LC CORP CAPITAL GROUP

CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013 WITH AN INDEPENDENT AUDITOR'S REPORT ON THE REVIEW

Consolidated statement of financial position of LC Corp Capital Group as at 31 December 2013 *(in PLN '000)*

	Note	31 December 2013	31 December 2012 (converted *)
Assets			
A. Non-current assets		**1,459,758**	**783 886**
1. Intangible assets	14	372	347
2. Property, plant and equipment	15	4,716	1,274
2.1. Tangible assets		4,523	1,250
2.2. Tangible assets under construction		193	24
3. Non-current receivables	16	2,073	32,044
4. Investment property	18	1,434,661	731,515
5. Non-current prepayments and accrued income	24	88	134
6. Deferred tax assets	12.3	17,848	18,572
B. Current assets		**954,190**	**886,511**
1. Inventories	20	721,592	703,467
2. Trade and other receivables	21	39,165	25,758
3. Income tax receivable		446	486
4. Current financial assets	22	1,636	3,210
5. Cash and cash equivalents	23	190,319	153,028
6. Current prepayments and accrued income	24	1,032	562
C. Non-current assets classified as held for sale		0	**0**
Total assets		**2,413,948**	**1,670,397**
Equity and liabilities			
A. Equity		**1,184,776**	**1,079,084**
I. Equity attributable to shareholders of the parent undertaking		**1,184,776**	**1,079,084**
1. Share capital	26.1	447,558	447,558
2. Other funds	26.2	663,616	562,248
3. Net profit (loss)		73,602	69,278
II. Equity attributable to non-controlling interest		**0**	**0**
B. Non-current liabilities		**924,076**	**477,265**
1. Non-current loans and bonds payables	27	681,114	418,218
2. Non- current liabilities arising from the acquisition of a subsidiary	28	175,572	0
3. Non-current trade and other payables	29.1	0	0
4. Provisions	30	22	22
5. Deferred tax liability	12.3	67,368	59,025
C. Current liabilities		**305,096**	**114,048**
1. Current loans and bonds payables	27	119,548	16,428
2. Current liabilities arising from the acquisition of a subsidiary	28	41,264	0
3. Current trade and other payables	29.1	77,667	51,119
3. Income tax payable		47	99
4. Provisions	30	12,617	397
5. Accrued expenses and revenue	31	53,953	46,005
Total equity and liabilities		**2,413,948**	**1,670,397**

(*) conversion in the presentation of the equity, see a description in Note 7

Consolidated statement of comprehensive income of LC Corp Capital Group as at 31 December 2013 *(in PLN '000)*

	Note	Year ended 31 December 2013	Year ended 31 December 2012
Operating activity			
Sales revenue		**209,221**	**176,401**
Revenue on sales of services	11.1	50,118	44,872
Revenue on sales of goods and products	11.1	159,103	131,529
Cost of sales	11.2	**(139,437)**	**(116,222)**
Pre-tax profit on sales		**69,784**	**60,179**
Gain (loss) on disposal of non-current non-financial assets		(7)	4
Revaluation of non-current non-financial assets	18	55,508	23,950
Valuation allowances for inventories	20	(15,452)	(10,135)
Selling and distribution costs	11.2	(7,164)	(7,626)
General administrative expenses	11.2	(15,111)	(12,807)
Other operating income	11.5	1,200	620
Other operating expenses	11.6	(1,208)	(321)
Operating profit (loss)		**87,550**	**53,864**
Financial income	11.7	8,260	29,436
Financial expenses	11.8	(11,243)	(7,289)
Pre-tax profit (loss)		**84,567**	**76,011**
Corporate income tax (tax expense)	12.1	(10,965)	(5,357)
Net profit on business activities		**73,602**	**70,654**
Discontinued operations			
Profit (loss) on discontinued operations for the business year		0	0
Net profit (loss)		**73,602**	**70,654**

Other comprehensive income		
Items reclassified to the profit / (loss) in following reporting periods:		
Financial assets available for sale	84	0
Cash flow hedges	235	0
Income tax relating to other components of comprehensive income	(60)	0
Other comprehensive income for the year, net value	**259**	**0**
Total comprehensive income for the year	**73,861**	**70,654**

(in PLN '000)

Profit attributable to:			
Equity holders of the Parent		73,602	69,278
Non-controlling interest		0	1,376
		73,602	**70,654**
Profit attributable to:			
Equity holders of the Parent		73,861	69,278
Non-controlling interest		0	1,376
Net profit (loss):		**73,861**	**70,654**
Basic profit per share for Equity holders of the Parent	13	0.16	0.15
Diluted profit per share for Equity holders of the Parent	13	0.16	0.15

Consolidated statement of cash flows of LC Corp Capital Group for year ended 31 December 2013 *(in PLN '000)*

	Note	Year ended 31 December 2013	Year ended 31 December 2012
A. Cash flows from operating activities			
I. Pre-tax loss		**84,567**	**76,011**
II. Total adjustments		**(70,298)**	**(99,192)**
1. Depreciation and amortization		577	614
2. Foreign exchange gains (losses)		(1,941)	(17,115)
3. Interest and distributions from profit (dividends)		18,652	18,269
4. Profit (loss) on investing activities		5	(3,198)
5. Change in provisions		12,220	16
6. Change in inventories		(18,125)	(55,850)
7. Change in receivables		16,564	(35,714)
8. Change in current liabilities (net of loans and borrowings)	25.1	247,598	5,218
9. Change in accruals and deferrals		7,524	15,134
10. Corporate income tax		(3,381)	(2,657)
11. Other adjustments	25.2	(349,991)	(23,909)
III. Net cash provided by (used in) operating activities (I±II))		**14,269**	**(23,181)**
B. Cash flows from investing activities			
I. Cash flows from investing activities		**9**	**21**
1. Sale of intangible assets and property, plant and equipment		9	21
2. Sale of investment property		0	0
3. Cash provided by financial assets		0	0
4. Other cash provided by investing activities		0	0
II. Cash used in investing activities		**(114,123)**	**(93,802)**
1. Acquisition of intangible assets and property, plant and equipment		(669)	(853)
2. Investment property		(98,454)	(67,949)
3. Cash used on financial assets		(15,000)	(25,000)
4. Other cash used in investing activities		0	0
III. Net cash provided by (used in) investing activities (I–II)		**(114,114)**	**(93,781)**
C. Cash flows from financing activities			
I. Cash provided by financing activities		**169,311**	**151,230**
1. Net proceeds from issue of shares and additional contributions to equity		0	0
2. Increase in loans and borrowings		119,311	86,407
3. Issue of debt securities		50,000	64,823
4. Other cash provided by financing activities		0	0
II. Cash used in financing activities		**(62,372)**	**(41,456)**
1. Repayment of loans and borrowings		(30,711)	(23,658)
2. Redemption of debt securities		(11,020)	0
3. Interest paid		(20,641)	(17,798)
4. Other cash used in financing activities		0	0
III. Net cash provided by (used in) financing activities (I–I)		**106,939**	**109,774**
D. Total net cash flow (A.III±B.III±C.III)		**7,094**	**(7,188)**
E. Balance-sheet change in cash, including:		**7,094**	**(7,188)**
– foreign exchange change in cash		0	0
F. Cash at beginning of period		**153,028**	**160,216**
G. Cash at end of period (F±D)	24	**191,313**	**153,028**
- restricted cash		20	20

Accounting rules (policies) and Additional explanatory notes to the consolidated financial statements enclosed on pages 11 to 67 are their integral part

Statement of changes in consolidated equity of LC Corp Capital Group for year ended 31 December 2013 *(in PLN '000)*

	Issued share capital	*Other capital*		***Net profit (loss)***	***Total capital allocated to the shareholders of the parent undertaking***	***Non-controlling interests***	***Total equity***
		Reserve funds, reserve funds and retained profit	*Other capital*				
As at 1 January 2013 (converted *)	**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 trasnferred to retained earnings	0	69,278	0	(69,278)	**0**	0	**0**
Accounting for acquisition of 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**

(*) conversion in the presentation of the equity, see a description in Note 7

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(in PLN '000)

	Issued share capital	*Other capital*		***Net profit (loss)***	***Total capital allocated to the shareholders of the parent undertaking***	***Non-controlling interests***	***Total equity***
		Reserve funds, reserve funds and retained profit	*Other capital*				
As at 1 January 2012 (converted *)	**447,558**	**493,304**	**3,108**	**61,318**	**1,005,288**	**28,142**	**1,033,430**
Net profit for 2012	*0*	*0*	*0*	*69,278*	***69,278***	*1,376*	***70,654***
Other comprehensive income for 2012	*0*	*0*	*0*	*0*	***0***	*0*	***0***
Total comprehensive income for 2012	**0**	**0**	**0**	**69,278**	**69,278**	**1,376**	**70,654**
Profit from the previous period trasnferred to retained earnings	0	61,318	0	(61,318)	0	0	**0**
Acquisition of non-controlling shares	0	4,518	0		4,518	(29,518)	**(25,000)**
As at 1 December 2012 (converted *)	**447,558**	**559,140**	**3,108**	**69,278**	**1,079,084**	**0**	**1,079,084**

(*) conversion in the presentation of the equity, see a description in Note 7

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ACCOUNTING RULES (POLICIES) AND ADDITIONAL EXPLANATORY NOTES

1. General information

LC Corp Capital 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 2013 and contain comparable data for the ended 31 December 2012 and as at 31 December 2012.

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

The Company was assigned statistical identification number REGON 020246398.

The Parent Undertaking and the subsidiaries of the Capital Group were established for an indefinite period. The Parent Undertaking's primary activity is:

- 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 Buying and selling real estate on own account
- PKD 4120Z Construction works related to putting up residential and non-residential buildings

The Parent Undertaking of LC Corp S.A. and the whole group is LC Corp B.V., which is controlled by Leszek Czarnecki.

(in PLN '000)

2. The organization of LC Corp Capital Group

As at 31 December 2013 and as at 31 December 2012 LC Corp Capital Group comprises the following subsidiaries of LC Corp S.A.:

Company name	Effective share in LC Corp S.A. capital	
	31 December 2013	31 December 2012
Arkady Wrocławskie S.A. seated in Wrocław	100%	100%
Sky Tower S.A. seated in Wrocław [1]	100%	-
Warszawa Przyokopowa Sp. z o.o. seated in Wrocław	100%	100 %
Kraków Zielony Złocień Sp. z o.o. seated in Wrocław	100%	100%
LC Corp Invest I Sp. z o.o. seated in Wrocław	100% (indirectly and directly)	100% (indirectly and directly)
LC Corp Invest II Sp. z o.o. seated in Wrocław	100%	100%
LC Corp Invest III Sp. z o.o. seated in Wrocław	100%	100%
LC Corp Invest VII Sp. z o.o. seated in Wrocław	100%	100%
LC Corp Invest VIII Sp. z o.o. seated in Wrocław	100%	100%
LC Corp Invest IX Sp. z o.o. seated in Wrocław	100%	100%
LC Corp Invest X Sp. z o.o. seated in Wrocław	100%	100%
LC Corp Invest XI Sp. z o.o. seated in Wrocław	100%	100%
LC Corp Invest XII Sp. z o.o. seated in Wrocław	100%	100%
LC Corp Invest XV Sp. z o.o seated in Wrocław	100%	100%
LC Corp Invest XVI Sp. z o.o. seated in Wrocław	100%	100%
LC Corp Invest XV Sp. z o.o. Projekt 1 Sp. k. seatem in Wrocław	100% (indirectly)	100% (indirectly)
LC Corp Invest XV Sp. z o.o. Projekt 2 Sp. k. seated in Wrocław	100% (indirectly)	100% (indirectly)
LC Corp Invest XV Sp. z o.o. Projekt 3 Sp. k. seated in Wrocław	100% (indirectly)	100% (indirectly)
LC Corp Invest XV Sp. z o.o. Projekt 4 Sp. k. seated in Wrocław	100% (indirectly)	100% (indirectly)
LC Corp Invest XV Sp. z o.o. Projekt 5 Sp. k. seated in Wrocław	100% (indirectly)	100% (indirectly)
LC Corp Invest XV Sp. z o.o. Projekt 6 Sp. k. seated in Wrocław	100% (indirectly)	100% (indirectly)
LC Corp Invest XV Sp. z o.o. Projekt 7 Sp. k. seated in Wrocław	100% (indirectly)	100% (indirectly)
LC Corp Invest XV Sp. z o.o. Projekt 8 Sp. k. seated in Wrocław	100% (indirectly)	100% (indirectly)
LC Corp Invest XV Sp. z o.o. Projekt 9 Sp. k. seated in Wrocław [2]	100% (indirectly)	-
LC Corp Invest XV Sp. z o.o. Projekt 10 Sp. k. seated in Wrocław [3]	100% (indirectly)	-
LC Corp Invest XVII Sp. z o.o. Projekt 20 Sp. k. seated office in Wrocław	100% (indirectly)	100%
LC Corp Invest XVII Sp. z o.o. seated in Wrocław	100%	100%
LC Corp Invest XV Sp. z o.o. Finance S.K.A.	100% (indirectly and directly)	100% (indirectly and directly)
LC Corp Invest XV Sp. z o.o. Projekt 14 S.K.A.	100% (indirectly and directly)	100% (indirectly and directly)
LC Corp Invest XV Sp. z o.o. Investmets S.K.A.[4]	100% (indirectly and directly)	-

As at 31 December 2013 and as at 31 December 2012 the Parent Undertaking's share in the total vote in subsidiary entities equals its share in the share capital of these entities.

(1) On 6 December 2013, LC Corp SA acquired from LC Corp B.V. with its registered seat in Amsterdam 100% of Sky Tower S.A.'s shares, and became the sole shareholder of this company, which on that day became a part of LC Corp S.A. capital group.

(2) On 23 April 2013, a limited partnership LC Corp Invest XV Sp. z o.o. Projekt 9 Sp. k. was registered on the basis of an agreement made between LC Corp S.A.'s subsidiary companies i.e. LC Corp Invest XV Sp. z o.o. and LC Corp Invest XI Sp. z o.o. The company was established to implement a property development investment in which LC Corp Invest XI Sp. z o.o. is the limited partner.

(3) On 6 December 2013, a limited partnership LC Corp Invest XV Sp. z o.o. Projekt 10 Sp. k. was registered on the basis of an agreement made between LC Corp S.A.'s subsidiary companies i.e. LC Corp Invest XV Sp. z o.o. and LC Corp Invest XI Sp. z o.o. The company was

established to implement a property development investment in which LC Corp Invest XI Sp. z o.o. is the limited partner.

(4) On 1 October 2013, LC Corp Invest XV a limited liability company Investments S.K.A. was registered. LC Corp Invest XV a limited liability company acquired 50 shares in the share capital, and LC Corp Invest XVI Limited Liability Company acquired 4,950 shares. On 21 October 2013, the Extraordinary General Meeting adopted a resolution to increase the share capital of the Company from the amount of PLN 50,000.00 to the amount of PLN 91,905,080.00, i.e. by the amount of PLN 91,855,080, issuing 9,185,508 Series C registered shares with a par value of PLN 10.00 each, which were acquired by LC Corp S.A. Therefore, on the date of the increase of the share capital, LC Corp SA became a shareholder of the Company holding 99.95% of shares.

3. Composition of the Management Board of the Parent Undertaking

As at 31 December 2013, the Management Board of LC Corp comprised:

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

On 6 December 2013, the Supervisory Board of the Issuer appointed Mrs Małgorzata Danek to the Management Board as a new Member of the Management Board of the Company.

As at 31 December 2013, the Management Board of LC Corp comprised:

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

4. Approval of the financial statements

These consolidated financial statements were approved for publication by the Management Board on 20 March 2014.

5. Significant values based on professional judgement and estimates

5.1. Professional judgement

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

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 2013, the property investment of Silesia Star in Katowice, given the advancement of construction and the inability to reliably estimate the fair value, the value of investment expenditures 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. Preparing the financial statements in accordance with IFRS required from the Company Board to make some assessments and assumptions which will be reflected in the statements. The actual results may vary from these assessments.

Below are discussed the basic assumptions concerning the future and other key sources of uncertainty occurring as at the end of the reporting period, with which there is a significant risk of a substantial adjustment of balance-sheet assets and liabilities in the next financial year.

Deferred tax asset

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

Fair value of investment properties

At the end of each quarter of the financial year, the Group independently estimates the fair value of investment properties based on the agreed model of investment capitalization. At the end of each financial year, the fair value of investment property is determined or verified by an independent property valuer. Investment properties are described in Note 18.

Fair value of forward financial instruments

The fair value of financial instruments in the form of forward contracts, measured at fair value through profit and loss, is determined on the last day of each quarter in a given accounting year and at the end of each accounting year on the basis of the valuation made by an institution which professionally measures such financial transactions (among others by the Bank) or on the basis of a financial model built to make a valuation and accepted by the Statutory Auditor.

The fair value of financial instruments of the IRS type

The fair value of financial instruments of the IRS type, covered by the cash flow hedge accounting, measured at fair value through equity, is determined on the last day of each quarter in a given accounting year and at the end of each accounting year on the basis of the valuation made by an institution which professionally measures such financial transactions (among others by the Bank) or on the basis of a financial model built to make a valuation and accepted by the Statutory Auditor.

Valuation allowances for inventories

As at end of each reporting period, the Management Board estimates if there is any evidence pointing to a loss of value of its property development investments under completion by analyzing sales reports, market research and other available evidence. If there is a risk of impairment, the value of these investments is assessed with the DCF method, which is used to determine valuation allowances for inventories. The DCF method is based on discounted cash flows generated within approved investment schedules and revenues from sales of flats, allowing for the sale price of 1 square metre of usable floor space, in accordance with the current market situation. The discount rate allows for the weighted average cost of capital (WACC).

The recoverable value of inventories and the value of the valuation allowances for inventories are estimated as at 31 December 2013 and may be subject to change depending on the fluctuation of the sale price of flats, 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 next financial periods. Inventories and valuation allowances for inventories are presented in Note 20.

The table below shows the change of estimates as at 31 December 2013 and as at 31 December 2012.

	31 December 2013	31 December 2012
Deferred tax asset	17,848	18,572
Fair value of investment property	1,359,625	731,515
Fair value of forward financial instruments	511	3,193
The fair value of financial instruments of IRS	1,507	0
Deferred tax liability	67,368	59,025
Valuation allowance for inventories	81,071	92,917

6. Basis for the preparation of the consolidated financial statements

These consolidated financial statements were prepared using the historical cost method, except with respect to investment properties, 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 of a continuation of the business activity by the Group companies in the foreseeable future. As at the day of approval of these consolidated financial statements, there are no circumstances identified implying any threats for continuation of the Group companies' activity.

6.1. Declaration of compliance

The enclosed consolidated financial statements of LC Corp Capital Group were prepared in accordance with International Financial Reporting Standards ("IFRS") and IFRS approved by the EU.

As at the day of approval of these statements for publication, taking into account the process of introducing IFRS standards, currently in progress in the EU, and the Group's activity, International Financial Reporting Standards differ from International Financial Reporting Standards adopted by the EU, within the accounting principles used by the Group. The Group used the opportunities of applying International Financial Reporting Standards approved by the EU, including IFRS 10, IFRS 11, IFRS 12, IAS 27 and IAS 28, as amended only from annual periods beginning on 1 January 2014.

IFRS comprise standards and interpretations accepted by the 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 Polish zloty.

7. Changes in accounting rules

The accounting principles and policies adopted for preparation of these consolidated financial statements are coherent with the principles described in the consolidated financial statements of the LC Corp Group for the year ended 31 December 2012, except for new or changed IFRS and IFRIC interpretations effective for the annual periods beginning on 1 January 2013.

1) IAS 19 *Employee Benefits* (amendments 2011) – applicable to annual periods beginning on or after 1 January 2013
2) Amendments to IAS 1 *Presentation of Financial Statements: Presentation of Items of Other Comprehensive Income* – applicable to annual periods beginning on or after 1 July 2013,
3) IAS 1 *Clarification of the requirement for comparable data* (amendment)
4) Amendments to IAS 12 *Income Taxes: Recovery of Underlying Assets* – effective for annual periods beginning on or after 1 January 2012 – in EU applicable to annual periods beginning on or after 1 January 2013,
5) Amendments to IFRS 13 *Fair Value Measurement* – applicable to annual periods beginning on or after 1 January 2013,
6) Amendments to IFRS 7 *Financial Instruments Disclosures*: *Offsetting Financial Assets and Financial Liabilities* – applicable to annual periods beginning on or after 1 January 2013.
7) Amendments resulting from the IFRS review (published in May 2012) – applicable to annual periods beginning on or after 1 January 2013 referring to MSR 16 and MSR 32,
8) Amendments *to* IFRS *1 First-time Adoption of International Financial Reporting Standards: Severe Hyperinflation And Removal Of Fixed Dates For IFRS First-Time Adopters* – applicable to annual periods beginning on or after 1 July 2012 – in EU applicable to annual periods beginning on or after 1 January 2013,
9) Amendments *to IFRS 1 First-time Adoption of International Financial Reporting Standards: Government Loans* – applicable to annual periods beginning on or after 1 January 2013,
10) IFRIC 20 *Stripping Costs in the Production Phase of a Surface Mine* – applicable to annual periods beginning on or after 1 January 2013, This interpretation is not applicable to the Group.

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

The above-mentioned amendments had no impact on the Group's financial position or activity results.

As of 30 June 2013, the Management Board of the Parent Company changed the presentation in terms of the aggregation of the equity components in the consolidated statement of financial position. The Management believes that the current presentation better and more clearly reflects the financial situation and the current achievements of the Group. This change had no impact on the financial result or the amount of equity both in the current reporting period and comparable periods. Consequently, there were made changes in equity of the presentation of in the consolidated statement. The way of presentation, currently adopted, will be continued by the Group in the future.

(in PLN '000)

The table below shows the changes of comparable data made in the presentation in the consolidated statement of financial position, as at 31 December 2012, in relation to the previously drawn up and published financial statements of the Group for the year 2012.

Current name	Former name	31 December 2012 After change in presentation	31 December 2012 According to published statement
A. Equity		**1,079,084**	**1,079,084**
I. Equity attributable to shareholders of the parent undertaking		**1,079,084**	**1,079,084**
1. Share capital	1. Share capital	447,558	447,558
2. Other capital		562,248	
	2. Balance of called-up share capital not paid		0
	3. Reserve funds		522,863
	4. Other reserve funds		69,771
	5. Other capital		3,108
3. Profit / (Loss) net		69,278	
	6. Retained profit / losses not covered		35,784

The tables below present the changes in equity of comparable data made in the presentation in the consolidated statement, as at 1 January 2012 and 31 December 2012 in relation to the previously financial statements of the Group drawn up and published for the year 2012.

Current name	Former name	1 January 2012 After change in presentation	1 January 2012 According to the published statement
Equity attributable to shareholders of the parent undertaking		**1,005,288**	**1,005,288**
Share capital	**Share capital**	447,558	447,558
Other capital:			
Reserve funds, other reserve funds and retained profit		493,304	
Other capital		3,108	
	Reserve funds		428,992
	Other reserve funds		69,771
	Other capital		3,108
Profit / (Loss) net		61,318	
	Retained profit / losses not covered		55,859

Current name	Former name	31 December 2012 After change in presentation	31 December 2012 According to the published statement
Equity attributable to shareholders of the parent undertaking		**1,079,084**	**1,079,084**
Share capital	**Share capital**	447,558	447,558
Other capital:			
Reserve funds, other reserve funds and retained profit			
Other capital		3,108	
	Reserve funds		522,863
	Other reserve funds		69 ,771
	Other capital		3,108

(in PLN '000)

Profit / (Loss) net		69 278	
	Retained profit / losses not covered		35 784

Additionally, in the first half of 2013 the Group has expanded its accounting policy for guidance on hedge accounting instruments hedging interest rate risk. Valuation of this type of hedging transactions, as at 31 December 2013, is presented in Note 27

8. New standards and interpretations, which were published but have not become effective yet

The following standards and interpretations were published by IASB or IFRIC, but have not become effective yet:

1) Phase 1 of IFRS 9 *Financial Instruments:* Classification and Measurement with later amendments – effective date was postponed by the Council for IFRS without any indication of the planned date of approval,
2) IFRS 10 *Consolidated Financial Statements* – applicable to annual periods beginning on or after 1 January 2013 – in EU applicable to annual periods beginning on or after 1 January 2014, the Company decided to apply IFRS to annual periods beginning on 1 January 2014,
3) IFRS 11 *Joint Arrangements* – applicable to annual periods beginning on or after 1 January 2013 – in EU applicable to annual periods beginning on or after 1 January 2014. The Company decided to apply IFRS to annual periods beginning on 1 January 2014,
4) IFRS 12 *Disclosure of Interests in Other Entities* – applicable to annual periods beginning on or after 1 January 2013 – in EU applicable to annual periods beginning on or after 1 January 2014, the Company decided to apply IFRS to annual periods beginning on 1 January 2014,
5) Amendments to IFRS 10, IFRS 11 and IFRS 12 *Transition Guidance* – applicable to annual periods beginning on or after 1 January 2013 – in EU applicable to annual periods beginning on or after 1 January 2014,
6) IAS 27 *Separate Financial Statements* – applicable to annual periods beginning on or after 1 January 2013 – in EU applicable to annua*l periods beginning on* or after 1 January 2014, the Company decided to apply IFRS to annual periods beginning on 1 January 2014,
7) IAS 28 *Investments in Associates and Joint Ventures* – applicable to annual periods beginning on or after 1 January 2013 – in EU applicable to annual periods beginning on or after 1 January 2014, the Company decided to apply IFRS to annual periods beginning on 1 January 2014, the Company decided to apply IFRS to annual periods beginning on 1 January 2014,
8) Amendments to IAS 32 *Financial Instruments: Presentation: Offsetting Financial Assets and Financial Liabilities* – applicable to annual periods beginning on or after 1 January 2014,
9) Amendments to IFRS 10, IFRS 12 and IAS 27 *Investment Entities* (published on 31 October 2012) – applicable to annual periods beginning on or after 1 January 2014
10) IFRIC 21 *Levies* – applicable to annual periods beginning on or after 1 January 2014 – not endorsed by the EU as at the date of authorization of these financial statements,
11) Amendments to IAS 10 *Recoverable Amount Disclosures for Non-Financial Assets* (published on 29 May 2013) - applicable to annual periods beginning on or after 1 January 2014 ,
12) Amendments to IAS 39 *Novation Of Derivatives And Continuation Of Hedge Accounting* (published on 27 June 2013) – applicable to annual periods beginning on or after 1 January 2014,
13) 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 – not endorsed by the EU as at the date of authorization of these financial statements
14) *Amendments resulting from the IFRS review 2010-2012* – Some of the amendments are applicable for annual periods beginning on or after 1 July 2014, and the other prospectively for transactions occurring on or after 1 July 2014– not endorsed by the EU as at the date of authorization of these financial statements,

15) *Amendments resulting from the IFRS review 2011-2013* – applicable to annual periods beginning on or after 1 July 2014 – not endorsed by the EU as at the date of authorization of these financial statements,
16) *IFRS 14 Regulatory Deferral Accounts* – applicable to annual periods beginning on or after 1 January 2016 – not endorsed by the EU as at the date of authorization of these financial statements.

Adoption of the above-mentioned amendments to accounting standards and new interpretations in future reporting periods would have little bearing on the Group's accounting policy (rules).

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 2013 and contain comparable data for the year ended 31 December 2012 and as at 31 December 2012.

The financial statements of the subsidiary undertakings are prepared for the same reporting period as the financial statements of the Parent Undertaking, for the period from their setup (if they were set up in 2013) until 31 December 2013, by adopting coherent accounting principles based on uniform accounting principles applied to transactions and economic events of similar character.

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 stop being consolidated from the day the control stops. Exercising 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 exercising control. Exercising 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 a 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 that control is not transitory.

IFRS 3 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 uses the professional judgment in developing and applying an accounting policy including for example most current regulations and application guidelines developed by other entities making standards based on similar conceptual framework to the 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 to these standards.

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

- mutual receivables and liabilities and other accounting of combining entities of a similar type,

- revenues and costs of business transactions made in the financial year before the combination of entities included in the values set out in a combination of assets and liabilities and the equity
- profit or loss from business transactions made before the combination of the merging entities, included in the values of the combining assets, liabilities and equity
- share capital of the entity whose property has been seized, and equity attributable to non-controlling shareholders; after this exclusion, the difference between the remaining capital and the acquisition price of the entity is recognized in other reserve funds.

Business combination by the pooling of interests does not lead to the identification and recognition of any goodwill or negative goodwill, nor to identify and recognition of any additional assets and liabilities, except 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 and non-financial assets such as investment properties at fair value at the 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 in the usual conditions sale of the asset between market participants at the measurement date in the current market conditions. A fair value measurement assumes that the transaction to sell the asset or transfer a liability occurs:

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

Both the active and the most advantageous market must be available to the Group. The fair value of the asset or liability is measured on the assumption that market participants when determining the price of an asset or liability act in their best economic interest.

The fair value of non-financial asset takes into account the ability of a market participant to generate economic benefits through the biggest and best use of the asset or its disposal on 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 appropriate observable inputs and minimal use of unobservable outputs.

All assets and liabilities that are measured at fair value or their fair value is disclosed in the financial statements are classified in 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 prices (unadjusted) 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. Non-current assets

Non-current assets include:

- land (including the right of perpetual usufruct) which is not investment property or investment property under construction or inventories,
- buildings which are not investment property (including cooperative ownership right to premises, ownership right to premises),
- civil engineering facilities,

- plant and equipment,
- means of transport,
- other objects

complete and in 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 non-current assets includes their acquisition price increased by all costs directly related to their acquisition and restoring to proper operating condition. The cost also includes the cost of replacing components of the machines or devices at the time it is incurred, if the criteria of recognition are fulfilled. Costs incurred after the date of handing over the non-current asset to use, such as costs of maintenance and repair, charge the statement of comprehensive income at the time they are incurred.

At the moment of their acquisition non-current assets are divided into components of significant value, to which a separate period of useful economic life can be assigned. The costs of complete overhauls are also 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**
Machines and technical devices	5
Office equipment	2
Other means of transport	5
Investments in third-party non-current assets	10 (or time-limit of the contract if shorter)
Computers	3

If there is any objective evidence that the value of an item of tangible assets may be impaired, the assets are reviewed for possible impairment. If any such evidence exists and the balance-sheet value exceeds the assessed recoverable value, the value of the assets or cash-generating centres which own the assets 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 discount rate before allowing for taxation effects, which reflects the current market assessment of the value in cash and 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 allowances are disclosed in the profit and loss account.

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 are expected resulting from the further use of such an item. All profits or losses resulting from removing a given item of non-current items from the statement of financial position (calculated as a difference between potential net proceeds from sales and the balance-sheet value of a given item) are disclosed in the profit or loss in the period during which such a removal was effected.

The final value, period of usage and method of depreciation of assets are verified and, if necessary – adjusted, from the beginning of the recently ended financial 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. Non-current assets under construction

Non-current assets under construction concern non-current assets being built or assembled and are disclosed according to the acquisition or production cost. Non-current assets under construction are not subject to depreciation by the time they are built and handed over to use.

Land and right of perpetual usufruct of land allotted for building non-current assets are disclosed as non-current assets under construction up to the time they are handed over to use.

9.6. Investment property

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

- probability of obtaining economic profits by virtue of possessing the property,
- possibility of a credible establishment 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 part of an 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 the 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 are expected from its disposal. All profits and losses resulting from the removal of an investment property from the statement of financial position are disclosed in the profit and loss account 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 conclusion of a contract of operating lease. However, if an asset is used by the owner – the Group, it 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 the 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 an 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 a transfer of an investment property to assets used by the owner, or to inventories, the supposed cost of such an 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 capitalization of the investment.

9.7. Investment property under construction

The Group discloses as "Investment property" also property under construction which will be used in the future as investment property.

For investment properties, the Group uses a valuation model for fair value, hence investment properties under construction are measured at this value.

However, in the case when the fair value of an investment property under construction cannot be reliably assessed, it is measured using the historical cost model, until one of two dates, whichever is earlier: date of completing the building process or the time when the fair value can be reliably assessed.
In addition, the value of investment properties under construction includes the costs of commission for agents by virtue of effecting contracts of office space rental.

9.8. Goodwill

Goodwill arising on an acquisition of a business entity represents the excess of

- the sum of:
  (i) the payment transferred,
  (ii) the amount of any non-controlling interest 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 a stake in the share capital of the acquired entity, previously held by the acquiring entity.
- over the net amount, established as at the acquisition date, of the value of identifiable acquired assets and assumed liabilities.

Goodwill is stated at cost less impairment losses, if any. Goodwill is tested annually for impairment or more frequently if there are any reasons for it. Goodwill is not depreciated.
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.

The Group calculates any impairment of value by estimating recoverable value of the cash-generating unit relevant to a given part of goodwill. If the recoverable value of a cash-generating unit is lower than its balance-sheet value, Group recognizes impairment losses. If goodwill comprises a part of a cash-generating unit and the Group sells a part of the business of the cash-generating unit, the goodwill connected with the sold business is included in the balance-sheet value of the sold business for the purpose of calculating gains or losses on disposal of the part of business. Goodwill sold in such circumstances is valued 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 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 as defined at the business combination date. After initial recognition, intangible assets are measured at acquisition or production cost less amortization and impairment allowances. Expenditures related to intangible assets produced on your own, except for activated expenditures incurred for 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 value impairment each time there are indications of the impairment of their value. 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 advantages coming from a given asset are disclosed by a change of the period or amortization method, respectively, and treated as changes of assessed values. Depreciation allowance of intangible assets with a definite useful life is charged 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. In the case of other intangible assets, it is checked if there are indications of impairment. Periods of use are also annually verified and, if necessary, adjusted effective from the beginning of the financial year.

As at 31 December 2013 and as at 31 December 2012 there were no intangible assets of indefinite period of use. Summary of the rules applied in relation to intangible assets of the Group is presented below:

	Patents and licences	**Computer software and other**
Period of use	Indefinite. For patents and licences used on the basis of agreement for a definite period, this period is assumed, 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 revaluated.	Straight-line method
Produced or acquired	Acquired	Acquired
Tested for impairment / verification of recoverable amount	An indefinite period of useful life – annually or if there are indications of value impairment. For others – annual assessment if there are indications of value impairment.	Annual assessment if there are indications of impairment.

As at 31 December 2013 and as at 31 December 2012 there were no patents and licences an indefinite period of useful life.

Profits or losses resulting from the removal of intangible assets from the statement of financial position are valued according to 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 their 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 asset, i.e. determines whether the current book value of the asset is higher than the value that can be obtained from its further use or sale. If the balance-sheet value of an asset exceeds its recoverable value, its value impairment is recognized and an impairment allowance is made to the established recoverable value. The impairment allowance is recognized in the financial result. The recoverable value corresponds to the higher of fair values less selling costs of the asset or the value in use of an asset or a cash-generating unit.

The recoverable value is determined for the individual assets, unless a given asset does not generate separate cash inflows largely independent from 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 allowances are recognised up to the established recoverable value. In assessing 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 allowance 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 each balance-sheet date, the Group assesses whether there is any objective evidence that the impairment allowance 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 allowance is reversed only when, from the time of the last valuation allowance, there was a change of the estimated values 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 in the previous years the impairment allowance was not disclosed at all in relation to this asset. Reversal of the impairment allowance of an asset is disclosed immediately as income in the profit and loss account. After the reversal of the impairment allowance, in the next periods the depreciation allowance 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 make systematic allowances of 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, costs of building relating to works performed by subcontractors in connection with building flats, capitalized costs including the costs of external financing, costs of planning and design, mark-ups of administrative expenses directly connected with building, and other costs relating to building.

Initially, inventories are disclosed according to the 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 valued and recognized at amounts initially invoiced, accounting for valuation allowances for uncollectible receivables. Valuation allowances for receivables are estimated when the collection of the full amount of receivables is no longer possible. Uncollectible receivables are deducted for the statement of comprehensive income when their uncollectibility is stated.

If the effect of 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 pre-tax discount rate reflecting the current market estimates 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 of initial maturity up to three months.
The cash flows balance of cash and cash equivalents consists of the above-defined monetary assets and their equivalents less bank overdrafts.

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 in the following categories:

– Financial assets held to maturity,
– Financial assets at fair value through profit and loss,
– Loans 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 that the Group upon initial recognition designates as at fair value through financial result,
- those that the entity designates as available for sale,
- those that meet the definition of loans and receivables.

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

Financial assets acquired in order to gain on short-term price changes are classified as financial assets valued at fair value through profit and loss. Fair value through profit and loss financial assets are valued at fair value without any transaction costs, taking into account the market value as at the end of reporting period. Changes in these instruments are recorded in the statement of comprehensive income. Derivatives are also classified as held for trading unless are treated as effective hedge instruments or financial guarantee agreements. Financial assets valued at fair value through profit and loss are valued at fair value, taking into account their market value as at balance-sheet date excluding sales transaction costs. Changes in the fair value of these instruments are recognized in the profit and loss account as financial cost or income. Financial assets valued at fair value through profit and loss are presented in current assets. If the contract contains one or more embedded derivatives, the whole contract can be classified to the category of financial assets valued at fair value through profit and loss. It does not apply to the cases when embedded derivative does not have significant impact on cash flows from the contract or separation of embedded derivative is specifically prohibited. Financial assets can be on initial recognition classified to the category of valued at fair value through profit and loss if the following criteria are met:

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

(ii) asset is part of group of assets which is managed and evaluated based on fair value in accordance with existing strategy of risk management or

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

As at 31 December 2013 and as at 31 December 2012 no financial assets were classified to the category of value at fair value through profit and loss.

Originating loans and receivables include non-derivatives financial assets with set or foreseeable payments not listed on any active market. They are included in current assets if the tenor does not exceed 12 months from the end of reporting period. Originating loans and receivables with tenor exceeding 12 months from the end of the reporting period are presented in fixed assets.

All the remaining financial assets are financial assets available for sale. Financial assets available for sale are valued at fair value without any transaction costs, taking into account the market value as at the end of the reporting period. If there is no active market for such instruments and no reliable available valuation using alternative methods, available for sale financial assets are valued at historical cost less impairment. Positive and negative difference between fair value and historical costs, after deferred tax, relating to available for sale assets (if active market exists or fair value can be reliably measured) is recorded in revaluation capital. The loss in value of available for sale financial assets is recorded as financial cost in the statement of comprehensive income.

Purchase and sale of financial assets are initially recognized as at the date of the transaction. Initial measurement includes fair value including, if the asset is not valued at fair value through profit and loss, transaction costs which can be assigned to the purchased asset.

Financial asset is derecognized from the balance sheet when the Group loses control over contractual rights comprising this instrument. Typically, this happens when the instrument is sold and all the cash flows related to this instrument will now be attributed to an independent third party.

9.15. Impairment losses in respect of financial assets

At each balance sheet date, the Group assesses whether there is 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 impairment of loans and receivables carried at amortized cost, the amount of impairment allowance is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses from irrecoverable receivables that have not been incurred) discounted at the original (i.e., at initial recognition), effective interest rate. The balance sheet value of the asset is reduced directly through the use of allowance account. The amount of the loss is recognized in profit or loss

The Group first verifies if there is any objective evidence pointing to 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 the existence of such impairment of an individual financial asset, regardless it is significant or not, the Company includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment.

Assets that are individually verified for impairment loss and for which an impairment allowance has been disclosed, or it was considered that the current allowance does not change, they are excluded in the collective assessment of assets for impairment.

If in a next period, the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment has been recognized, the previously recognized impairment loss is reversed. Any further reversal of an impairment loss is disclosed in profit or loss in the extent of the balance-sheet value of the asset at the reversal date which 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 carried at fair value because its fair value cannot be reliably measured, or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument, the amount of the impairment loss is measured 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 a similar financial asset.

Financial assets available for sale

If there is objective evidence that the financial asset available for sale is impaired, the amount of the difference between the acquisition price of the asset cost (less any principal repayment and depreciation) and its current fair value, less any impairment loss on that asset previously recognized in profit or loss is reversed on equity and reclassified in profit or loss. Reversals of impairment losses on equity instruments classified as available for sale cannot be recognized in profit or loss. If in the next period, the fair value of a debt instrument available for sale increases and the increase can be objectively related to an event occurring after the impairment loss 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;
- the hybrid (combined) instrument is not measured at fair value and changes at fair value are not recognized in the net profit or loss

Embedded derivatives are accounted for in a similar way as other 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 with 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 in the economic environment in which the transaction takes place.

As at 31 December 2013 and as at 31 December 2012 there were no embedded derivatives.

9.17. Hedging instruments

Derivatives to hedge against 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.

Fair value of FX forwards is established by reference to the forward rates of contracts with similar maturity prevailing at a given time. Fair value of interest rate swaps is established by reference to the market value of similar instruments.

Hedge accounting distinguishes between hedging instruments as:

- fair value hedges, protecting against the risk of changes of fair value of a recognized asset or liability, or
- cash flow hedges, protecting against the changes in cash flow 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 immediately as profit or loss. If adjustment is made to the balance-sheet value of a hedged interest-bearing financial instrument, the adjustment is charged to the net financial result in such a manner that it may be fully depreciated 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 the equity, while the portion which is determined to be an ineffective hedge is recognized directly in the profit and loss account.

If a hedge of a 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 the equity are transferred to the statement of comprehensive income in the same period or periods during which the asset acquired or liability assumed affects profit or loss.

If a 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, then the profits 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 non-financial asset – acquired or non-financial liability assumed – 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 accounted for 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 the income statement. On disposal of the foreign operation, the cumulative value of any such gains or losses recorded in other comprehensive income is reclassified from equity to profit and loss as an adjustment resulting from reclassification.

A gain or loss arising from a change in the fair value of derivatives which do not meet the conditions enabling 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 the equity, continues to be recognized in the equity until the forecast transaction takes place. If the company no longer expects a forecast transaction to take place, the total net gain or loss recognized in the equity is posted to the profit and loss account for the current reporting period.

In the year ended 31 December 2013 the Group did not apply cash flow hedges accounting.

9.18. Financial liabilities

Accounts payable are valued at the amounts initially invoiced.

Financial liabilities classified to the group valued at fair value, and other financial liabilities are valued at amortized cost using effective interest rate method.

Interest bearing loans, borrowings and bonds

All loans, borrowings and bonds are initially recognized at the value of the consideration received net of acquisition costs associated with the borrowing/loan.

After initial recognition, all interest-bearing loans, borrowings and bonds 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 valued at the fair value by the financial result.

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

Profits and losses are recorded in the statement of comprehensive income at the moment of liability removal from the statement of financial position, and when calculating the payment using 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 valued at a justified, reliably assessed value.

Provisions are charged to expenses of the operating activity, 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 discount rate which reflects current market estimate of time value of money and the risk related to the specified liability. If the discount method is applied, the increase in the provision as time passes will be recognized as borrowing cost.

The provision is decreased by the occurrence of 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 released into accounts to which they were 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.

Re-measurement of liabilities for employee benefits relating to defined benefit plans including actuarial gains and losses is recognized in other comprehensive income and is not reclassificated 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 instrument').

Transactions settled in equity instruments

The cost of such equity transactions with management board members is valued at fair value at the date of granting of such rights.

The cost of transactions settled in equity instruments is recognized together with associated increase in equity in the period in which the effectiveness//results conditions were met and ending in the day in which specified employees will receive the rights (rights grant date). The cumulative cost resulting from the transactions settled in equity instrument as at the end of each reporting period till grant date reflects the time passage of receiving rights and the number of awards, to which rights – in the opinion of the Management as of that date, based on the possibly best estimates of the equity instrument number will be purchased.

No costs are recognized from awards to which the rights are not finally purchased, except for awards in case of which the purchase of rights depends on market conditions which are treated as purchased irrespective of meeting the market conditions, under the condition of meeting other conditions relating to effectiveness.

In case of modifications of granting the awards settled in equity instruments, in order to meet minimum requirements only costs are incurred as if in case the conditions were not modified. Moreover, the cost is recognized of each increase in transaction market value as a result of modifications, valued as of the date of modification.

In case of deletion of award settled in equity instrument it is treated in the way as if the rights were purchased in the date of deletion and all the costs due from the award not incurred yet are immediately recognized. However, in case of replacement of deleted award with new award – specified as deputy award in the day of grant, the award deleted and the new award are treated as if it is a modification of the primary award which is in the way described in the above paragraph.

The dilutive effect of the issued options is reflected in determining the amounts of earnings per share as additional share dilution.

9.22. Own shares

Own (treasury) shares are valued according to the acquisition prices.

9.23. Equity

Equity consists of:

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

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

(in PLN '000)

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 valued 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 valued at the buy or sale rate of the bank whose services the undertaking used,
2) other operations are valued at the mid-exchange rate quoted for the given currency by the National Bank of Poland binding 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 resulting foreign exchange gains and losses are posted in the profit and loss account or, in cases determined by the accounting rules, capitalized under non-current assets. Non-cash items valued at their historic cost in foreign currency are translated at the historic exchange rate effective as at the date of the transaction. 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.

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	31 December 2013	31 December 2012
EUR	4.1472	4.0882
USD	3.0120	3.0996

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 effecting this liability will cause outflow of resources with economic advantages. Therefore, such a liability is not presented in the statement of financial position, but described in additional information and explanatory notes to the financial statements.

9.26. Recognition of revenues

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. Revenue is recognized net of VAT tax, excise duty and rebates. When recognizing revenues the below presented criteria also apply.

9.26.1 Sale of goods and products

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

Revenues on the sale of flats

Revenues on the sale of flats and retail units are disclosed only when basically all the risks and advantages connected with a given flat are transferred upon the customer and the revenue can be reasonably valued.

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.

Costs associated with flats which have already been sold, and which will be incurred in 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 a given flat took place.

9.26.2 Sale of services

Rental revenues

Revenues on renting investment properties are disclosed with the straight-line method for the period of rent in relation to open contracts.

9.26.3 Interest

Revenue is recognized as the interest accrues (taking into account the effective yield on the asset which is the discount rate which discounts future cash flows over the estimated use of financial instruments) in relation to the net book value of given financial instrument class.

9.26.4 Dividends

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

9.27. Current tax

Liabilities and receivables by virtue of current tax for the current period and previous periods are valued in the amounts of predicted payment for the benefit of tax authorities (recoverable from 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, deferred tax liability is created with use of the balance-sheet liability method in relation to all timing 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 on all taxable timing differences:

- With exempt when the deferred tax liability arises due to initial recognition of goodwill, or the initial recognition of asset or liability is in a transaction that is not a business combination, and at the time of the transaction affects neither accounting profit nor taxable profit, and
- In case of positive temporary differences resulting from investment in subsidiaries, associates and shares in joint ventures - except where the timing of the reversal of the temporary difference can be controlled, and it is probable that the temporary difference will not reverse in the foreseeable future

Deferred tax assets are recognized for all deductible temporary differences, carry-forward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available, against which the deductible temporary differences, carry-forward of unused tax assets and unused tax losses can be utilized.

- With exempt when the deferred tax asset arises due the initial recognition of asset or liability (in a transaction that is not a combination of business entities, and at the time of the transaction affects neither accounting profit nor taxable profit), and
- In case of negative temporary differences resulting from investment in subsidiaries, associates and shares in joint ventures the deferred tax asset is recognized in the statement of financial position in the amount which is probable that in foreseeable future the above mentioned differences will reverse and taxable profit will be available against which the deductible temporary differences can be utilized.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted as at the end of the reporting period, or 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 asset with deferred tax liability if, and only if it possesses an enforceable legal right to set off receivables with liabilities in respect of the current tax and when deferred income tax relates to the same taxpayer and the same tax authority.

9.29. Value added tax

Revenues, expenses, assets and liabilities disclosed less the value added tax, except:

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

Net amount of value added tax recoverable or payable for the benefit of the tax authorities is disclosed in the statement of financial position as part of receivables or liabilities.

9.30. Borrowing costs

Subject to capitalization are borrowing costs allocated for financing the construction or production of tangible assets or investment properties and construction of flats presented as inventories – work in process. 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 adequate to the local currency, and gains on foreign exchange differences up to the amount of earlier capitalized losses due to this fact.

9.31. Prepayments

During a reporting period prepayments include, among others:

- costs of rent and lease paid in advance,
- costs of energy paid in advance,
- costs of insurance of property,
- costs of charges for the right of perpetual usufruct,
- property tax,
- allowances for the employee benefit fund,
- other financial expenses charged in advance,
- commissions for effecting agreements of selling flats,

(in PLN '000)

- other costs relating to next reporting periods (subscriptions, advance payments for fair events, costs of provision of utility junctions etc.).

Costs subject to activation in the account prepayments and accrued income are settled proportionally to the passage of time in the next financial periods to which they relate. Costs of effecting the sale of flats are settled upon obtaining income on 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 next reporting periods,
    - costs of auditing these financial statements and other costs relating to the reporting period.

9.33. Net profit per share

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

Diluted profit/(loss) per share is calculated by dividing net profit for the period attributable to ordinary shareholders of the Parent Undertaking (after deducting interest on depreciable preferred shares convertible to ordinary shares) by 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).

10. Information on segments of activity

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

- rental services segment
- development activity segment
- holding activity segment

The Group values 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.

In the tables below, data concerning revenues and profits as well as assets and liabilities of the individual business segments within the Group were provided for the year ended 31 December 2013 and the year ended 31 December 2012.

Year ended 31 December 2013	Activity-rental services	Property development activity	Holding 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**

(in PLN '000)

As at 31 December 2013				
Assets and liabilities				
Total assets	1,535,958	788,193	89,797	2,413,948
Total liabilities	685,104	322,888	221,180	1,229,172
including: Loans and bonds receivables	*565,575*	*235,087*	*0*	*800,662*
Receivables from the acquisition of a subsidiary	*0*	*0*	*21, 836*	*216,836*

Year ended 31 December 2012	Activity-rental services	Property development activity	Holding activity	Total activity
Total sales revenue	**44,350**	**131,902**	**149**	**176,401**
Pre-tax profit (loss) on sales - Segment result	**31,727**	**28,304**	**148**	**60,179**
Unallocated revenues				54,010
Unallocated expenses				(38,178)
Pre-tax profit (loss)				**76,011**

As at 31 December 2012				
Assets and liabilities				
Total assets	767,668	783,165	119,564	1,670,397
Total liabilities	317,341	253,710	20,262	591,313
including: Loans and bonds receivables	*238,308*	*196,318*	*20*	*434,646*

11. Revenues and Expenses

11.1. Revenues

	Year ended 31 December 2013	Year ended 31 December 2012
Revenue on rental of office space and retail and service centre	49,490	44,773
Other	628	99
Revenue on the sale of services	**50,118**	**44,872**
Revenue on sale of flats	159,085	131,496
Other	18	33
Revenue on sale of goods and products	**159,103**	**131,529**

(in PLN '000)

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

	Year ended 31 December 2013	Year ended 31 December 2012
In the period of 1 year	72,981	28,771
In the period of 1 to 5 years	238,883	84,182
In the period of more than 5 years	39,710	6,264
	351,574	**119,217**

Minimum payments relate to lease contracts of an investment property concluded as at 31 December 2013 and as at 31 December 2012, which are conventionally concluded for periods of 5 or 10 years, without a notice period, with the possibility of extending the contract for next 5 or 10 years.

In 2013, the Group's operating activity associated with the rental of commercial properties was conducted in a retail and office centre - Arkady Wrocławskie, in September 2013 the activity was also started in the office building Wola Center. Additionally, in connection with the acquisition of a new subsidiary, on 6 December 2013, a retail and office center Sky Tower joined the commercial properties operating in the Group.

11.2. Expenses by type

	Year ended 31 December 2013	Year ended 31 December 2012
Depreciation	577	614
Consumption of materials and energy	2,489	1,848
Contracted services	11,442	9,205
Taxes and charges	4,292	3,799
Salaries and wages	12,459	10,534
Social security and other benefits	1,409	1,322
Other costs by type	4,840	5,976
Change in products and work in process	124,204	103,357
Total	**161,712**	**136,655**

	Year ended 31 December 2013	Year ended 31 December 2012
Cost of sales	139,437	116,222
Selling and distribution costs	7,164	7,626
General administrative expenses	15,111	12,807
Total	**161,712**	**136,655**

11.3. Depreciation costs disclosed in the statement of comprehensive income

(in PLN '000)

	Year ended 31 December 2013	Year ended 31 December 2012
Items disclosed in the cost of sales:	**2**	**20**
Depreciation of non-current assets	2	20
Depreciation of intangible assets	0	0
Items disclosed in selling costs	**202**	**149**
Depreciation of non-current assets	202	136
Depreciation of intangible assets	0	13
Items disclosed in general administrative expenses :	**373**	**445**
Depreciation of non-current assets	256	231
Depreciation of intangible assets	117	214

11.4. Costs of employee benefits

	Year ended 31 December 2013	Year ended 31 December 2012
Salaries and wages	12,459	10,534
Costs of social security	1,167	1,105
Costs of retirement benefits	0	0
Other post-employment benefits	0	0
Costs of share-based remuneration scheme	0	0
Other benefits	242	217
Total costs of employee benefits, including :	**13,868**	**11,856**
Items displayed in the cost of sales	1,599	1,382
Items displayed in the selling costs	2,355	1,937
Items displayed in the general administrative expenses	9,914	8,537

11.5. Other operating income

	Year ended 31 December 2013	Year ended 31 December 2012
Net release of valuation allowances for receivables	0	0
Release of provisions for legal claims	10	6
Release of provisions recognized as accrued	152	0
Received damages	718	195
Other	320	419
Total	**1,200**	**620**

(in PLN '000)

11.6. Other operating income

	Year ended 31 December 2013	Year ended 31 December 2012
Allowances for receivables	550	131
Provision for legal claims	236	21
Creation of provisions for removal of construction defects	11	0
Provision for client agreement receivables	200	0
Costs of court or executory proceedings	76	66
Other	135	103
Total	**1,208**	**321**

11.7. Financial income

	Year ended 31 December 2013	Year ended 31 December 2012
Bank interest received	5,616	8,637
Positive foreign exchange differences surplus	2,609	17,295
Valuation of financial instruments	0	3,193
Other	35	311
Total	**8,260**	**29,436**

11.8. Financial expenses

	Year ended 31 December 2013	Year ended 31 December 2012
Interest on bonds and loans	6,866	7,097
The cost of discounting the acquisition of a subsidiary	638	0
Valuation of financial instruments	2,683	0
Tax expense from share capital increase in subsidiaries	865	0
Other	19	192
Total	**11,243**	**7,289**

12. Income tax

12.1. Tax expense

The main elements of tax expense for year ended 31 December 2013 and year ended 31 December 2012 are as follows:

	Year ended 31 December 2013	Year ended 31 December 2012
Disclosed in profit or loss		
Current income tax		
Current income tax expense	(3,050)	(4,048)
Adjustments of the current income tax from previous years	0	0

(in PLN '000)

Deferred income tax		
Timing differences and their reversal	(7,915)	(1,309)
Tax expense shown in the consolidated profit or loss	**(10,965)**	**(5,357)**
Consolidated statement of changes in equity		
The acquisition of a subsidiary	(1,092)	0
Tax advantage / (tax expense) disclosed in equity	**(1,092)**	**0**
Consolidated Statement of Comprehensive Income		
Tax on net profit / (loss) from changes in the effective portion of cash flow hedges	(44)	0
Tax on unrealized profit / (losses) on financial assets available for sale	(16)	0
Tax advantage / (tax expense) disclosed in other comprehensive income	**(60)**	**0**

12.2. Reconciliation of effective tax rate

Reconciliation of income tax on the gross financial result before tax according to the statutory tax rate, with income tax counted according to effective tax rate of the Group for year ended 31 December 2013 and 31 December 2012 is as follows:

	Year ended 31 December 2013	Year ended 31 December 2012
Gross profit /(loss) before tax on continued operations	84,567	76,011
Profit /(loss) before tax on discontinued operations	0	0
Gross profit /(loss) before tax	**84,567**	**76,011**
Tax according to the statutory tax rate binding in Poland: 19% (2012: 19%)	**16,068**	**14,442**
Non-tax-deductible costs	965	203
Undisclosed tax loss	8,627	974
Differences in tax value and balance-sheet value of inventories	(13,086)	(10,805)
Other	(1,609)	543
Tax according to the effective tax rate 7% (2012: 18%)	**10,965**	**5,357**
Income tax (expense) reported in the statement of comprehensive income	(10,965)	(5,357)
Income tax attributed to discontinued operations	0	0
	(10,965)	**(5,357)**

12.3. Deferred income tax

Deferred income tax results from the following items:

(in PLN '000)

	Statement of Financial Position			Deferred income tax expenses for year ended	
	31 December 2013	31 December 2012	1 January 2012	31 December 2013	31 December 2012
Deferred tax liability					
Interest calculated, discounts on loans, bonds, bills and deposits	(14,423)	(24,240)	(16,630)	9,817	(7,610)
Valuation of investment properties	(49,525)	(40,954)	(34,747)	(8,571)	(6,207)
Difference in value of non-current assets (tax and balance-sheet depreciation)	(18,676)	(11,935)	(10,379)	(6,741)	(1,556)
Other	(390)	(226)	(215)	(164)	(11)
Gross deferred tax liability	**(83,014)**	**(77,355)**	**(61,971)**		
Deferred tax assets					
Temporary provisions and settlements	794	702	528	92	174
Interest calculated, discounts on loans, bonds and bills	9,431	3,897	2,343	5,534	1,554
Currency translation differences	3,468	4,093	7,741	(625)	(3,648)
Difference in tax and balance-sheet value of other assets	5,940	23,013	11,069	(17,073)	11,944
Losses that can be deducted from future taxable income	13,493	5,158	1,081	8,335	4,077
Other	368	39	65	329	(26)
Gross deferred tax assets	**33,494**	**36,902**	**22,827**		
Deferred tax expense				**(9,067)**	**(1,309)**
Net deferred tax asset	**17,848**	**18,572**	**7,891**		
Net deferred tax provision	**(67,368)**	**(47,035)**	**(31,745)**		

Due to the specificity of the conducted activity within the scope of achieving deferred tax income, the Group activates incurred tax losses up to the moment of achieving tax income, allowing for 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 2013, the Group carried out an analysis of the recoverability of tied and potential deferred tax asset and did not create a deferred tax asset, among others, resulting from tax losses in companies in the amount of PLN 8,021,000 (PLN 530,000 as at 31 December 2012), which can be used within the maximum period of up to 5 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 14,349,000 concerning timing differences in tax value and balance-sheet value of particular assets and equity and liabilities items (PLN 10,368,000 as at 31 December 2012).

13. Profit per share

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

(in PLN '000)

Diluted profit/(loss) per share is calculated by dividing net profit for the period attributable to ordinary shareholders of the Parent Undertaking (after deducting interest on depreciable preferred shares convertible to ordinary shares) by 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).

Below are presented data on profit and shares, which were used to calculate the basic and diluted profit per share:

	Year ended 31 December 2013	Year ended 31 December 2012
Average weighted number of issued ordinary shares used to calculate the basic profit per share	447,558,311	447,558,311
The impact of dilution:		
Options for shares	0	0
Adjusted average weighted number of issued ordinary shares used to calculate the basic profit per share	**447,558,311**	**447,558,311**

	Year ended 31 December 2013	Year ended 31 December 2012
Net profit/loss on continued operations	73,602	70,654
Profit/loss on discontinued operations	0	0
Net profit/loss	**73,602**	**70,654**
Net profit attributable to ordinary shareholders, used to calculate profit per share	**73,602**	**69,278**
Net profit/loss per share in PLN	**0.16**	**0.15**
Net diluted profit/loss per share in PLN	0.16	0.15

14. Intangible assets

Computer software and other	Year ended 31 December 2013	Year ended 31 December 2012
Net value as at 1 January	**347**	**342**
Increase – acquisition	359	232
Increase – other **(*)**	53	0
Decrease (sale, liquidation, transfer)	0	0
Decrease – inne	0	0
Depreciation allowance for the period	(117)	(227)
Valuation allowance for value impairment	0	0
As at 31 December	**372**	**347**

(*)Increase - other related to the acquisition of a subsidiary described in Note 17

As at 1 January		
Gross value	2 019	1 787
Depreciation and impairment allowance	(1,672)	(1,445)
Net value	**347**	**342**

(in PLN '000)

As at 31 December		
Gross value	2,378	2 019
Depreciation and impairment allowance	(2,006)	(1,672)
Net value	**372**	**347**

15. Property, plant and equipment

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 allowance for the period	(21)	(175)	(264)	0	(460)
Valuation allowance for value impairment	0	0	0	0	0
Net value as at 31 December 2013	**184**	**628**	**3,711**	**193**	**4,716**

(*)Increase - other related to the acquisition of a subsidiary described in Note 17

As at 1 January 2013					
Gross value	207	1,420	1,887	24	3,538
Depreciation and impairment allowance	(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 allowance	(37)	(1,099)	(2,328)	0	(3,464)
Net value	**184**	**628**	**3,711**	**193**	**4,716**

Year ended 31 December 2012	Land and buildings	Means of transport	Plant and equipment	Tangible assets under construction	Total
Net value as at 1 January 2012	**16**	**575**	**428**	**34**	**1,053**
Increase – acquisition	0	0	0	626	626
Increase – other	0	0	46	(46)	0
Increase – from tangible assets under construction	186	168	236	(590)	0

(in PLN '000)

Decrease – Sale	0	(17)	4	0	(13)
Decrease – Liquidation	0	0	(6)	0	(6)
Depreciation allowance for the period	(11)	(155)	(220)	0	(386)
Valuation allowance for value impairment	0	0	0	0	0
Net value as at 31 December 2012	**191**	**571**	**488**	**24**	**1,274**
As at 31 January 2012					
Gross value	21	1,358	1,612	34	3,025
Depreciation and impairment allowance	(5)	(783)	(1,184)	0	(1,972)
Net value	**16**	**575**	**428**	**34**	**1,053**
As at 31 December 2012					
Gross value	207	1,420	1,887	24	3,538
Depreciation and impairment allowance	(16)	(849)	(1,399)	0	(2,264)
Net value	**191**	**571**	**488**	**24**	**1,274**

As at 31 December 2013 and as at 31 December 2012, no item of tangible assets was used as collateral, was subject to encumbrance or mortgaged.

16. Non-current receivables

As at 31 December 2013, under 'Non-current receivables' the Group discloses a cash deposit securing a bank loan in EUR in the amount of EUR 500,000, and a cash deposit securing a bank loan in the amount of PLN 30,000,000. On 13 December 2013, in connection with the establishment of another security for the loan, money deposit in the amount of PLN 30,000,000 has been released by the bank.

As at 31 December 2013, in the item long-term receivables, the Group has a cash deposit to secure a loan in the amount of EUR 500,000.

17. Acquisitions of shares

New undertaking and amendments in the Group:

In the year ended 31 December 2013, the following amendments occurred in the Group:

(1) On 23 April 2013, a limited partnership LC Corp Invest XV Sp. z o.o. Projekt 9 Sp. k. was registered on the basis of an agreement made between LC Corp S.A.'s subsidiary companies i.e. LC Corp Invest XV Sp. z o.o. and LC Corp Invest XI Sp. z o.o. The company was established to implement a property development investment in which LC Corp Invest XI Sp. z o.o. is a limited partner.

(2) On 28 May 2013, a new limited partner - Kraków Zielony Złocień Sp. z o.o. joined LC Corp Invest XV Sp. z o.o. Projekt 5 Sp. k.. Since then, the organization of the Company is as follows: a general partner: LC Corp Invest XV Sp. z o.o. - the contribution of PLN 100.00 (0.1%), limited partners: LC Corp Invest X Sp. z o.o. - the contribution of PLN 9,900.00 (9.0%); Kraków Zielony Złocień Sp. z o.o. - the contribution of PLN 100,000.00 (90.9%).

(3) On 21 June 2013, as a result of the sale agreement of general partner's all rights and obligations, the general partner of LC Corp Invest XV Sp. z o.o. Projekt 20 Sp.k. changed. LC Corp Invest XVII Sp. z o.o. became a new general partner of the Company - the contribution of PLN 100.00 (0.1%). Therefore, with the registration of changes in the NCR, the Company operates under the name of LC Corp Invest XVII Sp. z o.o. Projekt 20 Sp. k. In addition, on 25 June 2013, as a result of the sale agreement of a limited partner's all rights and obligations, LC Corp Invest XI Sp. z o.o. became a new limited partner of the Company - the contribution of PLN 9,900.00 (99%).

(4) On 5 July 2013, there was a payment of all unpaid shares made by LC Corp S.A. - the sole shareholder of Arkady Wrocławskie S.A., and therefore, the share capital of the Company in the amount of PLN 113,700,000.00 is entirely covered.

(5) On 10 July 2013, the District Court for Wrocław – Fabryczna, VI Commercial Division of the National Court Register, registered the change in the amount of the share capital of LC Corp Invest VII Sp. z o.o., resulting from an increase in the share capital made by the sole shareholder, LC Corp S.A. The new amount of the Company's share capital is PLN 2,000,000.00, which is divided into 2,000 shares of PLN 1,000 each.

(6) On 24 July 2013, as a result of amendments to the agreement of LC Corp Invest XV Sp. z o.o. Projekt 1 Sp. k,. a new limited partner - LC Corp Invest XII Sp. z o.o. joined the Company and made the cash contribution of PLN 100,000.00. As a result of changes, the total amount of the partners' contributions amounts to PLN 110,000.00, of which LC Corp Invest XV Sp. z o.o. made a contribution in the amount of PLN 100.00 (about 0.1%), LC Corp Invest XI Sp. z o.o. of PLN 9.900,00 (9%) and LC Corp Invest XII Sp. z o.o. of PLN 100,000.00 (about 90.9%).

(7) On 1 October 2013, LC Corp Invest XV a limited liability company Investments S.K.A. was registered. LC Corp Invest XV a limited liability company acquired 50 shares in the share capital, and LC Corp Invest XVI a limited liability company acquired 4,950 shares. On 21 October 2013, the Extraordinary General Meeting adopted a resolution to increase the share capital of the Company from the amount of PLN 50,000.00 to the amount of PLN 91,905,080.00, i.e. by the amount of PLN 91,855,080.00, issuing 9.185.508 Series C registered shares with a par value of PLN 10.00 each. Therefore, on the date of the increase of the share capital, LC Corp S.A. became a shareholder of the Company holding 99.95% of shares

(8) On 31 October 2013, as a result of amendments to the agreement of LC Corp Invest XV Sp. z o.o. Projekt 20 Sp. k., a new limited partner - LC Corp S.A. joined the Company and made the cash contribution of PLN 60,900,000.00 (99.98%). As a result of changes, the total amount of the partners' contributions amounted to PLN 60,910,000.00, of which LC Corp Invest XVII Sp. z o.o. made a contribution in the amount of PLN 100.00 and LC Corp Invest XI Sp. z o.o. of PLN 9,900.00.

(9) On 6 November 2013, a limited partnership LC Corp Invest XV Sp. z o.o. Projekt 10 Sp. k. was registered on the basis of an agreement made between LC Corp S.A. 's subsidiary companies i.e.: LC Corp Invest XV Sp. z o. o. and LC Corp Invest XI Sp. z o. o. The company was established to implement a property development investment in which LC Corp Invest XI Sp. z o. o. is a limited partner.

(10) On 27 November 2013, the District Court for Wrocław Fabryczna VI Division of the National Court Register registered a change in the share capital of the company LC Corp Invest VII Sp. z o.o. The new amount of the Company's share capital totals PLN 4,000,000.00. LC Corp S.A. is entitled to all the shares in the company.

(11) On 28 November 2013, the District Court for Wrocław Fabryczna VI Division of the National Court Register registered a change in the share capital of the company LC Corp Invest II Sp. z o.o. The new amount of the Company's share capital totals PLN 88,800,000.00. LC Corp S.A. is entitled to all the shares in the company.

(12) On 16 December 2013, the District Court for Wrocław Fabryczna VI Division of the National Court Register registered a change in the share capital of the company LC Corp Invest IX Sp. z o.o. The new amount of the Company's share capital totals PLN 4.700.000,00. LC Corp S.A. is entitled to all the shares in the company.

(13) On 20 December 2013, a change in the share capital of the company Kraków Zielony Złocień Sp. z o.o. was registered. The new amount of the Company's share capital totals PLN 11,230,000.00. LC Corp S.A. is entitled to all the shares in the company.

(14) On 23 December 2013, a change in the share capital of the company LC Corp Invest X Sp. z o.o. was registered. The new amount of the Company's share capital totals PLN 10,300,000.00. LC Corp S.A. is entitled to all the shares in the company.

Business acquisition

(1) 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 million paid in installments until 31 December 2019, and became the sole shareholder of the company. On this day, the company became a part of the LC Corp capital group. The transaction was accounted in the Group with the pooling of interests method, which is adopted by the Group's accounting policy for connections under common control. Within the framework of the accounting policies, the Group does not adjust the data comparable. In connection with the deferred payments, a purchase price recognized in the consolidated financial statements at the date of purchase corresponds to the discounted value of future payments. The discount in the amount of PLN 27,802,000 decreased the purchase price specified in the agreement. After initial recognition, the discount is accounted for financial expenses. On date of accounting for the acquisition, the difference between the net asset value of PLN 263,028,000 and the discounted purchase price in the amount of PLN 231,178,000 totaled PLN 31,831,000 and is included in the item Other reserves.

18. Investment properties

As at 31 December 2012, the Group owned among its assets a retail and service centre Arkady Wrocławskie and Sky Tower in Wrocław, a service complex Wola Center in Warszawa and office building complex Silesia Star in Katowice under construction.

At the end of the reporting period ended 31 December 2013, the fair value of Arkady Wrocławskie, according to the independent valuer's evaluation, amounted to PLN 457,125,000 (EUR 110,225,000), and of Wola Center to PLN 433,382,000 (EUR 104,500,000). The value was reduced by the amount of PLN 9,322,000 due to the ongoing work needed to finish space in the facility.

The fair value of investment property Sky Tower, according to the independent valuer's evaluation, amounted to PLN 493,766,000 (EUR 119,060,000). Due to the planned additional expenses to finish the remaining vacant commercial and office space in the amount of PLN 15,326,000, property valuation at the balance sheet date amounts to PLN 478,440,000.

Due to the revaluation of investment properties to fair value, the amount of PLN 55,508,000 was disclosed in the statement of comprehensive income for the year 2013.

Valuations were carried out by professional real estate valuers. Market values of these properties were estimated by the income approach, with the investment method. The income approach and the investment method are based on the assumption that the value of the property depends on the net 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 as at the date of valuation.

(in PLN '000)

During 2013 the Group changed the presentation of previously incurred capital expenditures on the property in Katowice from "Inventories" to "Investment Properties. This change was the result of the beginning of the construction of the office building Silesia Star, and of the commercialization process of the facility (the first lease contracts were signed then and others were negotiated.

As at 31 December 2013, investment property Silesia Star in Katowice, given the advancement of the construction and the inability to reliably estimate the fair value, the value of investment expenditures on the construction of this facility is valued at historical cost amounted to PLN 75,036,000.

Reconciliation of changes in the balance sheet values of investment property in the year ended 31 December 2013 and 31 December 2012 is presented in the table below:

	Year ended 31 December 2013	Year ended 31 December 2012
As at 1 January	**731,515**	**625,669**
Transfer of investment property from inventories (*)	68,961	0
The increase related to the acquisition of a subsidiary (**)	484,429	0
Investment outlays incurred	94,248	81,896
Revaluation to fair value	55,508	23,950
As at 31 December	**1,434,661**	**731,515**

(*) relates to investment property Silesia Star

(**) relates to investment property Sky Tower, see Note 17

The table below shows the amounts of revenues and expenses from investment properties for the year ended 31 December 2013 and 31 December 2012, other than revaluation to fair value:

	Year ended 31 December 2013	Year ended 31 December 2012
Rental income	49,490	44,773
Direct operating expenses (including repair and maintenance expenses), which brought rental income in a given year	15,133	12,699
Direct operating expenses (including repair and maintenance expenses), which did not bring rental income in a given year	0	0

In 2013, the Group's operating activity associated with the rental of commercial properties was conducted in a retail and office centre - Arkady Wrocławskie, in September 2013 the activitiy was also started in the office building Wola Center. Additionally, in connection with the acquisition of a new subsidiary, on 6 December 2013, a retail and office center Sky Tower joined to the commercial properties operating in the Group.

19. Employee benefits

19.1. Staff incentive schemes

In the year ended 31 December 2013, Staff Incentive Scheme ended in the Group under which the members of the Group's management are granted options for shares.

The scheme involved a conditional increase in the Parent Company's share capital with 3 million series I shares.

Series I shares are offered to Eligible Persons holding bonds with the pre-emptive right to acquire the new shares acquired from the Custodian on principles defined in the Management Share Options Scheme.

(in PLN '000)

The Parent Company undertook to issue altogether not more than 3 million Bonds with Pre-Emptive Rights. The bonds were issued and acquired by the Custodian. The Custodian is obliged to sell the bonds to the Eligible Persons. Each bond authorizes to 1 subscription for Series I Shares.

As at 31 December 2007, under the incentive scheme, options were granted for 1,000,0000 series I ordinary shares of par value PLN 1.00 per share. The fair value of these options amounted to PLN 3,108,000 and was disclosed as a cost for that period. In years 2008 - 2013 options for shares were not granted.

On 19 May 2010, a resolution of the Ordinary Shareholders Meeting was adopted changing, among others, the time period of the share options scheme, which was established for years 2007, 2011, 2012 and 2013; the deadline for of series I shares subscription right resulting from the bonds, which was set as at 30 November 2013, and changing the conditions necessary for the bond trustee to sell the bonds with pre-emptive right to subscribe for series I shares to eligible persons. On 1 December 2011, LC Corp SA redeemed 1,000,000 bonds with pre-emptive right, from which the right was executed to acquire 1,000,000 series I shares. At the same time, after the redemption of the bonds the conditions of the bond issue were changed, resulting from the resolution of the Annual General Meeting of 19 May 2010 described above.

Due to the fact that they were not covered in the deadline resulting from the bonds set at 30 November 2013, the right to subscribe for the remaining 2,000,000 shares of Series I has expired. On 11 December 2013, LC Corp S.A. redeemed the remaining 2,000,000 bonds with pre-emptive right, from which the right was not executed to acquire 2,000,000 shares of series I.

20. Inventories

	31 December 2013	31 December 2012
Work in process	726,101	694,692
Finished products	76,562	101,692
Valuation allowances for inventories	(81,071)	(92,917)
Total inventories	**721,592**	**703,467**

As at 31 December 2013 the costs of external financing of PLN 40,544,000 (as at 31 December 2012: PLN 36,442,000) were capitalized in the value of inventories.

At the end of each reporting period, the Management Board assesses the impairment of value of conducted development investments by analyzing sales reports, market research and other available evidence. In the event of a risk of loss of value, the value of these investments 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 schedules and revenues from sales of flats, allowing for the sale price of 1 square metre of usable floor space, in accordance with the current market situation. The discount rate allows for the weighted average cost of capital (WACC).

The recoverable value of inventories and the value of the valuation allowances for inventories are estimated as at 31 December 2013 and may be subject to change depending on the fluctuation of the sale price of flats, 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 next financial periods.

(in PLN '000)

The changes of the valuation allowance for receivables were as follows:

	Year ended 31 December 2013	Year ended 31 December 2012
At the beginning of the period	**92,917**	**90,301**
Increase	15,452	10,135
Use	(5,575)	(7,519)
Transfers to Investment properties	(21,723)	0
Decrease	0	0
At the end of the period	**81,071**	**92,917**

As at 31 December 2013 and as at 31 December 2012, no item of inventories was used as collateral, was subject to encumbrance or mortgaged, except for the mortgages described in Note 35.3 par. 3.

21. Trade and other receivables

	31 December 2013	31 December 2012
Trade receivables	9,943	6,629
Budget receivables (without income tax)	17,102	18,852
Receivables resulting from the blockade of cash (*)	12,000	0
Other receivables from third parties	120	277
Total receivables (net)	**39,165**	**25,758**
Adjustment of deferred income **(**)**	(401)	(401)
Valuation allowance for receivables	(2,113)	(651)
Gross receivables	**41,679**	**26,810**

(*) Blockade to secure provisions acquired with the acquisition of a subsidiary, see Note 30

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

The changes of the valuation allowance for receivables were as follows:

	Year ended 31 December 2012	Year ended 31 December 2011
At the beginning of the period	**651**	**555**
Increase resulted from the acquisition of a subsidiary	969	0
Increase	550	255
Use	(57)	(35)
Decrease	0	(124)
At the end of the period	**2,113**	**651**

(in PLN '000)

Below is presented an analysis of trade receivables, which as at 31 December 2013 and 31 December 2012 were past due, but were not regarded as uncollectible.

			Past due, but collectible			
	Total	**Term**	**< 30 days**	**30 – 90 days**	**90 – 180 days**	**>180 days**
31 December 2013	9,943	4,460	2,948	2,060	292	183
31 December 2012	6,629	3,803	1,634	763	138	291

22. Current financial assets

	31 December 2013	**31 December 2012**
Stocks and shares	131	17
Financial instruments (forward transactions) – acc. to the valuation	511	3,193
Cash in an open trust account	994	0
	1,636	**3,210**

23. Cash and cash equivalents

	31 December 2013	**31 December 2012**
Cash on hand and in a bank account	107,086	8,938
Short-term deposits	83,233	144,090
	190,319	**153,028**

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 days, depending on the Group's current demand for cash and bear interest according to interest rates established for them.

24. Accrued expenses

	31 December 2013	**31 December 2012**
Rent paid in advance	88	134
Non-current	**88**	**134**
Rent paid in advance	46	46
Commissions for sales agency	653	259
Insurance	148	98
Other (insurance, subscriptions)	185	159
Current	**1,032**	**562**

25. Explanations to the statement of cash flows

25.1. Change in liabilities, net of loans and borrowings

	31 December 2013	31 December 2012
Balance-sheet change in liabilities (net of loans and borrowings)	243,384	19,207
Investment liabilities	4,214	(13,989)
Change in liabilities	**247,598**	**5,218**

25.2. Other adjustments

	31 December 2013	31 December 2012
Revaluation of an investment property	(55,508)	(23,950)
Adjustments of the acquisition of a subsidiary	(228,504)	(68,961)
Reclassification of investments from inventories to investment property	(68,961)	0
Other	2,983	41
Other adjustments	**(349,990)**	**(23,909)**

26. Capital

26.1. Share capital

Share capital	31 December 2013 in PLN '000	31 December 2012 in PLN '000
Series A ordinary shares of par value PLN 1.00 per share	500	500
Series B ordinary shares of par value PLN 1.00 per share	113,700	113,700
Series C ordinary shares of par value PLN 1.00 per share	1,453	1,453
Series D ordinary shares of par value PLN 1.00 per share	1,472	1,472
Series E ordinary shares of par value PLN 1.00 per share	32,000	32,000
Series F ordinary shares of par value PLN 1.00 per share	102,000	102,000
Series G ordinary shares of par value PLN 1.00 per share	80,000	80,000
Series H ordinary shares of par value PLN 1.00 per share	58,433	58,433
Series I ordinary shares of par value PLN 1.00 per share	1,000	1,000
Series J ordinary shares of 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 in PLN '000
As at 1 January 2013	**447,558,311**	**447,558**
As at 31 December 2013	**447,558,311**	**447,558**

(in PLN '000)

Par value of the shares

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

Rights of shareholders

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

Shareholders of significant interest

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:

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, ACCORDING TO THE ISSUER'S BEST KNOWLEDGE

Shareholder	Number of shares	Number of votes	Share % in share capital	Share % in vote at general meeting
Leszek Czarnecki directly and indirectly (1)	229,126,674	229,126,674	51.19%	51.19%
including: 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 constituting 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 constituting 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 214,601,110 shares constituting 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 constituting 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.

(in PLN '000)

Shareholders of significant interest

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 2012:

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 2012

Shareholder	Number of shares	Number of votes	Share % in share capital	Share % in vote at general meeting
Leszek Czarnecki directly and indirectly (1)	229,126,674	229,126,674	51.19%	51.19%
including: LC Corp B.V. seated in Amsterdam	214,701,110	214,701,110	47.97%	47.97%
ING Otwarty Fundusz Emerytalny	32,684,371	32,684,371	7.30%	7.30%
AVIVA Otwarty Fundusz Emerytalny AVIVA BZ WBK	36,800,000	36,800,000	8.22%	8.22%
OFE PZU "Złota Jesień"	30,000,000	30,000,000	6.70%	6.70%

4) Leszek Czarnecki directly holds 14,424,564 shares constituting 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 constituting 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 214,601,110 shares constituting 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 constituting 0.0002% of the share capital and 0.0002% share in the vote at the General Meeting.

26.2. Other capital

	31 December 2013	31 December 2012
Surplus of the issue value over the par value less issue costs	328,015	328,015
Capital from the acquisition of subsidiaries	61,742	29,911
Retained profit	270,492	201,214
Reserve funds, other reserve funds and retained profit	**660,249**	**559,140**
Share-based valuation of benefits	3,108	3,108
Revaluation of shares available for sale	68	0
Revaluation of hedging instruments - hedge accounting	191	0
Other capital	**3,367**	**3,108**
Total capital	**663,616**	**562,248**

(in PLN '000)

27. Loans and bonds liabilities

Interest-bearing bank loans and bonds

Non-current	Maturity	31 December 2013	31 December 2012
Bank loan in EUR (non-current portion) **(a)**	31 Dec 2017	164,071	176,718
Bank loan in EUR (non-current portion) **(b)**	15 Jun 2022	143,669	45,370
Bank loan in PLN (non-current portion) **(b)**	-	-	2,051
Bank loan in EUR (non-current portion)**(c)**	20 Dec 2022	228,313	-
Bank loan in PLN (non-current portion)**(d)**	31 Jan 2016	29,880	29,831
Bond Scheme **(e)**	-	-	99,719
Bond Scheme **(f)**	25 May 2015	64,724	64,529
Bond Scheme **(g)**	30 Oct 2018	49,419	-
		680,076	**418,218**

Current	Maturity	31 December 2013	31 December 2012
Bank loan in EUR (current portion) **(a)**	31 Dec 2014	15,197	14,169
Bank loan in EUR (current portion)	31 Dec 2014	3,321	-
Bank loan in PLN (current portion)	30 Dec 2014	1,807	-
Bank loan in EUR (current portion)	31 Dec 2014	7,690	-
Bond Scheme **(e)**	15 Apr 2014	90,158	-
Bond Scheme **(f)**	26 May 2014	395	1,715
Bond Scheme **(g)**	30 Apr 2014	511	524
Management Bond Scheme **(h)**	-	-	20
		119 079	**16 428**

(a) In 2013, the company Arkady Wrocławskie made a repayment of instalments of the loan contracted in EUR to a consortium of banks: ING Bank Śląski S.A. and Kredyt Bank in the amount of PLN 15,165,000.

(b) On 15 July 2011 Warszawa Przyokopowa Sp. z o.o. concluded with Raiffeisen Bank Polska S.A. a credit facility agreement to the maximum amount of EUR 49,000,000 and VAT credit agreement to the maximum amount of PLN 6,600,000 in order to partially finance the construction of an office complex Wola Center in Warsaw. On 31 December 2013, the loan was not fully used.

(c) The loan in 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) The loan in 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.

(e) Coupon bonds - 1,000 unsecured three-year coupon bonds with a par value of PLN 100,000 each issued on 15 April 2011. On 26 November 2013, LC Corp S.A. acquired 110 of these bonds with a par value of PLN 100,000 each, with a total par value of PLN 11,000,000. Redemption of the remaining bonds will be on 15 April 2014

(in PLN '000)

(f) Coupon bonds - 650 unsecured three-year coupon bonds with a par value of PLN 100,000 each issued on 1 June 2012

(g) Coupon bonds - 500 unsecured five-year coupon bonds with a value of PLN 100,000 each and with a total par value of PLN 50,000,000 issued on 31 October 2013

(h) A liability under a trust agreement concluded with Getin Noble Bank S.A. on the management stock option plan. On 11 December 2013, LC Corp S.A. redeemed bonds.

In the year ended 31 December 2013, the average weighted interest of bank loans, borrowings, bonds and investment notes amounted to 4.2 %. The average weighted interest of borrowings and bonds in 2012 amounted to 5.1 %.

Liabilities arising from the valuation of financial instruments

As at 31 December 2013, the valuation of the fair value of transactions hedging the risk of increase IRS interest rate is included in the item Loans and bonds liabilities and is as follows:

	31 December 2013	31 December 2012
Non-current	1,038	0
Current	469	0
Total	**1,507**	**0**

28. Liabilities arising from the acquisition of a subsidiary

Due to the deferred payment, the prices for the Sky Tower S.A.'s shares, acquired on 6 December 2013 (see Note 17), as at 31 December 2013, and resulted liabilities were disclosed at a discounted value. On 31 December 2013, the amount of the discount totaled PLN 27,164,000.

	31 December 2013	31 December 2012
Non-current	175,572	0
Current	41,264	0
Total	**216,836**	**0**

29. Liabilities

29.1. Trade and other payables

	31 December 2013	31 December 2012
Trade payables	44,268	42,646
Budget liabilities (without income tax)	11,358	1,587
Liabilities under security deposits	21,984	6,817
Other liabilities	57	69
	77,667	**51,119**
Non-current	0	0
Current	77,667	51,119

(in PLN '000)

An analysis of maturity of trade and other payables as at 31 December 2013 and 31 December 2012:

	31 December 2013	31 December 2012
up to 1 year	77,667	51,119
between 1 and 5 years	0	0
over 5 years	0	0
	77,667	**51,119**

Trade and other payables are interest-free and usually settled within 14 to 30 days.
Budget liabilities are settled at statutory dates.
Liabilities under security deposits are interest-free and settled at dates resulting from concluded agreements.

29.2. Liabilities due to lease contracts

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

	31 December 2013	31 December 2012
In the period of 1 year	1,217	1,207
In the period of 1 to 5 years	6,083	6,035
In the period of more than 5 years	18,149	19,212
	25,449	**26,454**

29.3. Contingent liabilities

Except for contingent liabilities in the form of the security for 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 2013 (and 31 December 2012, respectively) the Group does not plan to incur significant expenditures on property, plant and equipment and intangible assets and does not have any significant contractual obligations whose subject matter is acquisition of property, plant and equipment and intangible assets.

In 2014 the Group plans to incur expenditures on investment projects (inventories and investment properties) in the amount of about PLN 243,700,000.

29.5. Court proceedings

Currently, no proceedings before court or public administration authorities have been initiated with regard to liabilities or receivables of LC Corp SA and its subsidiaries, whose total value would be significant in terms of financial standing of the Group companies. LC Corp SA subsidiaries 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 SA subsidiaries lodged against their debtors.

(in PLN '000)

30. Provisions

The amounts of provisions and the agreement presenting the changes of the status during the financial period are shown in the table below:

	For retirement and disability severance payments, and death benefits	For legal claims	For removal of construction 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)
Released	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 of an acquired subsidiary, there was included a provision for disputed claims in the amount of PLN 12,000,000 which was secured by blocking cash in the amount of PLN 12,000,000, see Note 21

As at 1 January 2012	**22**	**81**	**300**	**403**
Created during financial year	0	22	0	22
Used	0	0	0	0
Released	0	(6)	0	(6)
As at 31 December 2012	**22**	**97**	**300**	**419**
Current as at 31 December 2012	0	97	300	**397**
Non-current as at 31 December 2012	22	0	0	**22**

31. Accrued expenses and revenues

	31 December 2013	31 December 2012
Liability due to employee benefits	2,784	2,621
Liability due to costs of holiday equivalents	574	353
Liability due to additional payment for perpetual usufruct	1,573	1,854
Liability due to balance-sheet audit	288	222
Other	318	178
Accrued expenses	**5,537**	**5,228**
Accrued rental revenues	442	732
Accrued revenues on sale of flats	47,956	40,010
Other accrued revenues	18	35
Accrued revenues	**48,716**	**40,777**

(in PLN '000)

32. Transactions with related undertakings

The following table shows total amounts of transactions concluded with related undertakings for the year ended 31 December 2013 and 31 December 2012:

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

(in 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	2012	-	25,000	-	-	-	-
Undertakings related through shareholders							
LC Corp Sky Tower Sp. z o.o.	2012	198	17	11	-	-	-
RB Investcom Sp. z o.o.	2012	97	-	-	9	-	-
RB Computer Sp. z o.o.	2012	-	124	-	1	-	-
RB Nova Sp. z o.o.	2012	2	-	-	-	-	-
Getin Holding S.A.	2012	623	-	-	137	-	-
Idea Leasing S.A.	2012	1	-	-	-	-	-
Idea Bank S.A.	2012	49	-	-	-	-	-
Tax Care S.A.	2012	5	-	-	-	-	-
Getin Noble Bank S.A.	2012	3,017	258	1	30,728	7,372	1,795
Getback S.A.	2012	352	-	-	-	-	-
Getin International S.A.	2012	7	-	-	-	-	-
Noble Securities S.A.	2012	-	30	-	-	-	-
Home Broker Nieruchomości S.A.	2012	2	539	-	47	-	-
TU Europa S.A.	2012	984	14	1	-	-	-
TU Europa Życie S.A.	2012	936	-	-	-	-	-
Idea Expert S.A.	2012	1,061	-	31	45	-	-
PDK Biznes Sp. z o.o.	2012	12	-	-	6	-	-
Fundacja Jolanty i Leszka Czarneckich	2012	38	-	-	23	-	-
Open Finance S.A.	2012	52	-	22	-	-	-

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 million paid in installments until 31 December 2019, and became the sole shareholder of the company (see Note 17). Due to deferred payment for the shares of Sky Tower SA in the consolidated financial statements and the liabilities are included in the discounted amount (see Note 28).

Leszek Czarnecki

Leszek Czarnecki directly owns 3.22% shares of LC Corp S.A. and at the same time holds 100% shares of LC Corp B.V., which holds 47.97% shares of LC Corp S.A. In the year ended 31 December 2013, there were no transactions with the LC Corp Group.

(in PLN '000)

32.2. Remuneration to senior management of the Group

	Year ended 31 December 2013	Year ended 31 December 2012
Short-term employee benefits	2,812	2,672
Jubilee bonuses and retirement severance payments	0	0
Termination benefits	0	0
Share-based payment	0	0
Total remuneration paid to the senior management except the Management Board and Supervisory Board	**2,912**	**2,672**

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 2013	Year ended 31 December 2012
Management Board – remuneration	4,194	2,908
Management Board – share-based remuneration	0	0
Management Board (subsidiaries) – remuneration	283	310
Management Board (subsidiaries) – share-based remuneration	0	0
Supervisory Board – remuneration	94	96
Supervisory Board – share-based remuneration	0	0
Total	**4,571**	**3,314**

33. Information on Remuneration of Auditor or an Entity Qualified for Auditing Financial Statements

2013

On 28 October 2013, an agreement was concluded with Ernst & Young Audyt Polska Sp. z o.o. Sp. k. (*) seated in Warsaw, for auditing financial statements and consolidated financial statements of LC Corp S.A. for the year 2013. The total amount of remuneration under the agreement concluded with the entity qualified for auditing financial statements is PLN 95,000 net. On 15 July 2013, an agreement was concluded on carrying out a review of H1 2013 financial statements and consolidated financial statements of LC Corp S.A. The total amount of remuneration under the agreement was PLN 62,000 net. Additionally in 2013, the Company disclosed expenses for other services provided by Ernst & Young Audit Sp. z o.o. in the amount of PLN 77,000.

In 2013, Ernst & Young Audit Sp. z o.o. concluded agreements for auditing condensed financial statements for the year 2013, of the companies: Arkady Wrocławskie S.A., Warszawa Przyokopowa Sp. z o.o., Sky Tower S.A. The total remuneration for these agreements amounted to PLN 148,000.

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

2012

On 15 November 2012, an agreement was concluded with Ernst&Young Audit Sp. z o.o. seated in Warszawa, for auditing financial statements and consolidated financial statements of LC Corp S.A. for the year 2012. The total amount of remuneration under the agreement concluded with the entity qualified for auditing financial statements is PLN 95,000 net. On 16 July 2011, an agreement was concluded on carrying out a review of H1 2012 financial statements and consolidated financial statements of LC Corp S.A. The total amount of remuneration under the agreement was PLN 48,000.

In 2012, Ernst & Young Audit Sp. z o.o. concluded agreements for auditing condensed financial statements for the year 2013 of Arkady Wrocławskie S.A. The total remuneration for these agreements was PLN 45,000.

34. Rules Governing Financial Risk Management

The main financial instruments which the Group uses include bank loans and bonds, as well as derivative instruments, such as forward transactions and transactions hedging the risk of rising interest rate swaps. 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 conducting business activity by the Group.

The principle by which the Group abides now is refraining from the turnover of financial instruments.

In H1 2013, the Group extended its accounting policy by adding the guidelines for Hedge Accounting concerning the instruments hedging against interest rate risk. The valuation of the hedging transactions of this type as at 31 December 2013 is presented in Note 27.

The main types of risk following from the Group's financial instruments include the interest rate risk, currency risk and liquidity risk. The Management Board verifies and agrees the rules governing 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 indexation of lease revenues.

According to long-term investment loans, companies have concluded IRS transactions hedging interest rate risk.

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

34.2. Currency risk

Currency risk which will arise at the moment of managing a foreign currency loan will be minimized by collecting rent indexed against the currency of the loan financing the investment. Time differences between invoicing and repayment will be minimized, depending on the market situation, by purchasing a proper amount of currency on dates of invoicing rents.

Currency risk associated with releasing a foreign currency loan (financing an investment property under construction) is limited by entering into hedging transactions involving forward contracts.

In addition, the valuation of the fair value 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 sensitivity of a net financial result to possible fluctuations of the euro exchange rates, with the assumption of invariability of other factors. Due to big instability of exchange rate of euro in recent years, 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 in PLN '000	Impact on equity
	+ 0.20	31,496	31,496
31 December 2013 - EUR	- 0.20	(31,496)	(31,496)
	+ 0.20	19,605	19,605
31 December 2012 - EUR	- 0.20	(19,605)	(19,605)

34.3. Credit risk

The Group concludes transactions with renowned companies of good credit capacity. Moreover, due to current monitoring of receivables, exposure of the Group to the risk of uncollectible receivables is negligible. As for the sale of flats, commercial facilities and houses, credit risk does not occur because their sales to individual customers is done by way of advance payments.

As at 31 December 2013, trade receivables amounted to PLN 9,943,000, an analysis of their maturity is presented in Note 21. Receivables from rental/lease contracts in the amount of PLN 7,789,000 hedged by security deposits of PLN 3,301,000 and the remaining part is secured by bank or insurance guarantees.

In reference to the Group's other financial assets, such as cash and cash equivalents, the Group's credit risk is minimal, because the Group deposits resources in banks of good, stable financial standing.

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

34.4. Liquidity risk

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

The Group concludes bank loan agreements in order to finance the realized investments. Maturity dates of successive instalments are adjusted to projected proceeds from sale of individual investments.

The tables below show the Group's liabilities as at 31 December 2013 and as at 31 December 2012 by maturity dates on the basis of contractual undiscounted payments.

31 December 2013

Fixed interest rate (in PLN '000)

	<1 year	*1-2 years*	*2-3 years*	*3-4 years*	*4-5 years*	*>5 years*	*Total*
Zero coupon bonds in PLN	-	-	-	-	-	-	-
	-	**-**	**-**	**-**	**-**	**-**	**-**

Floating interest rate (in PLN '000)

	<1 year	*1-2 years*	*2-3 years*	*3-4 years*	*4-5 years*	*>5 years*	*Total*
Coupon bonds in PLN	91,195	65,000	-	-	50,000	-	206,195
Bank loans in PLN (based on WIBOR)	-	-	30,000	-	-	-	30,000
Bank loans in PLN (based on WIBOR)	1,807	-	-	-	-	-	1,807
Bank loan in EUR (based on EURIBOR)	15,298	16,168	17,088	131,144	-	-	179,698
Bank loan in EUR (based on EURIBOR) (*)	3,321	4,686	5,001	5,334	5,691	122,959	146,990
Bank loan in EUR (based on 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**

(*) The Company Warszawa Przyokopowa Sp. z o.o. concluded a swap transaction of a floating interest rate in exchange to a fixed interest rate for the period from 30 June 2015 to 30 June 2020, at the base amount of EUR 10,000,000.

(**) The Company Sky Tower S.A. concluded a swap transaction of a floating interest rate in exchange to a fixed interest rate for the period from 01 July 2013 to 30 July 2016 r. , at the base amount of EUR 39,843,472.07.

Interest-free (in PLN '000)

	<1 year	*1-2 years*	*2-3 years*	*3-4 years*	*4-5 years*	*>5 years*	*Total*
Liabilities arising from the acquisition of a subsidiary	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**

31 December 2012

Fixed interest rate (in PLN '000)

	<1 year	*1-2 years*	*2-3 years*	*3-4 years*	*4-5 years*	*>5 years*	*Total*
Zero coupon bonds in PLN	20	-	-	-	-	-	20
	20	**-**	**-**	**-**	**-**	**-**	**20**

Floating interest rate (in PLN '000)

	<1 year	*1-2 years*	*2-3 years*	*3-4 years*	*4-5 years*	*>5 years*	*Total*
Coupon bonds in PLN	2,397	100,000	65,000	-	-	-	167,397
Bank loans in PLN (based on WIBOR)	-	-	-	30,000	-	-	30,000
Bank loans in PLN (based on WIBOR)	-	2,051	-	-	-	-	2,051
Bank loan in EUR (based on EURIBOR)	14,269	15,080	15,938	16,844	129,278		191,409
Bank loan in EUR (based on EURIBOR)	-	1,025	1,446	1,544	1,646	39,709	45,370
	16,666	**118,156**	**82,384**	**48,388**	**130,924**	**39,709**	**436,227**

Interest-free (in PLN '000)

	<1 year	*1-2 years*	*2-3 years*	*3-4 years*	*4-5 years*	*>5 years*	*Total*
Trade and other payables	51,119	-	-	-	-	-	51,119
	51,119	**-**	**-**	**-**	**-**	**-**	**51,119**

35. Financial instruments

35.1. Fair values

The table below shows a comparison of balance-sheet values and fair values of the Group's all financial instruments, which were disclosed in the consolidated financial statements according to value different from fair value, divided into different categories of assets and liabilities, pursuant to IAS 39.

	Balance-sheet value	
	31 December 2013	**31 December 2012**
Loans and receivables		
Cash in an open trust account	994	0
Cash and cash equivalents	190,319	153,028
Trade and other receivables *(without budget receivables)*	22,063	6,906
Financial liabilities at amortized cost		
Trade and other payables *(without budget liabilities)*	66,309	49,532

(in PLN '000)

	Balance-sheet value	
	31 December 2013	31 December 2012
Liabilities arising from the acquisition of a subsidiary	216,836	0
Interest-bearing bank loans and borrowings		
Loans, bonds and borrowings at a floating interest rate	799,155	434,626
Loans, bonds and borrowings at a fixed interest rate	0	20

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

35.2. Interest rate risk

The table below shows the balance-sheet value of the Group's financial instruments, at risk of interest rate, divided into different categories of assets and liabilities.

31 December 2013

Fixed interest rate

	<1 year	*1-2 years*	*2-3 years*	*3-4 years*	*4-5 years*	*>5 years*	*Total*
Zero coupon bonds	-	-	-	-	-	-	-
	-	**-**	**-**	**-**	**-**	**-**	**-**

Floating interest rate

	<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 (based on WIBOR)	-	-	29,880		-	-	29,880
Bank loans in PLN (based on WIBOR)	1,807	-	-	-	-	-	1,807
Bank loan in EUR (based on EURIBOR)	15,197	16,067	16,986	131,018	-	-	179,268
Bank loan in EUR (based on EURIBOR) (*)	3,321	4,686	5,001	5,334	5,691	122,959	146,990
Bank loan in EUR (based on 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**

(*) The Company Warszawa Przyokopowa Sp. z o.o. concluded a swap transaction of a floating interest rate in exchange to a fixed interest rate for the period from 30 June 2015 to 30 June 2020, at the base amount of EUR 10,000,000.

(**) The Company Sky Tower S.A. concluded a swap transaction of a floating interest rate in exchange to a fixed interest rate for the period from 01 July 2013 to 30 July 2016 r. , at the base amount of EUR 39,843,472.07.

In the year ended 31 December 2013, changes in the interest rate of the loan in EUR had impact on the financial result.

31 December 2012

Fixed interest rate

	<1 year	*1-2 years*	*2-3 years*	*3-4 years*	*4-5 years*	*>5 years*	*Total*
Zero coupon bonds	20	-	-	-	-	-	20
	20	**-**	**-**	**-**	**-**	**-**	**20**

Floating interest rate

	<1 year	*1-2 years*	*2-3 years*	*3-4 years*	*4-5 years*	*>5 years*	*Total*
Coupon bonds in PLN	2,239	99,719	64,529	-	-	-	166,487
Bank loans in PLN (based on WIBOR)	-	-	-	29,831	-	-	29,831
Bank loans in PLN (based on WIBOR)	-	2,051	-	-	-	-	2,051
Bank loan in EUR (based on EURIBOR)	14,169	14,981	15,838	16,745	129,154	-	190,887
Bank loan in EUR (based on EURIBOR)	-	1,025	1,446	1,544	1,646	39,709	45,370
	16,408	**117,776**	**81,813**	**48,120**	**130,800**	**39,709**	**434,626**

Except for the bank loan in EUR in the amount of EUR 46,692,000 (PLN 190,887,000) in the year ended 31 December 2012, changes in the interest rates did not have a direct impact on the financial result and capital.

Sensitivity of the net financial result to changes in the interest rate of the loan in EUR in the year ended 31 December 2013 and the year ended 31 December 2012 is shown in the table below:

	Increase/ decrease in the interest rate	**Impact on the net financial result in PLN '000**	**Impact on equity**
	+ 1%	(1,577)	(1,577)
31 December 2013	- 1%	1,577	1,577
	+ 1%	(1,674)	(1,674)
31 December 2012	- 1%	1,674	1,674

35.3. Collateral

As at 31 December 2013, the main collateral for repayment of loans was:

1. Collateral to the bank loan agreement contracted by Arkady Wrocławskie S.A.:
   - capped mortgage *(loan in EUR)* – up to EUR 86,802,000,
   - pledge on shares of Arkady Wrocławskie S.A. owned by LC Corp SA – up to EUR 91,500,000
   - registered pledge on bank accounts – up to PLN 38,220,000
   - registered pledge on bank accounts (loan in EUR) – up to EUR 91,500,000
   - assignments of rights from rental/lease contracts, insurance and guarantees from contracts with contractors within particular real estate development projects
   - security deposit of EUR 500,000.
2. Collateral to the bank loan agreement contracted by LC Corp S.A. in Getin Noble Bank S.A. is

- contractual capped mortgage of the highest priority up to the amount of PLN 45,000,000
- a declaration of submission to enforcement pursuant to art. 97 of the Banking Law

3. Collateral to the bank loan agreement contracted by Warszawa Przyokopowa Sp. z o.o.

- contractual capped mortgage of the highest priority up to the amount of EUR 75,957,124.43
- financial and registered pledges on receivables from bank accounts along with the power of attorney to administer these accounts,
- registered pledge on all shares in Warszawa Przyokopowa Sp. z o.o. along with financial pledge,
- transfer to safeguard the rights of the borrower from any contracts entered into by the Borrower
- support agreement entered into between the borrower, the bank and LC Corp S.A., under which, in the case of exceeding construction costs, LC Corp S.A. is required provide the borrower with necessary funds up to 10% of the projected construction costs.

4. Collateral for transactions hedging against foreign exchange risk and interest rate risk (hedging contracts) that were made on the basis of a general agreement dated 1 June 2012, established by Warszawa Przyokopowa Sp. z o.o.:

- contractual mortgage up to the amount of PLN 135,000,000
- a declaration of submission to enforcement pursuant to Art. 97 of the Banking Law up to the total amount of PLN 135,000,000.

5. Collateral to the bank loan agreement contracted by Sky Tower S.A.:

- contractual capped mortgage of the highest priority up to the amount of EUR 90,000,000
- financial and registered pledges on receivables from bank accounts along with the power of attorney to administer these accounts,
- a declaration of submission to enforcement pursuant to art. 97 of the Banking Law,
- registered pledge on all shares in Sky Tower S.A. and financial registered pledges up to the amount of EUR 90,000,000,
- transfer to safeguard the rights of the borrower from any contracts entered into by the Borrower,
- agreement of submitting liabilities of the borrower's other creditors who are the borrower's partners, to bank liabilities arising from the Agreement

6. Collateral for transactions hedging against foreign exchange risk and interest rate risk (hedging contracts) that were made on the basis of a general agreement dated 27 December 2012, established by Sky Tower S.A.:

- contractual capped mortgage of the highest priority up to the amount of EUR 44,000,000,
- a declaration of submission to enforcement pursuant to art. 97 of the Banking Law,

36. Capital management

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

The Group manages the capital structure and introduces changes resulting from changes in economic conditions. In order to maintain or adjust the capital structure, the Group can change payment of dividend to shareholders, return capital to shareholders or issue new shares. In the financial period ended 31 December 2013 and until 31 December 2012 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 and borrowings, trade payables and other liabilities.

(in PLN '000)

	Year ended 31 December 2013	Year ended 31 December 2012
Loans and bonds liabilities	799,155	434,646
Trade payables	216,836	0
Trade and other payables	77,667	51,119
A. Net debt	**1,093,658**	**485,765**
B. Equity	**1,184,776**	**1,079,084**
Leverage ratio (A/B)	**0.9**	**0.5**

37. Structure of employment

Average employment in the Group in the year ended 31 December 2013 and 31 December 2012 was as follows:

	Year ended 31 December 2013	Year ended 31 December 2012
Management Board of the Parent Undertaking	4.1	4.0
Management Boards of the Group's Entities (*)	1.0	1.0
Administration	59.1	49.5
Sales Department	23.1	19.9
Others	1.0	1.0
Total	**88.3**	**75.4**

(*) 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 balance-sheet date

1) Securities established to the loan agreement concluded by LC Corp Invest XV Sp. z o.o. Project 8 Sp. k.

On 23 January 2014, while implementing the loan agreement concluded with PKO BP S.A., LC Corp Invest XV Sp. z o.o. Project 8 Sp. k established securities necessary to release the loan, including a submission of a statement of a mortgage established to the amount of PLN 46,759,500.00 on the company's property (a mortgage entry in the land and mortgage register made on 3 February 2014), a blank promissory note issued by LC Corp Invest XV Sp. z o.o. Project 8 Sp. k and guaranteed by LC Corp Invest I Sp. z o.o, financial and registered pledge on bank accounts (registered pledges established on 7 February 2014,) and other standard security loan agreements.

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President Dariusz Niedośpiał Chief Accountant Lidia Kotowska

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Vice-President Joanna Jaskólska Consolidation Manager Marzena Matysiak

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Member of the Board Mirosław Kujawski

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Member of the Board Tomasz Wróbel

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Member of the Board Małgorzata Danek

Wrocław, 20 March 2014