assets under construction | 492 | 0 | 377 | (869) | 0 |
| Decrease – Sale | 0 | 0 | 0 | 0 | 0 |
| Decrease – Liquidation | (135) | 0 | ( 4) | 0 | (139) |
| Depreciation charge for the period | (38) | (218) | (282) | 0 | (538) |
| Impairment charge | 0 | 0 | 0 | 0 | 0 |
| **Net value as at 31 December 2014** | **503** | **410** | **3,802** | **6** | **4,721** |
| | | | | | |
| **As at 1 January 2014** | | | | | |
| Gross value | 221 | 1,727 | 6,039 | 193 | 8,180 |
| Depreciation and impairment charge | (37) | (1,099) | (2,328) | 0 | (3,464) |
| **Net value** | **184** | **628** | **3,711** | **193** | **4,716** |
| | | | | | |
| **As at 31 December 2014** | | | | | |
| Gross value | 536 | 1,727 | 6,104 | 6 | 8,373 |
| Depreciation and impairment charge | (33) | (1,317) | (2,302) | 0 | (3,652) |
| **Net value** | **503** | **410** | **3,802** | **6** | **4,721** |

| Year ended 31 December 2013 | Land and buildings | Means of transport | Plant and equipment | Tangible assets under construction | Total |
|---|---|---|---|---|---|
| **Net value as at 1 January 2013** | **191** | **571** | **488** | **24** | **1,274** |
| Increase – acquisition | 0 | 0 | 0 | 4,690 | 4,690 |
| Increase – other (*) | 0 | 103 | 3,237 | 0 | 3,340 |
| Increase – from tangible assets under construction | 14 | 132 | 262 | (408) | 0 |
| Decrease – Sale | 0 | 0 | (14) | 0 | (14) |
| Decrease – Liquidation | 0 | 0 | 0 | (5) | (5) |
| Depreciation charge for the period | (21) | (175) | (264) | 0 | (460) |
| Impairment charge | 0 | 0 | 0 | 0 | 0 |
| **Net value as at 31 December 2013** | **184** | **628** | **3,711** | **193** | **4,716** |

(*) *Increase - other* in 2013 is related to the acquisition of a subsidiary

| | | | | | |
|---|---|---|---|---|---|
| **As at 1 January 2013** | | | | | |
| Gross value | 207 | 1,420 | 1,887 | 24 | 3,538 |

(PLN'000)

| | | | | | |
|---|---|---|---|---|---|
| Depreciation and impairment charge | (16) | (849) | (1,399) | 0 | (2,264) |
| **Net value** | **191** | **571** | **488** | **24** | **1,274** |
| | | | | | |
| **As at 31 December 2013** | | | | | |
| Gross value | 221 | 1,727 | 6,039 | 193 | 8,180 |
| Depreciation and impairment charge | (37) | (1,099) | (2,328) | 0 | (3,464) |
| **Net value** | **184** | **628** | **3,711** | **193** | **4,716** |

As at 31 December 2014 and as at 31 December 2013, no item of tangible assets was used as collateral, was subject to encumbrance or mortgaged.

## 16. Non-current receivables

Under 'Non-current receivables' the Group discloses the amounts securing the servicing of its debts, required under long-term loan agreements:

- as at 31 December 2014: security deposit of EUR 500,000 (PLN 2,131,000) and reserve of PLN 4,817,000 in a bank account used for debt servicing,
- as at 31 December 2013: security deposit of EUR 500,000 (PLN 2,073,000)

## 17. Acquisition and disposal of subsidiary undertakings

### New undertakings and internal changes in the Group:

In the year ended 31 December 2014, the following changes occurred in the Group:

(1) On 12 May 2014, the District Court for Wrocław-Fabryczna, VI Commercial Division of KRS, registered, under KRS number 0000508947, LC Corp Invest XV Spółka z ograniczoną odpowiedzialnością Projekt 14 Spółka komandytowa, having its registered office in Wrocław, which was established as a result of the transformation of LC Corp Invest XV Spółka z ograniczoną odpowiedzialnością Projekt 14 Spółka komandytowo-akcyjna, having its registered office in Wrocław. The transformation took place pursuant to Art. 551.1 of the Act of 15 September 2000, the Code of Commercial Partnerships and Companies. The Company is represented by the general partner (LC Corp Invest XV Sp. z o.o.).

(2) On 14 May 2014, the District Court for Wrocław-Fabryczna, VI Commercial Division of the National Court Register (KRS), registered a change in the amount of the share capital of LC Corp Invest XI Sp. z o.o. The Company's new share capital totals PLN 41,000,000.00. LC Corp S.A. holds all shares in this company.

(3) On 28 May 2014, the District Court for Wrocław-Fabryczna, VI Commercial Division of KRS registered a change in the amount of the share capital of LC Corp Invest XII Sp. z o.o. The Company's new share capital totals PLN 24,800,000.00. LC Corp S.A. holds all shares in this company.

(4) On 29 August 2014, a new Group's company was registered – LC Corp Invest XV Spółka z ograniczoną odpowiedzialnością Projekt 11 Spółka komandytowa. LC Corp Invest VII Sp. z o.o. and LC Corp Invest VIII Sp. z o.o. are the company's limited partners, whereas LC Corp Invest XV Sp. z o.o. is the company's general partner, representing the company and managing its affairs.

(5) On 17 October 2014, a resolution was adopted on an increase in the share capital of Warszawa Przyokopowa Sp. z o.o. of PLN 30,001,000 by the creation of new shares that were taken up by LC Corp Invest XVIII Sp. z o.o. (10 shares) and LC Corp Invest XVIII Sp. z o.o. Real Estate S.K.A. (300,000 shares), which thus became the company's new shareholders. Both companies belong to the LC Corp Group and are wholly controlled by the Issuer. The increase in the share capital was registered by the Registration Court of KRS on 24 October 2014.

### Acquisition of business entities

(1) On 24 July 2014, LC Corp S.A. acquired 100 shares in the share capital of Aberdare Sp. z o.o., having its registered seat in Warsaw, having the total par value of PLN 5,000.00 and representing 100% of the company's share capital, and thus became its sole shareholder. On 15 September 2014, the change was registered of the company's name Aberdare Sp. z o.o. to LC Corp Invest XVIII sp. z o.o., where LC Corp S.A. holds 100% of the shares in the share capital, thus being its sole shareholder.

(2) On 24 July 2014, LC Corp S.A. acquired 1,000 shares, having the total par value of PLN 50,000.00, of Aberdare Sp. z o.o. – XXIV – S.K.A. (currently under the name LC Corp Invest XVIII Sp. z o.o. Real Estate S.K.A.), having its registered seat in Wrocław, and thus became the company's sole shareholder. The company is represented by its general partner, LC Corp Invest XVIII Sp. z o.o. On 14 October 2014 the change of the name and registered office of Aberdare Sp. z o.o. XXIV S.K.A. was registered. The company's new name is LC Corp Invest XVIII Spółka z ograniczoną odpowiedzialnością Real Estate S.K.A. and its registered office is located in Wrocław.

## 18. Investment properties

As at 31 December 2014, the Group's investment property includes: the Arkady Wrocławskie and Sky Tower shopping and office centres in Wrocław, the Wola Center office building in Warsaw and the complex of office buildings, Silesia Star, in Katowice, Stage 1 (completed) and Stage 2 (under construction).

As at 31 December 2014 the fair value of Arkady Wrocławskie and Wola Center totalled PLN 473,968,000 (EUR 111,200,000) and PLN 439,443,000 (EUR 103,100,000), respectively. This value was reduced by PLN 1,500,000 due to the ongoing finishing works in the facility.

The fair value of the Sky Tower investment property totalled PLN 507,256,000 (EUR 119,010,000). Since additional expenditure of PLN 6,685,000 was planned on the finishing works in the remaining vacant commercial and office space, as at the balance-sheet date the valuation of this property was reduced by the above amount and totalled PLN 500,571,000.

As at the end of the reporting period, i.e. on 31 December 2014, the valuer's measurement of investment property comprising the Silesia Star office building (Stage 1) totalled PLN 136,564,000 (EUR 32,040,000). In the valuation survey, because of the ongoing finishing works, this measurement was reduced by PLN 20,000,000, i.e. by the expenditure to be incurred on the finishing works in the facility's leasable space. As at 31 December 2014, the Group recognized already a part of expenses, concerning the contracted finishing works for the amount of PLN 2,993,000, and the valuer's measurement was reduced by the remaining amount of PLN 17,007,000. Therefore, in the financial statements as at 31 December 2014 the value of the Silesia Star investment property totalled PLN 119,557,000.

Stage 2 of this construction project, taking into account the advancement of the works and the impossibility of measuring reliably the fair value as at 31 December 2014, was valued according to the historical cost at PLN 33,121,000.

Valuations were carried out by professional real estate valuers. Market values of these properties were estimated by the income approach, using the investment method. The income approach and the investment method are based on the assumption that the value of the property depends on the rental income that can be obtained from such property and the capitalization rate. Income from the property can result from rental contracts or, in the case of vacant spaces, from the analysis of market rental rates. The rate of return, known as the capitalization rate, is established on the basis of an analysis of similar transactions on the market in the financial year. Valuation is given in the currency of invoiced lease rents, i.e. EUR, and converted into PLN at the average exchange rate of NBP as at the date of valuation.

The reconciliation of changes in the balance sheet values of investment property in the year ended 31 December 2014 and 31 December 2013 is presented in the table below:

(PLN'000)

| | Year ended 31 December 2014 | Year ended 31 December 2013 |
|---|---|---|
| **As at 1 January** | **1,434,661** | **731,515** |
| Transfer of investment property from inventories (*) | 0 | 68,961 |
| Increase related to the acquisition of a subsidiary (**) | 0 | 484,429 |
| Capital expenditure incurred | 61,030 | 94,248 |
| Revaluation to fair value | 69,469 | 55,508 |
| **As at the end of the reporting period** | **1,565,160** | **1,434,661** |

*(*) in 2013 relates to the Silesia Star investment property*

*(**) in 2013 relates to the Sky Tower investment property*

The table below shows the amounts of revenues and expenses from investment properties for the year ended 31 December 2014 and 31 December 2013, other than revaluation to fair value:

| | Year ended 31 December 2014 | Year ended 31 December 2013 |
|---|---|---|
| Revenue from rental | 115,984 | 49,490 |
| Direct operating expenses (including repair and maintenance expenses), which brought revenue from rental and related services in a given year | 34,845 | 15,133 |
| Direct operating expenses (including repair and maintenance expenses), which did not bring any revenue from rental in a given year | 0 | 0 |

In 2014, the Group's operating activity related to the rental of commercial property was conducted in the Arkady Wrocławskie shopping and office centre, the Sky Tower shopping and office centre and the Wola Center office building. In December 2014, the construction of the first stage of the Silesia Star office building, intended for rental, was finished and the related activity will be started in 2015.

## 19. Employee benefits

### Staff incentive schemes

In 2014, the Company did not have any share-based incentive schemes.

## 20. Inventories

| | 31 December 2014 | 31 December 2013 |
|---|---|---|
| Work in progress | 742,758 | 726,101 |
| Finished products | 105,630 | 76,562 |
| Valuation allowances for inventories | (118,833) | (81,071) |
| **Total inventories** | **729,555** | **721,592** |

As at 31 December 2014 the costs of external financing of PLN 48,838,000 (as at 31 December 2013: PLN 40,544,000) were capitalized in the value of inventories.

At the end of each reporting period, the Management Board assesses the impairment of conducted property development projects by analysing sales reports, market research and other available evidence. In the event of a risk of loss of value, the value of these investment projects is estimated using the DCF method, which is used to determine the valuation allowances for inventories. The DCF method, which is based on discounted cash flows generated within approved investment project schedules and revenues from sales of flats, taking account of the sale price of 1 square metre of usable floor space, in accordance with the current market situation. The discount rate takes into account the weighted average cost of external and own capital (WACC).

(PLN'000)

The valuation allowances for inventories are estimated as at 31 December 2014 and may be subject to change depending on the fluctuation of market prices of land, selling prices of flats, construction costs, project completion schedules and discount rate calculations in the future. The actual results may vary from these estimates which were calculated on the grounds of data available as at the reporting date. It is also related to the uncertainty regarding the proper estimation of the market conditions in the following years. Consequently, valuation allowances may change in the following financial periods.

Changes in the valuation allowance for inventories were as follows:

| | Year ended 31 December 2014 | Year ended 31 December 2013 |
|---|---|---|
| **At the beginning of the period** | **81,071** | **92,917** |
| Increase | 43,061 | 15,452 |
| Use | (5,299) | (5,575) |
| Transfers to Investment properties | 0 | (21,723) |
| Decrease | 0 | 0 |
| **At the end of the period** | **118,833** | **81,071** |

As at 31 December 2014 and as at 31 December 2014, no item of inventories was used as collateral, was subject to encumbrance or mortgaged, except for the mortgages described in Note 35.3.

## 21. Trade and other receivables

| | 31 December 2014 | 31 December 2013 |
|---|---|---|
| Trade receivables | 9,879 | 9,943 |
| State budget receivables (without income tax) | 9,791 | 17,102 |
| Receivables resulting from the blocking of funds (*) | 3,629 | 12,000 |
| Other receivables from third parties | 101 | 120 |
| **Total receivables (net)** | **23,400** | **39,165** |
| Adjustment taking account of deferred income (**) | (476) | (401) |
| Valuation allowance for receivables | (3,153) | (2,113) |
| **Gross receivables** | **27,029** | **41,679** |

(*) As at 31 December 2014 the balance concerns the blocking of funds on the escrow account, for the purpose of acquiring real property.

As at 31 December 2013 the balance concerns the blocking of funds to secure the provision taken over upon the acquisition of a subsidiary undertaking, see Note 30.

(**) As at 31 December 2014 and 31 December 2013 the Group recognized receivables on account of accrued penalties and damages in the amount of PLN 476,000 and PLN 401,000, respectively, net of deferred income resulting therefrom.

(PLN'000)

Changes in the valuation allowance for receivables were as follows:

| | Year ended 31 December 2014 | Year ended 31 December 2013 |
|---|---|---|
| **At the beginning of the period** | **2,113** | **651** |
| Increase related to the acquisition of a subsidiary | 0 | 969 |
| Increase | 1,901 | 550 |
| Use | (434) | (57) |
| Decrease | (427) | 0 |
| **At the end of the period** | **3,153** | **2,113** |

The table below presents the analysis of trade receivables, which as at 31 December 2014 and 31 December 2013 were past due, but were not regarded as uncollectible.

| | | | Past due, but collectible | | | |
|---|---|---|---|---|---|---|
| | Total | Not past due | < 30 days | 30-90 days | 90-180 days | >180 days |
| 31 December 2014 | 9,879 | 4,297 | 3,437 | 1,141 | 620 | 384 |
| 31 December 2013 | 9,943 | 4,460 | 2,948 | 2,060 | 292 | 183 |

## 22. Current financial assets

| | 31 December 2014 | 31 December 2013 |
|---|---|---|
| Stocks and shares | 201 | 131 |
| Financial instruments (forward transactions) – acc. to valuation | 0 | 511 |
| Cash in open trust accounts | 5,131 | 994 |
| | **5,332** | **1,636** |

## 23. Cash and cash equivalents

| | 31 December 2014 | 31 December 2013 |
|---|---|---|
| Cash on hand and in a bank account | 29,700 | 107,086 |
| Short-term deposits | 256,735 | 83,233 |
| | **286,435** | **190,319** |

Cash in a bank account bears interest according to floating interest rates. Short-term deposits are made for different periods, from one day to several months, depending on the Group's current demand for cash, and bear interest according to interest rates negotiated for them.

(PLN'000)

## 24. Prepaid expenses

| | 31 December 2014 | 31 December 2013 |
|---|---|---|
| Rent paid in advance | 42 | 88 |
| Commissions for sales agency | 27 | 0 |
| **Non-current prepayments** | **69** | **88** |
| | | |
| Rent paid in advance | 46 | 46 |
| Commissions for sales agency | 870 | 653 |
| Insurance | 299 | 148 |
| Other (subscriptions) | 334 | 185 |
| **Current prepayments** | **1,549** | **1,032** |

## 25. Explanations to the statement of cash flows

### 25.1. Change in liabilities, net of loans and borrowings

| | 31 December 2014 | 31 December 2013 |
|---|---|---|
| Balance-sheet change in liabilities (net of loans and borrowings) | (44,669) | 243,384 |
| Investment liabilities | 11,498 | 4,214 |
| Liabilities on account of the acquisition of shares | 42,000 | 0 |
| **Change in liabilities** | **8,829** | **247,598** |

### 25.2. Other adjustments

| | 31 December 2014 | 31 December 2013 |
|---|---|---|
| Revaluation of an investment property | (69,469) | (55,508) |
| Adjustments on account of the acquisition of a subsidiary | 0 | (228,504) |
| Reclassification of investments from inventories to investment property | 0 | (68,961) |
| Valuation of forward instruments | 511 | 2,683 |
| Reclassification of open trust accounts | (4,137) | 0 |
| Other | (968) | 299 |
| **Other adjustments** | **72,127** | **(349,991)** |

## 26. Equity

### 26.1. Share capital

| Share capital | 31 December 2014<br>PLN'000 | 31 December 2013<br>PLN'000 |
|---|---|---|
| Series A ordinary shares with a par value PLN 1.00 per share | 500 | 500 |
| Series B ordinary shares with a par value PLN 1.00 per share | 113,700 | 113,700 |
| Series C ordinary shares with a par value PLN 1.00 per share | 1,453 | 1,453 |
| Series D ordinary shares with a par value PLN 1.00 per share | 1,472 | 1,472 |
| Series E ordinary shares with a par value PLN 1.00 per share | 32,000 | 32,000 |
| Series F ordinary shares with a par value PLN 1.00 per share | 102,000 | 102,000 |
| Series G ordinary shares with a par value PLN 1.00 per share | 80,000 | 80,000 |
| Series H ordinary shares with a par value PLN 1.00 per share | 58,433 | 58,433 |
| Series I ordinary shares with a par value PLN 1.00 per share | 1,000 | 1,000 |
| Series J ordinary shares with a par value PLN 1.00 per share | 57,000 | 57,000 |
| | **447,558** | **447,558** |

| Ordinary shares of LC Corp S.A. issued, registered and fully paid | Number | Value<br>PLN'000 |
|---|---|---|
| **As at 1 January 2014** | **447,558,311** | **447,558** |
| **As at 31 December 2014** | **447,558,311** | **447,558** |

### Par value of the shares

All issued shares have a par value of PLN 1.00 and were fully paid.

### Shareholders' rights

No shares of any series are preferred as to the dividend or return on capital. One share corresponds to one vote.

(PLN'000)

**Shareholders with significant participation**

Shareholders possessing, directly or indirectly through subsidiary undertakings, at least 5% of the total vote at the Issuer's general meeting as at 31 December 2014:

| Shareholder | Number of shares | Number of votes | Participation (%) in share capital | Share (%) in total vote at general meeting |
|---|---|---|---|---|
| Leszek Czarnecki directly and indirectly(1) including: | 229,359,795 | 229,359,795 | 51.24% | 51.24% |
| LC Corp B.V. seated in Amsterdam | 214,701,110 | 214,701,110 | 47.97% | 47.97% |
| AVIVA Otwarty Fundusz Emerytalny AVIVA BZ WBK | 30,200,000 | 30,200,000 | 6.75% | 6.75% |
| ING Otwarty Fundusz Emerytalny | 35,000,000 | 35,000,000 | 7.82% | 7.82% |
| OFE PZU "Złota Jesień" | 44,669,000 | 44,669,000 | 9.98% | 9.98% |

Leszek Czarnecki directly holds 14,657,685 shares representing 3.27% of the share capital and 3.27% share in the vote at the General Meeting, and indirectly through his subsidiary undertakings Leszek Czarnecki holds 214,702,110 shares representing 47.97% of the share capital and 47.97% share in the vote at the General Meeting. Leszek Czarnecki's subsidiary undertaking is LC Corp. B.V. seated in Amsterdam holding 214,701,110 shares representing 47.97% of the share capital and 47.97% share in the vote at the General Meeting and RB Investcom Sp. z o.o. seated in Wrocław holding 1,000 shares representing 0.0002% of the share capital and 0.0002% share in the vote at the General Meeting.

Shareholders possessing, directly or indirectly through subsidiary undertakings, at least 5% of the total vote at the Issuer's general meeting as at 31 December 2013:

| Shareholder | Number of shares | Number of votes | Participation (%) in share capital | Share (%) in total vote at general meeting |
|---|---|---|---|---|
| Leszek Czarnecki directly and indirectly(1) including: | 229,126,674 | 229,126,674 | 51.19% | 51.19% |
| LC Corp B.V. seated in Amsterdam | 214,701,110 | 214,701,110 | 47.97% | 47.97% |
| AVIVA Otwarty Fundusz Emerytalny AVIVA BZ WBK (2) | 30,200,000 | 30,200,000 | 6.75% | 6.75% |
| ING Otwarty Fundusz Emerytalny (3) | 30,322,627 | 30,322,627 | 6.78% | 6.78% |
| OFE PZU "Złota Jesień" (3) | 44,669,000 | 44,669,000 | 9.98% | 9.98% |

1) Leszek Czarnecki directly holds 14,424,564 shares representing 3.22% of the share capital and 3.22% share in the vote at the General Meeting, and indirectly through his subsidiary undertakings Leszek Czarnecki holds 214,702,110 shares representing 47.97% of the share capital and 47.97% share in the vote at the General Meeting. Leszek Czarnecki's subsidiary undertaking is LC Corp. B.V. seated in Amsterdam holding 214,701,110 shares representing 47.97% of the share capital and 47.97% share in the vote at the General Meeting and RB Investcom Sp. z o.o. seated in Wrocław holding 1,000 shares representing 0.0002% of the share capital and 0.0002% share in the vote at the General Meeting.
2) Number of shares held by a shareholder at the Extraordinary General Meeting of LC Corp S.A. on 29 August 2013.
3) Number of shares held by the shareholder at the Extraordinary General Meeting of LC Corp S.A. on 6 December 2013.

(PLN'000)

## 26.2. Other capital

| | 31 December 2014 | 31 December 2013 |
|---|---|---|
| Surplus of the issue value over the par value less issue costs | 328,015 | 328,015 |
| Capital from the acquisition of subsidiaries | 61,742 | 61,742 |
| Retained earnings | 344,094 | 270,492 |
| **Reserve funds, other capital reserves and retained earnings** | **733,851** | **660,249** |
| Valuation of share-based benefits | 3,108 | 3,108 |
| Revaluation of shares available for sale | 124 | 68 |
| Revaluation of hedging instruments - hedge accounting | (5,808) | 191 |
| **Other funds** | **(2,576)** | **3,367** |
| **Total other capital** | **731,275** | **663,616** |

## 27. Liabilities on account of loans and bonds

### Interest-bearing bank loans and bonds

| Non-current | Maturity | 31 December 2014 | 31 December 2013 |
|---|---|---|---|
| Bank loan in EUR (non-current portion) **(a)** | 31 Dec 2017 | 152,111 | 164,071 |
| Bank loan in EUR (non-current portion) **(b)** | 15 June 2022 | 220,651 | 143,669 |
| Bank loan in EUR (non-current portion) **(c)** | 20 Dec 2022 | 226,543 | 228,313 |
| Bank loan in EUR (non-current portion) **(d)** | 31 Dec 2025 | 35,038 | - |
| Bank loan in PLN (non-current portion) **(d)** | 31 May 2016 | 886 | - |
| Bank loan in PLN (non-current portion) **(e)** | 31 Jan 2016 | 29,936 | 29,880 |
| Bank loan in PLN (non-current portion) **(f)** | 31 Dec 2018 | 49,586 | - |
| Bond Scheme **(h)** | - | - | 64,724 |
| Bond Scheme **(i)** | 30 Oct 2018 | 49,531 | 49,419 |
| Bond Scheme **(j)** | 6 June 2019 | 49,558 | - |
| | | **813,840** | **680,076** |

(PLN'000)

| Current | Maturity | 31 December 2014 | 31 December 2013 |
|---|---|---|---|
| Bank loan in EUR (current portion) **(a)** | 31 Dec 2015 | 16,513 | 15,197 |
| Bank loan in EUR (current portion) **(b)** | 31 Dec 2015 | 9,275 | 3,321 |
| Bank loan in PLN (current portion) **(b)** | - | - | 1,807 |
| Bank loan in EUR (current portion) **(c)** | 31 Dec 2015 | 8,173 | 7,690 |
| Bond Scheme **(g)** | - | - | 90,158 |
| Bond Scheme **(h)** | 25 May 2015 | 65,285 | 395 |
| Bond Scheme **(i)** | 30 Apr 2015 | 446 | 511 |
| Bond Scheme **(j)** | 6 June 2015 | 179 | - |
| | | **99,871** | **119,079** |

(a) Loan taken out by Arkady Wrocławskie in EUR on 28 February 2008 from a consortium of banks: ING Bank Śląski S.A. and BZ WBK S.A.

(b) On 15 July 2011 Warszawa Przyokopowa Sp. z o.o. concluded with Raiffeisen Bank Polska S.A. the agreement on an investment loan facility to the maximum of EUR 49,000,000 and a revolving VAT loan to the maximum of PLN 6,600,000 in order to partially finance the construction of an office complex Wola Center in Warsaw. On 26 June 2014 the company concluded an annexe to the Loan Agreement, pursuant to which the maximum amount of the loan was increased up to EUR 55,000,000. As at 31 December 2014 the revolving loan in PLN was already repaid.

(c) Loan taken out by Sky Tower S.A. in EUR based on the agreement with a consortium of Getin Noble Bank S.A. and Alior Bank S.A. concluded on 29 December 2012.

(d) Loans taken out by LC Corp Invest XVII Sp. z o.o. Projekt 20 Sp. k., pursuant to the agreement concluded with PKO BP S.A. on 14 May 2014: a loan in EUR for up to the EUR equivalent of PLN 62,000,000 intended for the partial financing of the construction of an office and retail complex, with shopping and service functions, together with car parks, called Silesia Star, situated in Katowice at ul. Roździeńskiego 10 and a revolving VAT loan for the maximum of PLN 3,000,000.

(e) The loan taken out by LC Corp S.A. in PLN based on the agreement with Getin Noble Bank S.A. concluded on 19 December 2011, released in LC Corp S.A. in 2012.

(f) The loan taken out by LC Corp S.A. in PLN based on the agreement with Getin Noble Bank S.A. concluded on 29 April 2014, released in LC Corp S.A. on 30 April 2014.

(g) Coupon bonds – the issue of 15 April 2011, including 1,000 three-year unsecured coupon bonds, having a par value of PLN 100,000 each. On 26 November 2013, LC Corp S.A. bought back 110 of these bonds, having a par value of PLN 100,000 each and a total par value of PLN 11,000,000, for the purpose of redeeming them. The buy-back of the remaining bonds took place on 15 April 2014.

(h) Coupon bonds – the issue of 1 June 2012, including 650 three-year unsecured coupon bonds, having a par value of PLN 100,000 each, pursuant to the Agreement on Bond Issue Programme concluded with Pekao S.A., having its registered office in Warsaw, and BRE Bank S.A., having its registered office in Warsaw, with the buyback date falling on 25 May 2015.

(i) Coupon bonds – the issue of 31 October 2013, including 500 five-year unsecured coupon bonds, having a par value of PLN 100,000 each and a total par value of PLN 50,000,000, pursuant to the Agreement on Bond Issue Programme concluded with Pekao S.A., having its registered office in Warsaw, and BRE Bank S.A., having its registered office in Warsaw, with the buyback date falling on 30 October 2018.

(PLN'000)

(j) Coupon bonds – the issue of 6 June 2014, including 50,000 five-year unsecured coupon bonds, having a par value of PLN 1,000 each and a total par value of PLN 50,000,000, pursuant to the Agreement on Bond Issue Programme concluded with Pekao S.A., having its registered office in Warsaw, and BRE Bank S.A., having its registered office in Warsaw, with the buyback date falling on 6 June 2019.

In the year ended 31 December 2014 the average weighted interest of loans and bonds totalled 4.2%. In 2013 the average weighted interest of loans and bonds was 4.2%.

### Liabilities arising from the valuation of financial instruments

As at 31 December 2014 and as at 31 December 2013 the fair value measurement of transactions hedging against the risk of interest rate increase, of IRS type, and forward transactions was recognized under Liabilities on account of loans and bonds and totalled:

| | 31 December 2014 | 31 December 2013 |
|---|---|---|
| Non-current | 1,776 | 1,038 |
| Current | 7,025 | 469 |
| **Total** | **8,801** | **1,507** |

## 28. Liabilities arising from the acquisition of a subsidiary

| | 31 December 2014 | 31 December 2013 |
|---|---|---|
| Non-current | 142,897 | 175,572 |
| Current | 38,996 | 41,264 |
| **Total** | **181,893** | **216,836** |

In connection with the deferred payment of the purchase price of the shares of Sky Tower S.A. (pursuant to the agreement of 6 December 2013) liability on account thereof is subject to discounting. As at 31 December 2014 the discount to be settled totalled PLN 20,107,000 and as at 31 December 2013 it was PLN 27,164,000.

## 29. Liabilities

### 29.1. Trade and other payables

| | 31 December 2014 | 31 December 2013 |
|---|---|---|
| Trade payables | 48,602 | 44,268 |
| State budget liabilities (without income tax) | 1,786 | 11,358 |
| Liabilities on account of security deposits | 17,503 | 21,984 |
| Other liabilities | 50 | 57 |
| | **67,941** | **77,667** |
| Non-current | 0 | 0 |
| Current | 67,941 | 77,667 |

(PLN'000)

An analysis of maturity of trade and other payables as at 31 December 2014 and 31 December 2013:

| | 31 December 2014 | 31 December 2013 |
|---|---|---|
| up to 1 year | 67,941 | 77,667 |
| between 1 and 5 years | 0 | 0 |
| over 5 years | 0 | 0 |
| | **67,941** | **77,667** |

Trade and other payables are interest-free and usually settled within 14 to 30 days.

Budget liabilities are settled at statutory dates.

Liabilities on account of security deposits are interest-free and settled at dates resulting from concluded agreements.

## 29.2. Liabilities due to lease contracts

Future minimum payments on account of lease contracts, to which the Group is the leasing party, are as follows:

| | 31 December 2014 | 31 December 2013 |
|---|---|---|
| In the period of up to 1 year | 1,206 | 1,217 |
| In the period of 1 to 5 years | 4,823 | 4,866 |
| In the period of more than 5 years | 17,986 | 19,366 |
| | **24,015** | **25,449** |

## 29.3. Contingent liabilities

Except for contingent liabilities in the form of security for the repayment of bank loans, as detailed in Note 35.3, the Group companies have no other undisclosed significant liabilities of that kind.

## 29.4. Investment liabilities

As at 31 December 2014 the Group did not plan to incur any significant expenditures on property, plant and equipment and intangible assets and did not have any significant contractual obligations whose subject matter was the acquisition of property, plant and equipment and intangible assets.

In 2015 the Group plans to incur expenditures on investment projects (inventories and investment properties) in the amount of about PLN 498,000,000.

## 29.5. Court proceedings

Currently, no proceedings before court or arbitration or public administration authorities have been initiated with regard to liabilities or receivables of LC Corp S.A. and its subsidiaries whose value would be significant for the financial standing of the Group companies. The subsidiary undertakings of LC Corp S.A. are parties to court and public administration proceedings whose value is immaterial to their operations or financial standing. Other proceedings are mostly related to claims of LC Corp S.A.'s subsidiaries lodged against their debtors.

(PLN'000)

## 30. Provisions

The amounts of provisions and the reconciliation presenting the changes in their position during the financial period are shown in the table below:

| | *For retirement and disability severance payments and death benefits* | *For disputes and litigation* | *For remedying construction faults and defects* | *Total* |
|---|---|---|---|---|
| **As at 1 January 2014** | **22** | **12,317** | **300** | **12,639** |
| Created | 0 | 45 | 0 | 45 |
| Used | 0 | (111) | 0 | (111) |
| Reversed | 0 | (12,040) | (200) | (12,240) |
| **As at 31 December 2014** | **22** | **211** | **100** | **333** |
| | | | | |
| Current as at 31 December 2014 | 0 | 211 | 100 | **311** |
| Non-current as at 31 December 2014 | 22 | 0 | 0 | **22** |

| | *For retirement and disability severance payments and death benefits* | *For disputes and litigation* | *For remedying construction faults and defects* | *Total* |
|---|---|---|---|---|
| **As at 1 January 2013** | **22** | **97** | **300** | **419** |
| Created during financial period | 0 | 456 | 0 | 456 |
| Increase resulting from the acquisition of a subsidiary (*) | 0 | 12,000 | 0 | 12,000 |
| Used | 0 | (226) | 0 | (226) |
| Reversed | 0 | (10) | 0 | (10) |
| **As at 31 December 2013** | **22** | **12,317** | **300** | **12,639** |
| | | | | |
| Current as at 31 December 2013 | 0 | 12,317 | 300 | **12,617** |
| Non-current as at 31 December 2013 | 22 | 0 | 0 | **22** |

(*) At the date of the acquisition, in the acquired subsidiary a provision for disputed claims was recognized in the amount of PLN 12,000,000 which was secured by the blocking of cash in the amount of PLN 12,000,000, see Note 21.

## 31. Accrued expenses and revenues

| | **31 December 2014** | **31 December 2013** |
|---|---|---|
| Accrued expenses on account of salaries and wages | 2,795 | 2,784 |
| Accrued expenses on account of holidays not taken (payments in lieu of holidays) | 670 | 574 |
| Accrued expenses on account of additional payments for perpetual usufruct | 111 | 1,573 |
| Accrued expenses on account of the audit of financial statements | 283 | 288 |
| Other | 401 | 318 |
| **Accrued expenses** | **4,260** | **5,537** |
| | | |
| Accrued rental revenues | 88 | 442 |
| Accrued revenues from the sale of flats | 123,055 | 47,956 |
| Other accrued revenues | 217 | 18 |
| **Accrued revenues** | **123,360** | **48,416** |

(PLN'000)

## 32. Transactions with related undertakings

The following table shows the total amounts of transactions concluded with related undertakings for the year ended 31 December 2014 and 31 December 2013:

| *Related undertaking* | | Sales to related undertakings | Purchases from related undertakings | Receivables from related undertakings (trade and financial) | Liabilities to related undertakings (trade and financial) | Financial income (interest) | Financial expenses (interest, discounts) |
|---|---|---|---|---|---|---|---|
| ***Shareholders*** | | | | | | | |
| LC Corp B.V. (*) | 2014 | - | - | - | 202,000 | - | - |
| ***Undertakings related through shareholders*** | | | | | | | |
| LC Corp Sky Tower Sp. z o.o. | 2014 | 510 | 557 | 47 | 40 | - | - |
| RB Investcom Sp. z o.o. | 2014 | 1,394 | - | - | 9 | - | - |
| RB Computer Sp. z o.o. | 2014 | - | 140 | - | 6 | - | - |
| RB Nova Sp. z o.o. | 2014 | - | - | - | - | - | - |
| Getin Holding S.A. | 2014 | 2,243 | - | - | - | - | - |
| Idea Leasing S.A. | 2014 | 427 | - | - | 113 | - | - |
| Idea Bank S.A. | 2014 | 8,177 | - | 1 | - | - | - |
| Tax Care S.A. | 2014 | 680 | - | - | - | - | - |
| Getin Noble Bank S.A. | 2014 | 15,927 | 181 | 4 | 197,473 | 3,582 | 8,463 |
| Getback S.A. | 2014 | 1,311 | - | 1 | 75 | - | - |
| Getin International S.A. | 2014 | 1 | - | - | - | - | - |
| Noble Securities S.A. | 2014 | 982 | 30 | - | 244 | - | - |
| Noble Concierge Sp. z o.o. | 2014 | 2 | 1 | - | - | - | - |
| Noble Funds Towarzystwo Funduszy Inwestycyjnych S.A. | 2014 | 597 | - | - | - | - | - |
| Home Broker S.A. | 2014 | 1,694 | 1 336 | - | 235 | - | - |
| TU Europa S.A. | 2014 | 2,545 | 15 | - | 152 | - | - |
| TU Europa Życie S.A. | 2014 | 2,493 | - | - | - | - | - |
| Idea Expert S.A. | 2014 | 624 | - | - | 45 | - | - |
| Fundacja Jolanty i Leszka Czarneckich | 2014 | 40 | - | - | 10 | - | - |
| Open Finance S.A. | 2014 | 2,262 | - | 95 | 24 | - | - |
| Open Finance Towarzystwo Funduszy Inwestycyjnych S.A. | 2014 | 382 | - | - | - | - | - |
| Open Life Towarzystwo Ubezpieczeń Życie S.A. | 2014 | 1,432 | - | - | - | - | - |
| Lion's House Sp. z o.o. | 2014 | 114 | - | - | - | - | - |
| VESO Investments Sp. z o.o. S.K.A. | 2014 | 184 | - | 15 | - | - | - |
| Development System sp. z o.o. | 2014 | 2 | - | - | - | - | - |
| Zamknięta Spółka Akcyjna Idea Bank Białoruś | 2014 | 1 | - | - | - | - | - |
| Idea Money S.A. | 2014 | 1,344 | - | 103 | - | - | - |
| Getin Leasing S.A. | 2014 | 1 | 6 | 1 | - | - | - |

(*) See Note 32.1

(PLN'000)

| ***Related undertaking*** | | Sales to related undertakings | Purchases from related undertakings | Receivables from related undertakings (trade and financial) | Liabilities to related undertakings (trade and financial) | Financial income (interest) | Financial expenses (interest, discounts) |
|---|---|---|---|---|---|---|---|
| ***Shareholders*** | | | | | | | |
| LC Corp B.V. (*) | 2013 | - | 259,000 | - | 244,000 | - | - |
| ***Undertakings related through shareholders*** | | | | | | | |
| LC Corp Sky Tower Sp. z o.o. | 2013 | 341 | 462 | 233 | 334 | - | - |
| RB Investcom Sp. z o.o. | 2013 | 203 | - | 8 | 18 | - | - |
| RB Computer Sp. z o.o. | 2013 | - | 141 | - | 17 | - | - |
| RB Nova Sp. z o.o. | 2013 | 3 | - | - | - | - | - |
| Getin Holding S.A. | 2013 | 1,422 | - | 3 | - | - | - |
| Idea Leasing S.A. | 2013 | 36 | - | 2 | - | - | - |
| Idea Bank S.A. | 2013 | 2,921 | - | 115 | - | - | - |
| Tax Care S.A. | 2013 | 355 | - | 68 | - | - | - |
| Getin Noble Bank S.A. | 2013 | 7,858 | 235 | 1 | 148,607 | 5,320 | 2,916 |
| Getback S.A. | 2013 | 548 | - | - | - | - | - |
| Getin International S.A. | 2013 | 28 | - | 1 | - | - | - |
| Noble Securities S.A. | 2013 | 695 | 230 | - | - | - | - |
| Noble Concierge Sp. z o.o. | 2013 | 89 | 93 | 100 | - | - | - |
| Noble Funds Towarzystwo Funduszy Inwestycyjnych S.A. | 2013 | 358 | - | - | - | - | - |
| Home Broker Nieruchomości S.A. | 2013 | 556 | 1,015 | 26 | 275 | - | - |
| TU Europa S.A. | 2013 | 435 | 14 | 10 | 1 | - | - |
| TU Europa Życie S.A. | 2013 | 413 | - | 4 | - | - | - |
| Idea Expert S.A. | 2013 | 889 | - | 76 | 45 | - | - |
| Fundacja Jolanty i Leszka Czarneckich | 2013 | 15 | - | - | - | - | - |
| Open Finance S.A. | 2013 | 1,140 | 6 | 156 | 7 | - | - |
| Open Finance Towarzystwo Funduszy Inwestycyjnych S.A. | 2013 | 271 | - | - | - | - | - |
| Open Life Towarzystwo Ubezpieczeń Życie S.A. | 2013 | 518 | - | - | - | - | - |
| Lion's House Sp. z o.o. | 2013 | 10 | - | 13 | - | - | - |
| Development System sp. z o.o. | 2013 | - | - | 14 | - | - | - |

(*) See Note 32.1

## 32.1. The Parent Undertaking of the whole Group

*LC Corp B.V.*

On 6 December 2013, LC Corp S.A. acquired from LC Corp B.V. 100% of Sky Tower S.A.'s shares for the amount of PLN 259,000,000, payable in instalments until 31 December 2019, and became the sole shareholder of the company. In connection with the deferred payment of the price of Sky Tower S.A.'s shares, liabilities on account thereof are disclosed in the consolidated financial statement at the discounted amount (see Note 28). In 2014, the Company repaid another instalment arising from the acquisition of Sky Tower S.A.'s shares of PLN 42,000,000. As at 31 December 2014 the outstanding amount totalled PLN 202,000,000, whereas the discount to be settled amounted to PLN 20,107,000.

(PLN'000)

*Leszek Czarnecki*

Leszek Czarnecki directly owns 3.22% of the shares of LC Corp S.A. and at the same time holds 100% of the shares of LC Corp B.V., which is in possession of 47.97% of the shares of LC Corp S.A. In the year ended 31 December 2014, there were no transactions with the LC Corp Group.

### 32.2. Remuneration to senior management of the Group

| | **Year ended 31 December 2014** | **Year ended 31 December 2013** |
|---|---|---|
| Current employee benefits | 3,941 | 2,812 |
| Jubilee bonuses and retirement severance payments | 0 | 0 |
| Termination benefits | 10 | 0 |
| Share-based payments | 0 | 0 |
| **Total remuneration paid to the senior management except the Management Board and the Supervisory Board** | **3,951** | **2,812** |

### 32.3. Remuneration to members of the Management Board and the Supervisory Board

Remuneration paid to the members of the Management Board and members of the Supervisory Board of the Parent Undertaking and subsidiary undertakings was as follows:

| | **Year ended 31 December 2014** | **Year ended 31 December 2013** |
|---|---|---|
| Management Board – remuneration | 5,400 | 4,194 |
| Management Board – share-based remuneration | 0 | 0 |
| Management Board (subsidiaries) – remuneration | 642 | 283 |
| Management Board (subsidiaries) – share-based remuneration | 0 | 0 |
| Supervisory Board – remuneration | 94 | 94 |
| Supervisory Board – share-based remuneration | 0 | 0 |
| **Total** | **6,136** | **4,571** |

## 33. Information on remuneration to the auditor or entity qualified for auditing financial statements

2014

On 28 October 2014, an agreement was concluded with Ernst & Young Audyt Polska Sp. z o.o. Sp. k., seated in Warsaw, on the audit of the financial statements and consolidated financial statements of LC Corp S.A. for the year 2014. The remuneration under the above agreement totals PLN 95,000 net. An agreement on the review of the financial statements and consolidated financial statements of LC Corp S.A. for the first half of 2014, including an annexe, was concluded on 24 July 2014. The remuneration under this agreement totals PLN 55,000 net. Furthermore, in 2014, the Company purchased the training services for the amount of PLN 1,500.

In 2014, Ernst & Young Audyt Polska Sp. z o.o. Sp.k. concluded agreements on the audit of the separate financial statements for 2014 of Arkady Wrocławskie S.A., Warszawa Przyokopowa Sp. z o.o., Sky Tower S.A. and LC Corp Invest XVII Sp. z o.o. Projekt 20 Sp.k. The total remuneration on account of the above agreements was PLN 155,000.

2013

On 28 October 2013, an agreement was concluded with Ernst & Young Audyt Polska Sp. z o.o. Sp. k. (*), seated in Warsaw, on the audit of the financial statements and consolidated financial statements of LC Corp S.A. for the year 2013. The remuneration under the above agreement totals PLN 95,000 net. An agreement on the review of the financial statements and consolidated financial statements of LC Corp S.A. for the first half of 2013, including an annexe, was concluded on 15 July 2013. The remuneration under this agreement totals PLN 62,000 net. Furthermore, in 2013, the Company disclosed the cost of other consulting services provided by Ernst & Young Audit Sp. z o.o. of PLN 77,000.

In 2013, Ernst & Young Audit Sp. z o.o. concluded agreements on the audit of the separate financial statements for 2013 of Arkady Wrocławskie S.A., Warszawa Przyokopowa Sp. z o.o., and Sky Tower S.A. The total remuneration on account of the above agreements was PLN 148,000.

*(*) Until 18 October 2013 operating under the name of Ernst & Young Audit Sp. z o.o.*

## 34. Objectives and rules governing financial risk management

The main financial instruments used by the Group include bank loans and bonds as well as derivative instruments such as forward transactions and transactions hedging against the risk of rising interest rate, of IRS type. The main purpose of these financial instruments is to obtain financial resources for the Group's activity. Temporary cash flow surpluses are deposited in banks as short-term deposits. The Group also has other financial instruments such as trade receivables and trade payables, which occur directly in the course of its business activity.

The principle by which the Group abides now is refraining from the trading in financial instruments.

In the first half of 2013 the Group extended its accounting policy by adding the guidelines for Hedge Accounting concerning the instruments hedging against the interest rate risk, and this policy was continued in 2014. The valuation of the hedging transactions of this type as at 31 December 2014 and as at 31 December 2013 is presented in Note 27.

The main types of risk arising from the Group's financial instruments include the interest rate risk, currency risk, credit risk and liquidity risk. The Management Board verifies and formulates the rules for managing each type of risk – these rules are briefly discussed below.

### 34.1. Interest rate risk

The interest rate risk relates mainly to non-current financial liabilities, based on a floating interest rate.

This risk is partly compensated by the indexation of revenue from lease.

In line with the provisions for non-current investment loans, the relevant companies effected IRS transactions, hedging against the interest rate risk.

Quantitative exposure to the interest rate risk is presented in Note 35.2.

### 34.2. Currency risk

The currency risk arising from the servicing of a foreign currency loan is minimized by collecting rents indexed against the currency of the loan financing the investment. The risk posed by time differences between invoicing and the repayment of the loan is minimized, depending on the market situation, by the purchase of a proper amount of currency at the dates of invoicing rents.

The currency risk associated with the initiation of a foreign currency loan (the financing of investment property under construction) is limited by entering into hedging transactions involving forward contracts.

In addition, the fair value measurement of assets in EUR (investment property), expressed in the financial statements at the average exchange rate of the National Bank of Poland, and the valuation of loans in EUR, reported in the financial statements at the same rate can cause significant unrealized foreign exchange differences. The table below shows the sensitivity of a net financial result to possible fluctuations of the euro exchange rates, on the assumption of the invariability of other factors. Because of a considerable instability of euro exchange rate in recent years, the sensitivity of the financial result for this year is presented for a change by 20 groszy.

| | Increase/ decrease in the exchange rate in PLN | Impact on the net financial result PLN'000 | Impact on equity |
|---|---|---|---|
| | + 0.20 | 33,782 | 33,782 |
| 31 December 2014 – EUR | - 0.20 | (33,782) | (33,782) |
| | + 0.20 | 31,496 | 31,496 |
| 31 December 2013 – EUR | - 0.20 | (31,496) | (31,496) |

## 34.3. Credit risk

The Group concludes transactions with renowned companies of good credit capacity. Moreover, owing to the current monitoring of receivables, the Group's exposure to the risk of uncollectible receivables is negligible. With regard to the sale of residential and retail premises and houses the credit risk does not occur, as their sale to retail customers is made on the basis of advance payments.

As at 31 December 2014, trade receivables amounted to PLN 9,789,000. The analysis of their maturities is presented in Note 21. Rental receivables of PLN 8,421,000 were secured with security deposits of PLN 4,081,000 and in the remaining part – with bank or insurance guarantees.

With regard to the Group's financial assets such as cash and cash equivalents, the Group's credit risk is minimal, because the Group deposits its funds in banks of good and stable financial standing.

There is no significant concentration of credit risk in the Group.

## 34.4. Liquidity risk

The Group aims to maintain a balance between the continuity and flexibility of financing, by means of using different sources of financing such as bank loans and bonds.

The Group concludes loan agreements with various banks in order to finance its projects. Maturity dates of successive repayments are adjusted to projected proceeds from the sale of respective projects.

The tables below present the Group's liabilities as at 31 December 2014 and as at 31 December 2013, by maturity dates, on the basis of contractual non-discounted payments.

**31 December 2014**

**(PLN'000)**

| | *<1year* | *1-2 years* | *2-3 years* | *3-4 years* | *4-5 years* | *>5 years* | *Total* |
|---|---|---|---|---|---|---|---|
| Coupon bonds in PLN (WIBOR) | 66,030 | - | - | 50,000 | 50,000 | - | 166,030 |
| Bank loans in PLN (WIBOR) | - | 30,000 | - | - | - | - | 30,000 |
| Bank loans in PLN (WIBOR) | - | - | - | 50,000 | - | - | 50,000 |
| Bank loans in PLN (WIBOR) | - | 886 | - | - | - | - | 886 |
| Bank loan in EUR (EURIBOR) | - | 1,359 | 1,414 | 1,471 | 1,531 | 29,263 | 35,038 |
| Bank loan in EUR (EURIBOR) | 16,617 | 17,562 | 134,784 | - | - | - | 168,963 |
| Bank loan in EUR (EURIBOR) | 9,275 | 9,650 | 10,042 | 10,451 | 10,873 | 179,635 | 229,926 |
| Bank loan in EUR (EURIBOR) | 8,173 | 8,451 | 8,904 | 9,340 | 9,701 | 190,118 | 234,687 |
| | **100,095** | **67,908** | **155,144** | **121,262** | **72,105** | **399,016** | **915,530** |

**Interest-free (PLN'000)**

| | *<1year* | *1-2 years* | *2-3 years* | *3-4 years* | *4-5 years* | *>5 years* | *Total* |
|---|---|---|---|---|---|---|---|
| Liabilities on account of the acquisition of a subsidiary undertaking | 40,400 | 40,400 | 40,400 | 40,400 | 40,400 | | 202,000 |
| Trade and other payables | 67,941 | - | - | - | - | - | 67,941 |
| | **108,341** | **40,400** | **40,400** | **40,400** | **40,400** | **-** | **269,941** |

**31 December 2013**

**(PLN'000)**

| | *<1year* | *1-2 years* | *2-3 years* | *3-4 years* | *4-5 years* | *>5 years* | *Total* |
|---|---|---|---|---|---|---|---|
| Coupon bonds in PLN (WIBOR) | 91,195 | 65,000 | - | - | 50,000 | - | 206,195 |
| Bank loans in PLN (WIBOR) | - | - | 30,000 | - | - | - | 30,000 |
| Bank loans in PLN (WIBOR) | 1,807 | - | - | - | - | - | 1,807 |
| Bank loan in EUR (EURIBOR) | 15,298 | 16,168 | 17,088 | 131,144 | - | - | 179,698 |
| Bank loan in EUR (EURIBOR) | 3,321 | 4,686 | 5,001 | 5,334 | 5,691 | 122,959 | 146,990 |
| Bank loan in EUR (EURIBOR) | 7,690 | 8,021 | 8,315 | 8,724 | 9,141 | 194,080 | 235,971 |
| | **119,310** | **93,875** | **60,403** | **145,202** | **64,832** | **317,039** | **800,660** |

**Interest-free (PLN'000)**

| | *<1year* | *1-2 years* | *2-3 years* | *3-4 years* | *4-5 years* | *>5 years* | *Total* |
|---|---|---|---|---|---|---|---|
| Liabilities on account of the acquisition of a subsidiary undertaking | 42,000 | 40,400 | 40,400 | 40,400 | 40,400 | 40,400 | 244,000 |
| Trade and other payables | 77,667 | - | - | - | - | - | 77,667 |
| | **119,667** | **40,400** | **40,400** | **40,400** | **40,400** | **40,400** | **321,667** |

## 35. Financial instruments

### 35.1. Fair values

The table below shows the balance sheet values of all financial instruments of the Group which were disclosed in the consolidated financial statements according to the value different from the fair value, in a breakdown by respective categories of assets and equity and liabilities, pursuant to IAS 39.

| | **Balance sheet value** | |
|---|---|---|
| | **31 December 2014** | **31 December 2013** |
| ***Borrowings advanced and receivables*** | | |
| Cash on open trust account | 5,131 | 994 |
| Cash and cash equivalents | 291,252 | 190,319 |
| Non-current receivables | 6,948 | 2,073 |
| Trade and other receivables *(net of budget receivables)* | 13,609 | 22,063 |

| | Balance sheet value | |
|---|---|---|
| | **31 December 2014** | **31 December 2013** |
| ***Financial liabilities at amortized cost*** | | |
| Trade and other payables *(net of budget liabilities)* | 66,155 | 66,309 |
| Liabilities on account of the acquisition of a subsidiary undertaking | 181,893 | 216,836 |
| *Interest-bearing bank loans and borrowings:* | | |
| Loans, bonds and borrowings at a variable interest rate | 913,711 | 799,155 |
| Loans, bonds and borrowings at a fixed interest rate | 0 | 0 |

The fair values of the above presented items are close to their balance sheet values.

## 35.2. Interest rate risk

The tables below show the balance-sheet value of the Group's financial liabilities measured at amortized cost and exposed to the interest rate risk, in a breakdown by respective aging categories.

### 31 December 2014

**Fixed interest rate –** transactions hedging against the interest rate risk, effected in connection with the loan agreements in EUR, are listed under the table

**Floating interest rate (PLN'000)**

| | *<1 year* | *1-2 years* | *2-3 years* | *3-4 years* | *4-5 years* | *>5 years* | *Total* |
|---|---|---|---|---|---|---|---|
| Bonds (floating interest rate) | 65,910 | - | - | 49,531 | 49,558 | - | 164,999 |
| Bank loans in PLN (WIBOR) | - | 29,936 | - | - | - | - | 29,936 |
| Bank loans in PLN (WIBOR) | - | - | - | 49,586 | - | - | 49,586 |
| Bank loans in PLN (WIBOR) | - | 886 | - | - | - | - | 886 |
| Bank loan in EUR (EURIBOR) (*) | - | 1,359 | 1,414 | 1,471 | 1,531 | 29,263 | 35,038 |
| Bank loan in EUR (EURIBOR) | 16,513 | 17,458 | 134,653 | - | - | - | 168,624 |
| Bank loan in EUR (EURIBOR) (**) | 9,275 | 9,650 | 10,042 | 10,451 | 10,873 | 179,635 | 229,926 |
| Bank loan in EUR (EURIBOR) (***) | 8,173 | 8,451 | 8,904 | 9,340 | 9,701 | 190,147 | 234,716 |
| | **99,871** | **67,740** | **155,013** | **120,379** | **71,663** | **399,045** | **913,711** |

(*) LC Corp Invest XVII Sp. z o.o. Projekt 20 Sp.k., initiating the investment loan, effected a transaction hedging against the interest rate risk (irs) for the base amount of EUR 7,500,000 for a period from 31 Dec 2014 to 31 Dec 2020.

(**) Warszawa Przyokopowa Sp. z o.o. effected a transaction hedging against the interest rate risk (irs) for the base amount of EUR 10,000,000 for a period from 30 June 2015 to 30 June 2020 and EUR 37,600,000 for a period from 31 Dec 2014 to 31 Dec 2019.

(***) Sky Tower S.A. effected a transaction hedging against the interest rate risk (irs) for the base amount of EUR 39,800,000 for a period from 1 July 2013 to 30 June 2016.

In the year ended 31 December 2014, the financial result was influenced by changes in the interest rate of mainly EUR loans.

### 31 December 2013

**Fixed interest rate –** transactions hedging against the interest rate risk, effected in connection with the loan agreements in EUR, are listed under the table

**Floating interest rate (PLN'000)**

| | *<1 year* | *1-2 years* | *2-3 years* | *3-4 years* | *4-5 years* | *>5 years* | *Total* |
|---|---|---|---|---|---|---|---|

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Bonds (floating interest rate) | 91,064 | 64,724 | - | - | 49,419 | - | 205,207 |
| Bank loans in PLN (WIBOR) | - | - | 29,880 | | - | - | 29,880 |
| Bank loans in PLN (WIBOR) | 1,807 | - | - | - | - | - | 1,807 |
| Bank loan in EUR (EURIBOR) | 15,197 | 16,067 | 16,986 | 131,018 | - | - | 179,268 |
| Bank loan in EUR (EURIBOR) (*) | 3,321 | 4,686 | 5,001 | 5,334 | 5,691 | 122,959 | 146,990 |
| Bank loan in EUR (EURIBOR) (**) | 7,722 | 8,021 | 8,315 | 8,724 | 9,141 | 194,080 | 236,003 |
| | **119,111** | **93,497** | **60,182** | **145,075** | **64,251** | **317,039** | **799,155** |

(*) Warszawa Przyokopowa Sp. z o.o. effected a transaction hedging against the interest rate risk (irs) for the base amount of EUR 10,000,000 for a period from 30 June 2015 to 30 June 2020.

(**) Sky Tower S.A. effected a transaction hedging against the interest rate risk (irs) for the base amount of EUR 39,800,000 for a period from 1 July 2013 to 30 June 2016.

In the year ended 31 December 2013, the financial result was influenced by changes in the interest rate of mainly EUR loans.

The sensitivity of the net financial result to changes in the interest rate of the EUR loan in the year ended 31 December 2014 and the year ended 31 December 2013 is shown in the table below:

| | **Increase/ decrease in the interest rate** | **Impact on the net financial result PLN'000** | **Impact on equity** |
|---|---|---|---|
| 31 December 2014 | + 1% | (2,803) | (2,803) |
| | - 1% | 2,803 | 2,803 |
| 31 December 2013 | + 1% | (1,577) | (1,577) |
| | - 1% | 1,577 | 1,577 |

### 35.3. Collaterals

As at 31 December 2014 the repayment of loans was secured mainly by:

**Security for the loans granted to finance commercial properties:**

1. Security for the bank loan agreement concluded by Arkady Wrocławskie S.A.:
   - capped mortgage *(loan in EUR)* – up to EUR 86,802,000,
   - pledge on the shares of Arkady Wrocławskie S.A. held by LC Corp S.A. – up to the amount of EUR 91,500,000,
   - pledge by registration on bank accounts – up to the amount of PLN 38,220,000,
   - pledge by registration on bank accounts *(loan in EUR)* – up to the amount of EUR 91,500,000,
   - assignment of rights arising from rental contracts, insurance and guarantees related to agreements with contractors to the extent to which they apply to particular property development projects,
   - deposit of EUR 500,000.
2. Security for the bank loan agreement concluded by Warszawa Przyokopowa Sp. z o.o.:
   - first ranking contractual capped mortgage for up to EUR 75,957,124.43,
   - financial pledges and pledges by registration on accounts receivable from bank accounts with a power of attorney to manage these accounts,
   - pledge by registration on all shares of Warszawa Przyokopowa Sp. z o.o. with a financial pledge,
   - assignment to secure the borrower's rights arising from all agreements concluded by the Borrower,

- support agreement concluded by the borrower, the bank and LC Corp S.A., pursuant to which LC Corp S.A. will be obliged to ensure the necessary funds up to 10% of the assumed construction costs should they be exceeded,
- subordination agreement on claims from other creditors of the Borrower, being the borrower's partners, making them junior to the claims of the bank resulting from the Agreement.

3. Security for the transactions hedging against the foreign exchange risk and interest rate risk (hedging agreements), concluded pursuant to the framework agreement of 1 June 2012, established by Warszawa Przyokopowa Sp. z o.o.:
   - contractual mortgage for up to PLN 135,000,000,
   - declaration on submission to enforcement pursuant to Art. 97 of the Banking Law for up to the total of PLN 135,000,000.
4. Security for the agreement on a bank loan taken out by Sky Tower S.A.:
   - first ranking contractual mortgage for up to EUR 90,000,000,
   - financial pledges and pledges by registration on accounts receivable from bank accounts with a power of attorney to manage these accounts,
   - declaration on submission to enforcement pursuant to Art. 97 of the Banking Law,
   - pledges by registration on all shares of Sky Tower S.A. and the financial pledge for up to EUR 90,000,000,
   - assignment to secure the borrower's rights arising from all agreements concluded by the Borrower,
   - subordination agreement on claims from other creditors of the borrower, being the borrower's partners, making them junior to the claims of the bank resulting from the Agreement.
5. Security for the transactions hedging against the foreign exchange risk and interest rate risk (hedging agreements), concluded pursuant to the framework agreement of 27 December 2012, established by Sky Tower S.A.:
   - first ranking contractual mortgage for up to EUR 44,000,000,
   - declaration on submission to enforcement pursuant to Art. 97 of the Banking Law.
6. Security for the agreement on a bank loan taken out by LC Corp Invest XVII Sp. z o.o. Projekt 20 Sp.k.:
   - contractual mortgage for up to the total of EUR 36,833,333.33 established on a parcel of land owned by LC Corp Invest XVII Sp. z o.o. Projekt 20 Sp. k.,
   - support agreement concluded by the borrower, the bank and the Issuer, pursuant to which the Issuer, acting as the guarantor, will be obliged, among others, to provide financial support to the borrower under the circumstances specified in the agreement,
   - four blank promissory notes with promissory note agreements, guaranteed by the Issuer by the time of submitting to the Bank the rental contracts, covering at least 20% of the leasable space in the Silesia Star building, concluded with tenants not related to the Issuer,
   - assignment of amounts receivable under the construction/erection all risks insurance agreement during the period of carrying out the project and, after its completion, assignment of amounts receivable under the fire and other accidents insurance agreement concerning real estate, concluded with the insurance company for the amount not lower than the amount of debt on account of the loan,
   - financial pledges and pledges by registration on accounts receivable from bank accounts with a power of attorney to manage these accounts,
   - declaration on submission to enforcement pursuant to Art. 97 of the Banking Law,
   - pledge by registration on the enterprise of LC Corp Invest XVII Sp. z o.o. Projekt 20 Sp.k.,
   - assignment to secure the borrower's rights arising from all agreements concluded by the Borrower,
   - subordination agreement on claims from other creditors of the borrower, being the borrower's partners, making them junior to the claims of the bank resulting from the Agreement.

(PLN'000)

7. Security for the transactions hedging against the foreign exchange risk and interest rate risk (hedging agreements), concluded pursuant to the framework agreement of 30 June 2014, established by LC Corp Invest XVII Sp. z o.o. Projekt 20 Sp.k.:
   - contractual mortgage for up to PLN 61,470,300.00 established as second ranking security and subordinated to the mortgage established on the parcel of land owned by LC Corp Invest XVII Sp. z o.o. Projekt 20 Sp. k. as security for the investment loan and the revolving VAT loan,
   - declaration on submission to enforcement pursuant to Art. 97 of the Banking Law.

**Security for the loans granted to finance residential projects or to finance the acquisition of land for such projects and their initial stages:**

8. Security for respective bank loan agreements concluded by LC Corp S.A. and Getin Noble Bank S.A. is represented by:
   a) with regard to the loan agreement of 19 December 2011 for PLN 30,000,000:
      - first ranking contractual mortgage for up to PLN 45,000,000,
      - declaration on submission to enforcement pursuant to Art. 97 of the Banking Law.
   b) with regard to the loan agreement of 29 April 2014 for PLN 50,000,000:
      - contractual joint mortgage for up to PLN 75,000,000.00 on the real property belonging to the Issuer and on the real property belonging to the Issuer's subsidiary undertakings – LC Corp Invest II Sp. z o.o. and LC Corp Invest XV sp. z o.o. Investments S.K.A,
      - surety granted by the Issuer's subsidiary undertakings – LC Corp Invest II Sp. z o.o. and LC Corp Invest XV sp. z o.o. Investments S.K.A.
      - declaration on submission to enforcement pursuant to Art. 97 of the Banking Law.
9. Security for the agreement on the exchange of real properties concluded by LC Corp Invest III Sp. z o.o.:
   - contractual mortgage for up to PLN 3,000,000 established on the real property in Gdańsk to secure contractual penalties stipulated in the agreement on the exchange of real properties, concluded between LC Corp Invest III Sp. z o.o. and the Capital City of Warsaw.

## 36. Capital management

The main purpose of the Group's capital management is to maintain a good credit rating and safe capital ratios which would support the Group's operating activity and increase the value for its shareholders.

The Group manages the capital structure and modifies it as a result of changes in economic conditions. In order to maintain or adjust the capital structure, the Group can change the payment of dividend to shareholders, return capital to shareholders or issue new shares. In the year ended 31 December 2014 and up to 31 December 2013 there were no changes in the objectives, rules and processes binding in this area.

The Group monitors the condition of capital by means of a leverage ratio, which is calculated as a ratio of debt to equity. The Group's rules determine this ratio as not higher than 5. Net debt includes interest-bearing loans, bonds, liabilities on account of the acquisition of a subsidiary undertaking, trade payables and other liabilities.

| | Year ended 31 December 2014 | Year ended 31 December 2013 |
|---|---|---|
| Liabilities on account of loans and bonds | 913,711 | 799,155 |
| Liabilities on account of the acquisition of a subsidiary undertaking | 181,893 | 216,836 |
| Trade and other payables | 67,941 | 77,667 |
| **A. Net debt** | **1,163,545** | **1,093,658** |
| **B. Equity** | **1,255,153** | **1,184,776** |
| **Leverage ratio (A/B)** | **0.9** | **0.9** |

(PLN'000)

## 37. Structure of employment

The average employment in the Group in the year ended 31 December 2014 and 31 December 2013 was as follows:

| | **Year ended 31 December 2014** | **Year ended 31 December 2013** |
|---|---|---|
| Management Board of the Parent Undertaking | 5.0 | 4.1 |
| Management Boards of the Group's Entities (*) | 0 | 1.0 |
| Administration | 83.2 | 59.1 |
| Sales Department | 30.1 | 23.1 |
| Others | 1.0 | 1.0 |
| **Total** | **119.3** | **88.3** |

(*) members of the management boards of the Group's entities are persons from the Management Board of the Parent Undertaking

## 38. Events subsequent to the end of the reporting period

1) On 15 January 2015, LC Corp Invest XII Sp. z o.o. concluded with mBank Hipoteczny S.A. an agreement on a loan of up to PLN 28,530,000. On 5 March 2015, LC Corp Invest XII Sp. z o.o., executing the loan agreement, established security indispensable for the initiation of this loan, including, among others, the submission of the declaration on the creation of a mortgage of up to PLN 57,060,000 on the company's real property, financial pledges and pledges by registration on bank accounts, financial pledges and pledges by registration on shares and other standard security for loan agreements. A blank promissory note was also submitted, issued by LC Corp Invest XII Sp. z o.o. and guaranteed by LC Corp S.A. by the time the relevant courts make the entries for the pledge by registration on shares and the mortgage on the encumbered real property.
2) On 23 February 2015, a limited partnership was registered, LC Corp Invest XVII Sp. z o. o. Projekt 21 Sp.k., established on the basis of a deed of partnership concluded between LC Corp Invest XVII Sp. z o.o. and LC Corp Invest XI Sp. z o.o., the subsidiary undertakings of LC Corp S.A. The above company, in which LC Corp Invest XI Sp. z o.o. is a limited partner, was formed to carry out a property development project.
3) On 20 March 2015, LC Corp S.A. issued 65,000 five-year unsecured coupon bonds having a value of PLN 1,000 each and a total par value of PLN 65,000,000, under the Agreement on Bond Issue Programme signed with Pekao S.A., having its registered office in Warsaw, and BRE Bank S.A., having its registered office in Warsaw, with the buyback date falling on 20 March 2020. The funds acquired from the above-mentioned issue will be appropriated as a whole to buy back the bonds issued on 1 June 2012 under the Agreement on Bond Issue Programme, referred to above, whose buyback date falls on 25 May 2015.

| | | |
|---|---|---|
| ……………………………………………. | ……………………………………………. | ……………………………………………. |
| Dariusz Niedośpiał<br>President of the Management Board | Joanna Jaskólska<br>Vice President of the Management Board | Mirosław Kujawski<br>Member of the Management Board |
| ……………………………………………. | ……………………………………………. | |
| Tomasz Wróbel<br>Member of the Management Board | Małgorzata Danek<br>Member of the Management Board | |
| ……………………………………………. | ……………………………………………. | |
| Lidia Kotowska<br>Chief Accountant | Marzena Matysiak<br>Consolidation Manager | |

Wrocław, 20 March 2015