

Ronson Development SE

(formerly named Ronson Europe N.V.)

**Consolidated Financial Statements
for the year ended 31 December 2018**

Management Board

Nir Netzer, *President of the Management Board*

Rami Geris, *Vice-President of the Management Board, Chief Financial Officer*

Andrzej Gutowski, *Vice-President of the Management Board, Sales and Marketing Director*

Alon Haver, *Member of the Management Board*

Supervisory Board

Amos Luzon, *Chairman*

Ofer Kadouri

Alon Kadouri

Przemysław Kowalczyk

Piotr Palenik

Shmuel Rofe

Registered office

Al. Komisji Edukacji Narodowej 57,

Warsaw

Poland

Auditors

Ernst & Young Audyt Polska sp. z o.o. sp. k.

Rondo ONZ 1

00-124 Warsaw

Poland

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Consolidated Financial Statements for the year ended 31 December 2018

Consolidated Statement of Comprehensive Income

For the year ended 31 December		2018	2017
<i>In thousands of Polish Zlotys (PLN)</i>	<i>Note</i>		
Revenue from residential projects	7	291,775	224,353
Revenue from sale of services	7	2,312	5,791
Revenue from the sale of land		-	1,600
Revenue		294,087	231,744
Cost of sales of residential projects	8	(248,397)	(192,445)
Cost of sales of land		-	(1,221)
Cost of sales		(248,397)	(193,666)
Gross profit		45,690	38,078
Selling and marketing expenses	9	(5,102)	(5,684)
Administrative expenses	10	(17,683)	(19,335)
Share of profit/(loss) from joint ventures	18	2,818	11,311
Other expenses	12	(3,934)	(4,427)
Other income	13	1,576	812
Result from operating activities		23,365	20,755
Finance income	14	738	859
Finance expense	14	(5,440)	(7,724)
Net finance income/(expense)		(4,702)	(6,865)
Profit/(loss) before taxation		18,663	13,890
Income tax expense	15	(3,592)	(2,593)
Profit/(loss) for the year		15,071	11,297
Other comprehensive income		-	-
Total comprehensive income/(expense) for the year, net of tax		15,071	11,297
Total profit/(loss) for the year attributable to:			
equity holders of the parent		13,498	9,464
non-controlling interests	26	1,573	1,833
Total profit/(loss) for the year, net of tax		15,071	11,297
Total comprehensive income/(expense) attributable to:			
equity holders of the parent		13,498	9,464
non-controlling interests	26	1,573	1,833
Total comprehensive income/(expense) for the year, net of tax		15,071	11,297
Weighted average number of ordinary shares (basic and diluted)	27	164,010,813	164,010,813
<i>In Polish Zlotys (PLN)</i>			
Net earnings/(loss) per share attributable to the equity holders of the parent (basic and diluted)	27	0.082	0.058

The notes on pages 5 to 75 are an integral part of these consolidated financial statements.

Consolidated Financial Statements for the year ended 31 December 2018

Consolidated Statement of Financial Position

As at 31 December		2018	2017
<i>In thousands of Polish Zlotys (PLN)</i>	<i>Note</i>		
Assets			
Non-current assets			
Property and equipment	16	7,986	8,169
Investment property	17	8,743	8,743
Investment in joint ventures	18	3,439	5,162
Deferred tax assets	19	5,531	4,025
Residential landbank	20	46,227	-
Total non-current assets		71,926	26,099
Current assets			
Inventory	20	596,927	512,098
Land for sale	20	6,305	-
Advances for land	21	-	80,060
Trade and other receivables and prepayments	22	14,693	11,704
Income tax receivable		123	590
Loans granted to joint ventures	18	-	6,922
Other current financial assets	23	14,319	3,466
Cash and cash equivalents	24	100,828	64,860
Total current assets		733,195	679,700
Total assets		805,121	705,799
Equity and liabilities			
Equity			
Shareholders' equity			
Share capital		12,503	12,503
Share premium		150,278	150,278
Retained earnings		180,699	175,108
Equity attributable to equity holders of the parent	25	343,480	337,889
Non-controlling interests	26	-	4,123
Total equity		343,480	342,012
Liabilities			
Non-current liabilities			
Bond loans	28, 29	153,683	153,517
Secured bank loans	28, 30	30,061	9,155
Deferred tax liability	19	7,348	11,448
Total non-current liabilities		191,092	174,120
Current liabilities			
Trade and other payables and accrued expenses	31	54,587	37,646
Bond loans	28, 29	51,864	43,791
Secured bank loans	28, 30	7,626	4,765
Advances received	32	152,452	102,244
Income tax payable		1,455	89
Provisions	33	2,565	1,132
Total current liabilities		270,549	189,667
Total liabilities		461,641	363,787
Total equity and liabilities		805,121	705,799

The notes on pages 5 to 75 are an integral part of these consolidated financial statements.

Consolidated Financial Statements for the year ended 31 December 2018

Consolidated Statement of Changes in Equity

For the years ended 31 December 2018 and 31 December 2017:

In thousands of Polish Zlotys (PLN)	Attributable to the equity holders of the parent					Non-controlling interests	Total equity
	Share capital	Share premium	Treasury shares	Retained earnings	Total		
Balance at 1 January 2017	20,762	282,873	(140,854)	196,805	359,586	2,290	361,876
Comprehensive income:							
Profit for the year ended 31 December 2017	-	-	-	9,464	9,464	1,833	11,297
Other comprehensive income	-	-	-	-	-	-	-
Total comprehensive income	-	-	-	9,464	9,464	1,833	11,297
Dividend paid (see Note 25)	-	-	-	(31,161)	(31,161)	-	(31,161)
Redemption of treasury shares ⁽¹⁾	(8,259)	(132,595)	140,854	-	-	-	-
Balance at 31 December 2017	12,503	150,278	-	175,108	337,889	4,123	342,012
Comprehensive income:							
Profit for the year ended 31 December 2018	-	-	-	13,498	13,498	1,573	15,071
Acquisition of Non-controlling interests ⁽²⁾	-	-	-	1,934	1,934	(5,696)	(3,762)
Other comprehensive income	-	-	-	-	-	-	-
Total comprehensive income	-	-	-	15,432	15,432	(4,123)	11,309
Dividend paid (see Note 25)	-	-	-	(9,841)	(9,841)	-	(9,841)
Balance at 31 December 2018	12,503	150,278	-	180,699	343,480	-	343,480

(1) On 1 March 2017, 108,349,187 shares which the Company held in treasury since 23 December 2016, were redeemed.

(2) On 10 October 2018, the Group acquired 18% of the share of ownership and voting rights in Ronson Espresso Sp. z o.o. (hereinafter "Espresso") from the minority shareholders of Espresso, for a total amount of PLN 3,762 thousand. Following the transaction Ronson Group became the sole shareholder of Espresso. The book value of the Non-controlling interests as at day of acquisition amounted to PLN 5,696 thousand. The profit from the transaction amounted to PLN 1,934 and was presented directly in Retained earnings.

The notes on pages 5 to 75 are an integral part of these consolidated financial statements.

Consolidated Financial Statements for the year ended 31 December 2018

Consolidated Statement of Cash Flows

For the year ended 31 December		2018	2017
<i>In thousands of Polish Zlotys (PLN)</i>	<i>Note</i>		
Cash flows from/(used in) operating activities			
Profit/(loss) for the year		15,071	11,297
<i>Adjustments to reconcile profit for the year to net cash used in operating activities:</i>			
Depreciation	16	1,021	965
Write-down of inventory and residential landbank	20	2,937	3,314
Finance expense	14	5,440	7,724
Finance income	14	(738)	(859)
Profit on sale of property and equipment	13	(24)	(5)
Share of loss/(profit) from joint ventures	18	(2,818)	(11,311)
Share-based payment		-	(978)
Income tax expense/(benefit)	15	3,592	2,593
Subtotal		24,481	12,740
Decrease/(increase) in receivables from former shareholder		-	9,900
Decrease/(increase) in inventory and residential landbank	40	87,599	65,671
Decrease/(increase) in advances for land		(2,750)	(43,160)
Decrease/(increase) in trade and other receivables and prepayments	40	(859)	(1,357)
Decrease/(increase) in other current financial assets	40	6,182	1,014
Increase/(decrease) in trade and other payables and accrued expenses	40	(5,290)	(3,236)
Increase/(decrease) in provisions	33	(167)	33
Increase/(decrease) in advances received	40	(11,972)	1,637
Subtotal		97,224	43,242
Interest paid		(12,191)	(13,050)
Interest received		6,392	659
Income tax received/(paid)		(9,240)	(3,440)
Net cash from/(used in) operating activities		82,185	27,411
Cash flows from/(used in) investing activities			
Acquisition of Nova Królikarnia project	6	(68,090)	-
Acquisition of property and equipment	16	(377)	(527)
Acquisition of Non-controlling interests	26	(3,762)	-
Proceeds from loans granted to third parties		-	449
Proceeds from Investment in joint ventures	18	1,312	16,136
Dividends received from joint ventures	18	4,497	-
Proceeds from sale of property and equipment		38	221
Net cash from/(used in) investing activities		(66,382)	16,279
Cash flows from/(used in) financing activities			
Proceeds from bank loans, net of bank charges	30	84,625	75,285
Repayment of bank loans	30	(61,805)	(64,071)
Proceeds from bond loans, net of issue costs	29	49,346	69,118
Repayment of bond loans	29	(42,160)	(95,500)
Dividends paid to equity holders of the parent	25	(9,841)	(31,161)
Repayment of loans from third parties		-	(1,557)
Net cash from/(used in) financing activities		20,165	(47,886)
Net change in cash and cash equivalents		35,968	(4,196)
Cash and cash equivalents at the beginning of the year		64,860	69,056
Cash and cash equivalents at the end of the year⁽¹⁾	24	100,828	64,860

(1) Including restricted cash that amounted to PLN 32,297 thousand and PLN 14,090 thousand as 31 December 2018 and as 31 December 2017, respectively.

The notes on pages 5 to 75 are an integral part of these consolidated financial statements.

Notes to the Consolidated Financial Statements

1. Background and business of the Company

- (a) Ronson Development SE ('the Company'), previously Ronson Europe N.V., a European Company with its statutory seat in Warsaw, Poland. The registered office is located at Al. Komisji Edukacji Narodowej 57, Warsaw, Poland. The Company (together with its subsidiaries 'the Group'), is active in the development and sale of units, primarily apartments, in residential real-estate projects to individual customers in Poland.

The Company was incorporated in the Netherlands on 18 June 2007 as Ronson Europe N.V. with statutory seat in Rotterdam. On 6 April 2018, the Company changed its name and was transformed into a European Company (SE). On 14 September 2018, during the extra-ordinary General Meeting of Shareholders, the shareholders of the Company approved the decision to migrate the registered office of the Company from the Netherlands to Poland. On 31 October 2018, the transfer of the registered office from the Netherlands to Poland was effectuated.

According to publicly available information, as at 31 December 2018, 66.06% of the outstanding shares are controlled indirectly by Amos Luzon Development and Energy Group Ltd. ('A. Luzon Group'). The remaining 33.94% of the outstanding shares are held by other investors including Nationale Nederlanden Otworthy Fundusz Emerytalny and Metlife Otworthy Fundusz Emerytalny. The number of shares held by the investors is equal to the number of votes, as there are no privileged shares issued by the Company.

As at 31 December 2018, the Groups' market capitalization was below the value of net assets. Although, the Company strongly believes that this is a temporary situation due to many different factors, including low liquidity of the Company's shares listed on WSE, Management took appropriate steps to review the Company's accounts to determine if there is any additional write-down required and found no basis for it. Management verified that the forecast margin potential in respect of the inventory is positive. Therefore, no indicators for potential additional impairment have been identified.

- (b) The details of the entities whose financial statements have been included in these Consolidated Financial Statements, the year of incorporation and the percentage of ownership and voting rights directly or indirectly held by the Company as at 31 December 2018, are presented below and on the following page.

The projects managed by the entities are in various stages of development ranging from being in the process of acquiring land for development to projects which are completed or near completion.

Entity name	Year of incorporation	Share of ownership & voting rights at the end of	
		31 December 2018	31 December 2017
a. held directly by the Company :			
1. Ronson Development Management Sp. z o.o.	1999	100%	100%
2. Ronson Development 2000 Sp. z o.o.	2000	100%	100%
3. Ronson Development Warsaw Sp. z o.o.	2000	100%	100%
4. Ronson Development Investment Sp. z o.o.	2002	100%	100%
5. Ronson Development Metropol Sp. z o.o.	2002	100%	100%
6. Ronson Development Properties Sp. z o.o.	2002	100%	100%
7. Apartments Projekt Sp. z o.o.	2003	100%	100%
8. Ronson Development Enterprise Sp. z o.o.	2004	100%	100%
9. Ronson Development Company Sp. z o.o.	2005	100%	100%
10. Ronson Development Creations Sp. z o.o.	2005	100%	100%
11. Ronson Development Buildings Sp. z o.o.	2005	100%	100%
12. Ronson Development Structure Sp. z o.o.	2005	100%	100%
13. Ronson Development Poznań Sp. z o.o.	2005	100%	100%
14. E.E.E. Development Sp. z o.o.	2005	100%	100%
15. Ronson Development Innovation Sp. z o.o.	2006	100%	100%

Consolidated Financial Statements for the year ended 31 December 2018

Notes to the Consolidated Financial Statements

1. Background and business of the Company (cont'd)

Entity name	Year of incorporation	Share of ownership & voting rights at the end of	
		31 December 2018	31 December 2017
b. held directly by the Company (cont'd):			
16. Ronson Development Wrocław Sp. z o.o.	2006	100%	100%
17. Ronson Development Capital Sp. z o.o.	2006	100%	100%
18. Ronson Development Sp. z o.o.	2006	100%	100%
19. Ronson Development Construction Sp. z o.o.	2006	100%	100%
20. City 2015 Sp. z o.o.	2006	100%	100%
21. Ronson Development Village Sp. z o.o. ⁽¹⁾	2007	100%	100%
22. Ronson Development Conception Sp. z o.o.	2007	100%	100%
23. Ronson Development Architecture Sp. z o.o.	2007	100%	100%
24. Ronson Development Skyline Sp. z o.o.	2007	100%	100%
25. Continental Development Sp. z o.o.	2007	100%	100%
26. Ronson Development Universal Sp. z o.o. ⁽¹⁾	2007	100%	100%
27. Ronson Development Retreat Sp. z o.o.	2007	100%	100%
28. Ronson Development South Sp. z o.o.	2007	100%	100%
29. Ronson Development Partner 5 Sp. z o.o.	2007	100%	100%
30. Ronson Development Partner 4 Sp. z o.o.	2007	100%	100%
31. Ronson Development North Sp. z o.o.	2007	100%	100%
32. Ronson Development Providence Sp. z o.o.	2007	100%	100%
33. Ronson Development Finco Sp. z o.o.	2009	100%	100%
34. Ronson Development Partner 2 Sp. z o.o.	2010	100%	100%
35. Ronson Development Skyline 2010 Sp. z o.o. w likwidacji	2010	100%	100%
36. Ronson Development Partner 3 Sp. z o.o.	2012	100%	100%
37. Nova Królikarnia B.V. ⁽³⁾ <i>(Company with the register office in Netherland)</i>	2016	100%	n.a.
b. held indirectly by the Company:			
38. AGRT Sp. z o.o.	2007	100%	100%
39. Ronson Development Partner 4 Spółka z ograniczoną odpowiedzialnością – Panoramika Sp.k.	2007	100%	100%
40. Ronson Development Spółka z ograniczoną odpowiedzialnością - Estate Sp.k.	2007	100%	100%
41. Ronson Development Spółka z ograniczoną odpowiedzialnością - Home Sp.k.	2007	100%	100%
42. Ronson Development Spółka z ograniczoną odpowiedzialnością - Horizon Sp.k.	2007	100%	100%
43. Ronson Development Partner 3 Spółka z ograniczoną odpowiedzialnością - Sakura Sp.k.	2007	100%	100%
44. Destiny Sp. z o.o.	2007	100%	100%
45. Ronson Development Millenium Sp. z o.o.	2007	100%	100%
46. Ronson Development Spółka z ograniczoną odpowiedzialnością - EEE 2011 Sp.k.	2009	100%	100%
47. Ronson Development Spółka z ograniczoną odpowiedzialnością - Apartments 2011 Sp.k.	2009	100%	100%
48. Ronson Development Spółka z ograniczoną odpowiedzialnością - Idea Sp.k.	2009	100%	100%
49. Ronson Development Partner 2 Spółka z ograniczoną odpowiedzialnością –Destiny 2011 Sp.k.	2009	100%	100%
50. Ronson Development Partner 2 Spółka z ograniczoną odpowiedzialnością - Enterprise 2011 Sp.k.	2009	100%	100%
51. Ronson Development Partner 2 Spółka z ograniczoną odpowiedzialnością - Retreat 2011 Sp.k.	2009	100%	100%
52. Ronson Development Partner 5 Spółka z ograniczoną odpowiedzialnością - Vitalia Sp.k.	2009	100%	100%
53. Ronson Development Spółka z ograniczoną odpowiedzialnością - 2011 Sp.k.	2009	100%	100%
54. Ronson Development Spółka z ograniczoną odpowiedzialnością - Gemini 2 Sp.k.	2009	100%	100%
55. Ronson Development Spółka z ograniczoną odpowiedzialnością - Verdis Sp.k.	2009	100%	100%
56. Ronson Espresso Sp. z o.o. ⁽⁵⁾	2006	100%	82%
57. Ronson Development Apartments 2010 Sp. z o.o.	2010	100%	100%
58. RD 2010 Sp. z o.o.	2010	100%	100%
59. Retreat Sp. z o.o.	2010	100%	100%
60. Enterprise 2010 Sp. z o.o.	2010	100%	100%
61. Wrocław 2010 Sp. z o.o.	2010	100%	100%
62. E.E.E. Development 2010 Sp. z o.o.	2010	100%	100%
63. Ronson Development Nautica 2010 Sp. z o.o.	2010	100%	100%
64. Gemini 2010 Sp. z o.o.	2010	100%	100%
65. Ronson Development Spółka z ograniczoną odpowiedzialnością - Naturalis Sp.k.	2011	100%	100%
66. Ronson Development Spółka z ograniczoną odpowiedzialnością - Impresio Sp.k.	2011	100%	100%
67. Ronson Development Spółka z ograniczoną odpowiedzialnością - Continental 2011 Sp.k.	2011	100%	100%
68. Ronson Development Spółka z ograniczoną odpowiedzialnością - Providence 2011 Sp.k.	2011	100%	100%
69. Ronson Development Partner 2 Spółka z ograniczoną odpowiedzialnością - Capital 2011 Sp. k.	2011	100%	100%
70. Ronson Development Spółka z ograniczoną odpowiedzialnością - Architecture 2011 Sp.k.	2011	100%	100%
71. Ronson Development Spółka z ograniczoną odpowiedzialnością - City 1 Sp.k.	2012	100%	100%
72. Ronson Development Partner 2 Spółka z ograniczoną odpowiedzialnością - Miasto Moje Sp. k.	2012	100%	100%
73. Ronson Development Spółka z ograniczoną odpowiedzialnością - City 3 Sp.k.	2012	100%	100%
74. Ronson Development Spółka z ograniczoną odpowiedzialnością - City 4 Sp.k.	2016	100%	100%
75. Ronson Development Partner 2 Sp. z o.o. – Grunwald Sp.k.	2016	100%	100%

Consolidated Financial Statements for the year ended 31 December 2018

Notes to the Consolidated Financial Statements

1. Background and business of the Company (cont'd)

Entity name	Year of incorporation	Share of ownership & voting rights at the end of	
		31 December 2018	31 December 2017
b. held indirectly by the Company (cont'd):			
76. Ronson Development Spółka z ograniczoną odpowiedzialnością - Projekt 1 Sp.k. ⁽⁴⁾	2017	50%	100%
77. Ronson Development Spółka z ograniczoną odpowiedzialnością - Projekt 2 Sp.k.	2017	100%	100%
78. Ronson Development Spółka z ograniczoną odpowiedzialnością - Projekt 3 Sp.k.	2017	100%	100%
79. Ronson Development Spółka z ograniczoną odpowiedzialnością - Projekt 4 Sp.k.	2017	100%	100%
80. Ronson Development Spółka z ograniczoną odpowiedzialnością - Projekt 5 Sp.k.	2017	100%	100%
81. Ronson Development Spółka z ograniczoną odpowiedzialnością - Projekt 6 Sp.k.	2017	100%	100%
82. Ronson Development Spółka z ograniczoną odpowiedzialnością - Projekt 7 Sp.k.	2017	100%	100%
83. Ronson Development Spółka z ograniczoną odpowiedzialnością - Projekt 8 Sp.k.	2017	100%	100%
84. Ursus 2017 Sp. z o.o.	2017	100%	100%
85. Projekt City Sp. z o.o.	2017	100%	100%
86. Bolzanus Limited ⁽²⁾	2013	100%	n.a.
87. Park Development Properties Sp. z o.o. - Town Sp.k. ⁽³⁾	2007	100%	n.a.
88. Tras Sp. z o.o. ⁽³⁾	2015	100%	n.a.
89. Pod Skocznia Projekt Sp. z o.o. ⁽³⁾	2015	100%	n.a.
90. District 20 Sp. z o.o. ⁽³⁾	2015	100%	n.a.
91. Arkadia Development Sp. z o.o. ⁽³⁾	2015	100%	n.a.
92. Królikarnia Sp. z o.o. ⁽³⁾	2015	100%	n.a.
93. Tras 2016 Sp. z o.o. ⁽³⁾	2016	100%	n.a.
94. Pod Skocznia Projekt 2016 Sp. z o.o. ⁽³⁾	2016	100%	n.a.
95. District 20 – 2016 Sp. z o.o. ⁽³⁾	2016	100%	n.a.
96. Arkadia Development 2016 Sp. z o.o. ⁽³⁾	2016	100%	n.a.
97. Królikarnia 2016 Sp. z o.o. ⁽³⁾	2016	100%	n.a.
98. Kroli Development Sp. z o.o. ⁽³⁾	2016	100%	n.a.
99. Park Development Properties Sp. z o.o. ⁽³⁾	2016	100%	n.a.
100. Jasminova 2016 Sp. z o.o. ⁽³⁾	2016	100%	n.a.
101. Town 2016 Sp. z o.o. ⁽³⁾	2016	100%	n.a.
102. EEE Development 2016 Sp. z o.o. ⁽³⁾	2016	100%	n.a.
103. Enterprise 2016 Sp. z o.o. ⁽³⁾	2016	100%	n.a.
104. Wrocław 2016 Sp. z o.o. ⁽³⁾	2016	100%	n.a.

(1) The Company has the power to govern the financial and operating policies of this entity and to obtain benefits from its activities, whereas Kancelaria Radcy Prawnego Jarosław Zubrzycki holds the legal title to the shares of this entity.

(2) Company with registered office in Cyprus was acquired as a part of Ursus transaction; for additional information see note 21.

(3) Acquired as a part of the Nova Królikarnia transaction; for additional information see note 6.

(4) In December 2018, 50% of the share was sold to the JV partner. The entity is designed to be a SPV company to develop a new JV project. The entity did not conduct any business activity until 31 December 2018.

(5) In October 2018, the Company acquired 18% of the share of ownership and voting rights in Ronson Espresso Sp. z o.o.; for additional information see note 26.

2. Basis of preparation and measurement

(a) Basis of preparation and statement of compliance

These Consolidated Financial Statements have been prepared in accordance with International Financial Reporting Standards as adopted by the EU ('IFRS'). In light of the nature of the Group's activities, the IFRSs applied by the Group are not different from the IFRSs endorsed by the European Union, which are effective for the financial year ended 31 December 2018. The Group is aware about New standards and interpretations that have been issued but have not yet become effective. More details on these standards and interpretations are presented in Note 4. The Consolidated Financial Statements were authorized by the Boards of Directors of Ronson Development SE on 13 March 2019. These Consolidated Financial statements have been prepared on the assumption that the Group is a going concern, meaning it will continue in operation for the foreseeable future and will be able to realize assets and discharge liabilities in the normal course of its operations. The Company prepared Consolidated Financial Statements for the year ended 31 December 2018 in both English and Polish languages, while the Polish version is binding.

(b) Basis of measurement

The Consolidated Financial Statements have been prepared on the historical cost basis, except for investment property which was measured at fair value. The methods used to measure fair values for the purpose of preparing the Consolidated Financial Statements are discussed further in Note 3(r), Note 17 and Note 34.

Notes to the Consolidated Financial Statements

2. Basis of preparation and measurement (cont'd)

(c) Functional and presentation currency

Items included in the financial statements of each entity in the Group are measured using the currency of the primary economic environment in which the entity operates (the 'functional currency') being Polish Zloty ('PLN'). Polish zloty is the presentation currency of the consolidated financial statements of the Group, and is also the functional currency of the parent company.

The Consolidated Financial Statements are presented in thousands of Polish Zloty, except when otherwise indicated.

(d) Use of estimates and judgments

The preparation of financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of income and expenses during the reported period. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing-basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised. In particular, information about significant areas of estimation, uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the financial statements, are described in the following notes:

- Note 17 – investment property
- Note 19 – deferred tax asset recognition
- Note 20 – inventory and residential landbank
- Note 33 – provisions
- Note 36 – commitments and contingencies

The Company conducts residential units projects and developing activities in dedicated SPVs. The Company reflects in its Consolidated Financial Statements the activities and transactions related to such projects based on the substance rather than legal form. Such transactions are accounted for in accordance with IAS 2 and IFRS 15, whereby inventory is sold and revenue should be recognized after the criteria are met.

Estimation of net realizable value for inventory and residential landbank

Inventory and residential landbank is stated at the lower of cost and net realizable value (NRV). NRV for completed inventory property (Finished goods) is assessed with reference to market conditions and prices existing at the reporting date and is determined by the Group having taken suitable external advice and in the light of recent market transactions. NRV in respect of work in progress and residential landbank is assessed with reference to market prices at the reporting date for similar completed property, less estimated costs to complete construction and less an estimate of the time value of money to the date of completion.

Valuation of investment property

The fair value of the investment property is determined by independent real estate valuation experts based on the discounted cash flow approach. The determination of the fair value of the investment property requires the use of estimates such as future cash flows from assets (such as lettings, tenants' profiles, future revenue streams, capital values of fixtures and fittings, any environmental matters and the overall repair and condition of the property) and discount rates applicable to those assets.

Deferred tax asset recognition

Deferred tax assets are recognized for unused tax losses and deductible temporary differences to the extent that it is probable that taxable profit will be available against which the losses and deductible temporary differences can be utilized. Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and the level of future taxable profits together with future tax planning strategies.

Notes to the Consolidated Financial Statements

2. Basis of preparation and measurement (cont'd)

(d) Use of estimates and judgments (cont'd)

Uncertain tax treatment

Regulations regarding VAT, corporate profits tax and social security contributions are subject to frequent changes. These changes result in there being little point of reference and few established precedents that may be followed. The binding regulations also contain uncertainties, resulting in differences in opinion regarding the legal interpretation of tax regulations both between government bodies, and between government bodies and companies.

Tax and other settlements may be subject to inspection by administrative bodies authorised to impose high penalties and fines, and any additional taxation liabilities calculated as a result must be paid together with high interest. The above circumstances mean that tax exposure is greater in Poland than in countries that have a more established taxation system. Accordingly, the amounts shown in the financial statements may change at a later date as a result of the final decision of the tax authorities.

On 15 July 2016, amendments were made to the Tax Ordinance to introduce the provisions of General Anti-Avoidance Rules (GAAR). GAAR are targeted to prevent origination and use of fictitious legal structures set up to avoid payment of tax in Poland. GAAR define tax evasion as an activity performed mainly with a view to realising tax gains, which is contrary, under given circumstances, to the subject and objective of the tax law. In accordance with GAAR, an activity does not bring about tax gains, if its modus operandi was false. Any instances of (i) unreasonable division of an operation (ii) involvement of agents despite lack of economic rationale for such involvement, (iii) mutually exclusive or mutually compensating elements, as well as (iv) other activities similar to those referred to earlier may be treated as a hint of artificial activities subject to GAAR. New regulations will require considerably greater judgment in assessing tax effects of individual transactions.

The GAAR clause should be applied to the transactions performed after clause effective date and to the transactions which were performed prior to GAAR clause effective date, but for which after the clause effective date tax gains were realised or continue to be realised. The implementation of the above provisions will enable Polish tax authority challenge such arrangements realised by tax remitters as restructuring or reorganization.

The Group accounts for current and deferred tax assets and liabilities based on the requirements of IAS 12 Income taxes, based on taxable profit (tax loss), taxable base, carry-forward of unused tax losses and carry-forward of unused tax credits, and tax rates, while considering the assessment of uncertainty related to tax settlements. If uncertainty exists as to whether and to what extent tax authority will accept individual tax treatments of made transactions, the Group discloses these settlements while accounting for uncertainty assessment.

Further details on taxes are disclosed in Note 15 and Note 19.

(e) Basis of consolidation

These Consolidated Financial Statements comprise the financial statements of the Company and its subsidiaries as at 31 December 2018. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if, and only if, the Group has:

- power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee);
- exposure, or rights, to variable returns from its involvement with the investee;
- the ability to use its power over the investee to affect its returns.

Notes to the Consolidated Financial Statements

2. Basis of preparation and measurement (cont'd)

(e) Basis of consolidation (cont'd)

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements from the date the Group gains control until the date the Group ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income (OCI) are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognizes the related assets (including goodwill), liabilities, non-controlling interest and other components of equity while any resultant gain or loss is recognized in profit or loss. Any investment retained is recognized at fair value.

The financial statements of subsidiaries are prepared for the same period as the financial statement of parent. The Group entities keep books of accounts in accordance with accounting policies specified in the Accounting Act dated 29 September 1994 ('the Accounting Act') with subsequent amendments and the regulations issued based on that Act (all together: 'Polish Accounting Standards'). These consolidated financial statements include a number of adjustments not included in the books of account of the Group entities, which were made in order to bring the financial statements of those entities in conformity with IFRSs as adopted by EU.

Until 31 of October 2018, Ronson Development SE kept its books of accounts in accordance with accounting policies required by the Dutch law. On 31 October 2018, the Company transferred its registered office from the Netherlands to Poland. On 20 December 2018, the Extraordinary General Meeting of the Company adopted a resolution regarding the preparation of the financial statements of Ronson Development SE in accordance with IFRS and International Accounting Standards, starting with the financial statements for the financial year 2018.

Where property is acquired, via corporate acquisitions or otherwise, the management considers the substance of the assets and activities of the acquired entity in determining whether the acquisition represents the acquisition of a business or assets. Where such acquisitions are not judged to be an acquisition of a business, they are not treated as business combinations. Rather, the cost to acquire the corporate entity is allocated between the identifiable assets and liabilities of the entity based on their relative fair values at the acquisition date. Accordingly, no goodwill or additional deferred taxation arises. Otherwise, acquisitions are accounted for as business combinations.

Notes to the Consolidated Financial Statements

2. Basis of preparation and measurement (cont'd)

(f) Changes in accounting policies and disclosures

The accounting policies applied in the preparation of the attached consolidated financial statements are consistent with those applied in the preparation of the consolidated financial statements of the Group for the year ended 31 December 2018 with the exception of IFRS 15 and IFRS 9 which standard the Group applied for the first time, and with the exception of the amendments presented below.

- Amendments to IFRS 4 Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts (issued on 12 September 2016) - effective for financial years beginning on or after 1 January 2018;
- Clarifications to IFRS 15 *Revenue from Contracts with Customers* (issued on 12 April 2016) - effective for financial years beginning on or after 1 January 2018;
- Amendments to IFRS 2 *Classification and Measurement of Share-based Payment Transactions* (issued on 20 June 2016) - effective for financial years beginning on or after 1 January 2018,
- Amendments to IAS 28 *Investments in Associates and Joint Ventures* which are part of *Annual Improvements to IFRS Standards 2014-2016 Cycle* (issued on 8 December 2016) - effective for financial years beginning on or after 1 January 2018,
- Amendments to IFRS 1 *First-time Adoption of International Financial Reporting Standards* which are part of *Annual Improvements to IFRS Standards 2014-2016 Cycle* (issued on 8 December 2016) – effective for financial years beginning on or after 1 January 2018,
- IFRIC Interpretation 22 *Foreign Currency Transactions and Advance Consideration* (issued on 8 December 2016) – effective for financial years beginning on or after 1 January 2018;
- Amendments to IAS 40: *Transfers of Investment Property* (issued on 8 December 2016) - not yet endorsed by EU at the date of approval of these financial statements - effective for financial years beginning on or after 1 January 2018.

These changes were applied in the attached consolidated financial statements on their effective date and, with the exception of IFRS 15 and IFRS 9 discussed below, had no significant impact on the disclosed financial information, did not apply to the Group's transactions, or the Group decided not to apply a newly introduced approach or model. The Group has decided not to apply earlier any Standard, Interpretation or Amendment that has been issued, but has not yet become effective in light of the EU regulations.

Implementation of IFRS 15

International Financial Reporting Standard 15 *Revenue from Contracts with Customers* ("IFRS 15") was issued in May 2014, and then amended in April 2016, and establishes a five-step model to account for revenue arising from contracts with customers. The new revenue standard supersedes all current revenue recognition requirements under IFRS. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

Either a full retrospective application or a modified retrospective application is required for annual periods beginning on or after 1 January 2018. The Group adopted the new standard using the modified retrospective method.

a) Sale of goods

The Group is active in the development and sale of units, primarily apartments, in residential real-estate projects to individual customers in Poland ("residential units"). In prior years, revenues from the sale of residential units were recognized, in accordance with IAS 18, upon transfer to the buyer of the significant risks and rewards of ownership of the residential unit (i.e. upon signing of the protocol of technical acceptance, obtaining 100% of the contracted price and transfer of the key), after a valid building occupancy permit has been obtained by the Group.

Notes to the Consolidated Financial Statements

2. Basis of preparation and measurement (cont'd)

(f) Changes in accounting policies and disclosures (cont'd)

Implementation of IFRS 15 (cont'd)

a) Sale of goods (cont'd)

In accordance with IFRS 15, the Group recognizes revenue when (or as) the Group has satisfied a performance obligation by transferring a promised good to a customer. A residential unit is transferred when (or as) the customer obtains control of that residential unit (i.e. upon signing of the protocol of technical acceptance, obtaining 100% of payment and transfer of the key). As the Group normally concludes contracts with customers in which the sale of goods is the only performance obligation, adoption of IFRS 15 did not have any significant impact on the Group's revenue and cost of sales. Revenue recognition thus occurs at a point in time when control of the residential unit is transferred to the customer, which is generally upon delivery of the residential unit and thus the moment of revenue recognition does not differ under IAS 18 and IFRS 15.

(i) Variable consideration

Contracts with customers may give rise to variable consideration as refunds, incentives or performance bonuses, in which case, in accordance with IFRS 15, the entity will estimate the amount of remuneration to which it will be entitled in exchange for the transfer of the residential unit to the customer and which includes part or all of the variable remuneration in the transaction price only to the extent, in which there is a high probability that there will be no reversal of a significant part of the amount of previously recognized accumulated revenues when the uncertainty about the amount of variable remuneration has ceased. In case of the Group, a variable consideration is not included in agreements with buyers of residential units and therefore, the stipulations regarding variable considerations under IFRS 15 does not impact the Group's revenue recognition.

(ii) Warranty obligations

In all cases the Group has a right to force warranty obligations from its general contractors. Furthermore, the Group does not provide any extended warranties in its contracts with customers, which could result in recognizing a service-type warranty.

b) Significant financing component

Generally, the Group receives advances from its customers. Using the practical expedient in IFRS 15, the Group does not adjust the promised amount of consideration for the effects of a significant financing component if it expects, at contract inception, that period between the advance payment(s) for the residential unit and the date of transfer of the residential unit to the customer will be one year or less. In the opinion of the Group the contracts entered by the Group does not contain a significant financing component.

c) Costs to obtain the contract

IFRS 15 requires incremental costs of obtaining a contract to be recognized as an asset if certain criteria are met. Any capitalized contract costs assets must be amortized on a systematic basis that is consistent with the entity's transfer of the related goods or services to the customer. With regards to the Group's operations such costs include sales representatives bonuses and other sales commissions which are incremental to obtaining a contract with customer. The Group, applying IFRS 15, decided, that such costs will be capitalized (under prepayments) and will be recognized in the consolidated statement of comprehensive income as cost of goods sold at the moment revenues related to sale of units are recognized. Furthermore, as required under modified retrospective method of IFRS 15 adoption, the Group estimated the impact of the change to the opening balance and conclude the amount to be immaterial. Consequently, the opening balance of retained earnings has not been adjusted.

More detailed disclosures as required under IFRS 15 are presented in Note 41 (IFRS 15) and in Note 32 (Advances received).

Notes to the Consolidated Financial Statements

2. Basis of preparation and measurement (cont'd)

(f) Changes in accounting policies and disclosures (cont'd)

Implementation of IFRS 9

In July 2014, the IASB issued the final version of International Financial Reporting Standard 9 Financial Instruments (“IFRS 9”). IFRS 9 brings together all three aspects of the accounting for financial instruments project: classification and measurement, impairment and hedge accounting became effective for annual periods beginning on or after 1 January 2018, with early application permitted.

The Group has adopted IFRS 9 the new standard as of 1 January 2018 and did not restate comparative information.

The Group has performed a detailed impact assessment of implementation of IFRS 9 on the accounting principles (policy) applied by the Group with respect to the Group’s operations or its financial results. This assessment revealed no significant impact on the Group’s statement of financial position and its equity.

a) Classification and measurement

Classification and measurement requirements of IFRS 9 did not have a significant impact on the Group’s statement of financial position and its equity. The Group continues measuring at amortized costs all financial assets and financial liabilities. The Group has not designated any financial asset or liability as at fair value through profit or loss.

The Group operates in the business model with the objective to hold financial assets in order to collect contractual cash flows. None of financial assets are settled by the Group through sale transaction or a as part of factoring. The Group’s financial liabilities include primarily trade and other payables, and loans and borrowings, debt securities, which are accounted for under amortized costs.

b) Impairment

IFRS 9 requires the Group to record expected credit losses on all of its debt securities, loans and trade receivables, either on a 12-month or lifetime basis. The Group has applied the simplified approach and record lifetime expected losses on all trade receivables. Given the nature of the Group’s loans and receivables, the loss allowance has not changed significantly as a result of the adoption of IFRS 9.

c) Hedge accounting

The Group does not use any hedging instruments and therefore the new requirements of IFRS 9 in respect of hedge accounting do not impact the Group’s financial statements.

Category under IAS 39	Category under IFRS 9	Statement of financial position item	Measurement
Loans and receivables	Financial assets at amortized costs	Other current financial assets	Amortized cost method
		Loans granted to joint ventures	Amortized cost method
		Cash and cash equivalent	Amortized cost method
		Trade and other receivables and prepayments	Amortized cost method
Other financial liabilities	Loans and borrowings	Bond loans	Amortized cost method
		Loans from others	Amortized cost method
		Secured bank loans	Amortized cost method
	Trade and other payables	Trade and other payables and accrued expenses	Amortized cost method

Notes to the Consolidated Financial Statements

3. Significant accounting policies

The accounting policies set out below have been applied consistently in all periods presented in these Consolidated Financial Statements.

(a) Foreign currency

Transactions in foreign currencies are translated to the respective functional currencies of the Group entities at exchange rates prevailing at the dates of the transactions using:

- the purchase or selling rate of the bank whose services are used by the Group – in case of foreign currency sales or purchase transactions, as well in the case as of the debt or liability payment transactions;
- the average rate specified for a given currency by the National Bank of Poland as on the transaction date, unless a customs declaration or other binding document indicates another rate – in case of other transactions.

Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency spot rate of exchange ruling at the reporting date. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions.

(b) Revenue from contracts with customers

Revenues from the sale of residential units are recognized when (or as) the Group has satisfied a performance obligation by transferring a promised good to a customer. A residential unit is transferred when (or as) the customer obtains control of that residential unit (i.e. upon signing of the protocol of technical acceptance and transfer of the key to the unit and payment of the entire amount resulting from the sale agreement).

Advances received related to pre-sales of residential units, which represent deferred income, are deferred when they do not meet the criteria to be recognized as revenue. When they subsequently meet these criteria, they are recognized as revenue.

(c) Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

Financial assets

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient, the Group initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price determined under IFRS 15.

In order for a financial asset to be classified and measured at amortized cost or fair value through OCI, it needs to give rise to cash flows that are 'solely payments of principal and interest (SPPI)' on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level.

For purposes of subsequent measurement, financial assets are classified in four categories:

- Financial assets at amortised cost (debt instruments)
- Financial assets at fair value through OCI with recycling of cumulative gains and losses (debt instruments)
- Financial assets designated at fair value through OCI with no recycling of cumulative gains and losses upon derecognition (equity instruments)
- Financial assets at fair value through profit or loss

Notes to the Consolidated Financial Statements

3. Significant accounting policies (cont'd)

(c) Financial instruments (cont'd)

For the Group the first category is most relevant. Financial assets at amortised cost are subsequently measured using the effective interest (EIR) method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

The Group recognizes an allowance for expected credit losses (ECLs) for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

For trade receivables and contract assets, the Group applies a simplified approach in calculating ECLs. Therefore, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

Financial liabilities

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

Loans and borrowings is the category most relevant to the Group. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the EIR method. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the EIR amortisation process. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included as finance costs in the statement of profit or loss.

Notes to the Consolidated Financial Statements

3. Significant accounting policies (cont'd)

(c) Financial instruments (cont'd)

The financial instruments of the Group are classified into one of the following categories:

Category	Statement of financial position item	Measurement
Financial assets at amortized costs	Other current financial assets	Amortized cost method
	Loans granted to joint ventures	Amortized cost method
	Cash and cash equivalent	Amortized cost method
	Trade and other receivables and prepayments	Amortized cost method
Loans and borrowings	Bond loans	Amortized cost method
	Loans from others	Amortized cost method
	Secured bank loans	Amortized cost method
Trade and other payables	Trade and other payables and accrued expenses	Amortized cost method

(d) Property and equipment

(i) Recognition and measurement

Items of property and equipment are measured at cost less accumulated depreciation and accumulated impairment losses.

Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labor, any other costs directly attributable to bringing the asset to a working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located.

When significant parts of property, plant and equipment are required to be replaced in intervals, the Group recognizes such parts as individual assets with specific useful lives and depreciation, respectively. Likewise, when a major inspection is performed, its cost is recognized in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognized in the statement of comprehensive income as incurred.

(ii) Depreciation

Depreciation is calculated on the straight-line basis over the estimated useful life of each component of an item of property and equipment.

The estimated useful life of property and equipment, depending on the class of asset, ranges from 2 to 40 years. Leased assets are depreciated over the shorter of the lease term and their useful lives. Land is not depreciated.

When parts of an item of property and equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment.

Depreciation methods, useful lives and residual values are reassessed at the reporting date, and adjusted prospectively since the beginning of the following year, if appropriate.

(e) Leases

Leases in which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition, the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments.

Notes to the Consolidated Financial Statements

3. Significant accounting policies (cont'd)

(f) Investment property

Investment properties are measured initially at cost, including transaction costs. Subsequently to initial recognition, investment properties are stated at fair value, which reflects market conditions at the reporting date. Gains or losses arising from changes in the fair values of investment properties are included in the statement of comprehensive income in the period in which they arise.

Investment properties are derecognized when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. The difference between the net disposal proceeds and the carrying amount of the asset is recognized in the statement of comprehensive income in the period of derecognition.

Transfers are made to or from investment property only when there is a change in use. For a transfer from investment property to owner occupied property, the deemed cost for subsequently accounting is the fair value at the date of change in use. If owner occupied property becomes an investment property, the Group accounts for such property in accordance with the policy stated under property, plant and equipment up to the date of change in use.

(g) Residential landbank and Inventories

(i) Residential landbank

The Group classifies the residential landbank as either long-term and short-term. The division is based on the operating cycle. The Group estimates that an operating cycle lasts about 5 years. The operating cycle is divided into two phases: (i) the pre-construction preparation phase lasting about 3 years (obtaining necessary site permits, environmental decisions or construction permits, designing, etc.), and (ii) construction phase lasting also about 2 years.

Long-term part of the land bank (if a commencement of construction phase is not planned within the period of 3 years from the reporting date) is presented in non-current assets of the consolidated statement of financial position, as "Residential landbank", whereas short-term part of the land bank is presented in current assets of the consolidated statement of financial position, in inventory balance.

Residential landbank are measured at the lower of cost and net realizable value.

(ii) Inventory

Inventory comprises residential real estate projects to individual customers.

Inventory is measured at the lower of cost and net realizable value. The cost of inventory includes expenditure incurred relating to the construction of a project.

Costs relating to the construction of a project are included in inventory of residential units as follows:

- costs incurred relating to projects or a stage of a project which are not available for sale (work in progress),
- costs incurred relating to units unsold associated with a project.

Project construction costs include:

- a) land or leasehold rights for land,
- b) construction costs paid to the general contractor building the residential project,
- c) planning and design costs,
- d) perpetual usufruct fees and real estate taxes incurred during the period of construction,
- e) borrowing costs to the extent they are directly attributable to the development of the project (see accounting policy (l)),
- f) professional fees attributable to the development of the project,
- g) construction overheads and other directly related costs.

Inventory is recognized as a cost of sales in the statement of comprehensive income when the sale of residential units is recognized.

Notes to the Consolidated Financial Statements

3. Significant accounting policies (cont'd)

(h) Equity

(i) Share capital

Share capital includes the proceeds received from the issue of ordinary shares on the nominal value in exchange for cash.

(ii) Share premium

Share premium includes the excess of proceeds received from the issue of shares over the nominal value of shares. Shares issuance costs are deducted from the share premium.

(iii) Treasury shares

Own shares that are reacquired (treasury shares) are recognized at cost and deducted from equity. No gain or loss is recognized in profit or loss on the purchase, sale, issue or cancellation of the Group's own equity instruments.

(i) Impairment of non-financial assets

The carrying amounts of the Group's non-financial assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's or a cash generating unit's recoverable amount is estimated.

An impairment loss is recognized if the carrying amount of an asset or a cash generating unit exceeds its recoverable amount.

The recoverable amount of an asset or a cash generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

Impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

(j) Provisions

A provision is recognized if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

(k) Borrowing costs

Borrowing costs directly attributable to the inventory of properties which necessarily take a substantial period of time to get ready for their intended use or sale, are capitalized as part of the cost of the respective assets.

The interest capitalized is calculated using the Group's weighted average cost of borrowings after adjusting for borrowings associated with specific developments. Where borrowings are associated with specific developments, the amount capitalized equals the gross interest incurred on those borrowings. Interest is capitalized as from the commencement of the development work until the date of completion. The capitalization of borrowing costs is suspended if there are prolonged periods when development activity is interrupted.

Notes to the Consolidated Financial Statements

3. Significant accounting policies (cont'd)

(l) Income tax expense

Income tax expense comprises current and deferred tax. Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years. Current tax expense is calculated according to tax regulations in effect in the jurisdiction in which the individual companies are domiciled.

Deferred income tax is provided, using the balance sheet method, for all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes, and for tax losses carried forward, except for the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit.

Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. At each reporting date deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realized. Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

(m) Earnings per share

The Group presents basic and diluted earnings per share (EPS) data for its ordinary shares. The computations of the basic earnings per share are determined on the basis of the weighted average number of shares outstanding during the year. The diluted earnings per share are determined by adjusting the statement of comprehensive income and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, which comprise share options granted and rights to obtain shares by employees.

(n) Share options granted

Equity-settled transactions

The fair value of share options granted to management and other employees as at the grant date is recognized as an employee expense, with a corresponding increase in equity recognized in retained earnings, over the period during which the employees become unconditionally entitled to the options. The amount recognized as an expense is adjusted to reflect the actual number of share options that vest.

Cash-settled transactions

The cost of cash-settled transactions is measured initially at fair value at the grant date. This fair value is expensed over the period until the vesting date with recognition of a corresponding liability. The liability is re-measured to fair value at each reporting date up to, and including the settlement date, with changes in fair value recognized in employee benefits expense.

Notes to the Consolidated Financial Statements

3. Significant accounting policies (cont'd)

(o) Cash and cash equivalents

Cash and cash equivalents in the statement of financial positions comprise cash at banks and on hand and short-term deposits with an original maturity of three months or less, except for collateralized deposits.

For the purpose of the consolidated statement cash flows, cash and cash equivalents consist of cash and short-term deposits as defined above, net of outstanding bank overdrafts.

(p) Investment in joint ventures

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

Under the equity method, the investment in a joint venture is initially recognized at cost. The carrying amount of the investment is adjusted to recognize changes in the Group's share of net assets of the joint venture since the acquisition date. Upon making an investment in an associate or joint venture, the amount by which the costs of such investment exceed the value of the Group's share in the net fair value of identifiable assets and liabilities of this entity is recognized as goodwill and included in the carrying amount of the underlying investment.

The statement of profit or loss reflects the Group's share of the results of operations of the joint venture. Any change in Other comprehensive income of joint ventures are presented as part of the Group's Other comprehensive income. In addition, when there has been a change recognized directly in the equity of the joint venture, the Group recognizes its share of any changes, when applicable, in the statement of changes in equity. Unrealized gains and losses resulting from transactions between the Group and the joint venture are eliminated to the extent of the interest in the joint venture.

The financial statements of the joint venture are prepared for the same reporting period as the Group. When necessary, adjustments are made to bring the accounting policies in line with those of the Group.

After application of the equity method, the Group determines whether it is necessary to recognize an impairment loss on its investment in joint venture. At each reporting date, the Group determines whether there is objective evidence that the investment in the joint venture is impaired. If there is such evidence, the Group calculates the amount of impairment as the difference between the recoverable amount of the joint venture and its carrying value, and then recognizes the loss as 'Share of profit/(loss) of a joint venture' in the statement of profit or loss.

Upon loss of joint control over the joint venture, the Group measures and recognizes any retained investment at its fair value. Any difference between the carrying amount of the joint venture upon loss of joint control and the fair value of the retained investment and proceeds from disposal is recognized in profit or loss.

(q) Employee benefits

Obligations for contributions to defined contribution pension plans are recognized as an expense in the statement of comprehensive income as incurred.

The Company's subsidiaries are required, under applicable regulations, to pay, on a monthly basis, social security contributions for the employees' future pension benefits. These benefits, according to IAS 19 'Employee Benefits', are state plans and are characterized as defined contribution plans. Therefore, the Company's subsidiaries have no legal or constructive obligation to pay future pension benefits and their obligation is limited to payment of contributions as they fall due.

Notes to the Consolidated Financial Statements

3. Significant accounting policies (cont'd)

(r) Fair Value

The Group measures investment properties at fair value at each balance sheet date. In addition, fair values of financial instruments measured at amortized cost are disclosed in Note 36 and Note 37.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

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

The principal or the most advantageous market must be accessible to by the Group.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

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

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, 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: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices);
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

For assets and liabilities that are recognized in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

Notes to the Consolidated Financial Statements

4. Standards issued but not yet effective

A number of new standards, amendments to standards and interpretations, insofar endorsed by the European Union, are not yet effective for the year ended 31 December 2018, and have not been applied in preparing these consolidated financial statements:

- IFRS 14 Regulatory Deferral Accounts (issued on 30 January 2014) – The European Commission has decided not to launch the endorsement process of this interim standard and to wait for the final standard– not yet endorsed by EU at the date of approval of these financial statements – effective for financial years beginning on or after 1 January 2016;
- Amendments to IFRS 10 and IAS 28 Sale or Contribution of Assets Between an Investor and its Associate or Joint Venture (issued on 11 September 2014) - the endorsement process of these Amendments has been postponed by EU - the effective date was deferred indefinitely by IASB;
- IFRS 16 Leases (issued on 13 January 2016) - effective for financial years beginning on or after 1 January 2019;
- IFRS 17 Insurance Contracts (issued on 18 May 2017) - not yet endorsed by EU at the date of approval of these financial statements - effective for financial years beginning on or after 1 January 2021;
- IFRIC 23 Uncertainty over Income Tax Treatments (issued on 7 June 2017) - effective for financial years beginning on or after 1 January 2019;
- Amendments to IFRS 9: Prepayment Features with Negative Compensation (issued on 12 October 2017) - effective for financial years beginning on or after 1 January 2019;
- Amendments to IAS 28: Long-term Interests in Associates and Joint Ventures (issued on 12 October 2017) – effective for financial years beginning on or after 1 January 2019;
- Annual Improvements to IFRS Standards 2015-2017 Cycle (issued on 12 December 2017) - not yet endorsed by EU at the date of approval of these financial statements – effective for financial years beginning on or after 1 January 2019;
- Amendments to IAS 19: Plan Amendment, Curtailment or Settlement (issued on 7 February 2018) - not yet endorsed by EU at the date of approval of these financial statements – effective for financial years beginning on or after 1 January 2019;
- Amendments to References to the Conceptual Framework in IFRS Standards (issued on 29 March 2018) - not yet endorsed by EU at the date of approval of these financial statements – effective for financial years beginning on or after 1 January 2020;
- Amendment to IFRS 3 Business Combinations (issued on 22 October 2018) - not yet endorsed by EU at the date of approval of these financial statements – effective for financial years beginning on or after 1 January 2020;
- Amendments to IAS 1 and IAS 8: Definition of Material (issued on 31 October 2018) - not yet endorsed by EU at the date of approval of these financial statements – effective for financial years beginning on or after 1 January 2020.

The effective dates are dates provided by the International Accounting Standards Board. Effective dates in the European Union may differ from the effective dates provided in standards and are published when the standards are endorsed by the European Union. The Group has not early adopted any standard, interpretation or amendment that has been issued but is not yet effective. Except for IFRS 16 discussed below, these standards, amendments and interpretations are expected to have no impact on the consolidated financial statements of the Group.

Implementation of IFRS 16

International Financial Reporting Standard 16 Leases (“IFRS 16”) was issued in January 2016 and it replaces IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases-Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure.

Notes to the Consolidated Financial Statements

4. Standards issued but not yet effective (cont'd)

Implementation of IFRS 16 (cont'd)

IFRS 16 introduces a unitary model of the lessee's accounting and requires the lessee to recognize assets and liabilities resulting from each lease with a period exceeding 12 months, unless the underlying asset is of low value. At the commencement date, the lessee recognizes an asset representing the right to use the underlying asset and a liability to make lease payments. Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset. Lessees will be also required to remeasure the lease liability upon the occurrence of certain events (e.g. a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognize the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

IFRS 16 also requires lessees and lessors to make more extensive disclosures than under IAS 17.

At the date of the authorization of these consolidated financial statements for publication, the Management Board finalized the assessment made of the impact of the application of IFRS 16 on the accounting principles (policy) applied by the Group with respect to the Group's operations or its financial results. Based on the assessment made the only material lease agreements to which new recognition method applies are the rights of perpetual usufruct of real estate properties. Other lease agreements identified were excluded from the recalculation based on the recognition exemptions (leases of either low value or short term).

The Group decided to apply the standard using modified retrospective approach with 1 January 2019 being initial application date.

The Group will recognize a lease liability, measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate at the date of initial application. The Group will recognize the respective right-of-use asset at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments recognized immediately before the date of initial application. Such a method of application will result with no adjustment to retained earnings on the date of initial application.

Instead of perpetual usufruct payments recognized historically as expenses and capitalized to inventories, in case the development project qualified for capitalization, the Group will depreciate the right of use asset on straight line basis over the lease period and recognize finance expense to reflect interest expense on lease liability, capitalizing both under inventory in the same manner as historically. In case the project does not qualify for capitalization, the Group will recognize the operating costs related to right of use asset depreciation and finance expense in its statement of comprehensive income. As allowed under IFRS 16 par. 47, the Group intends to present right of use assets and lease liabilities separate from other assets and liabilities respectively, except for right of use of land in perpetual usufruct related to investment property. The right of use of land in perpetual usufruct related to investment property will be, according to IFRS 16 par. 34 and par. 48, presented in the statement of financial position as Right of use of investment property and valued at fair value, which in the Group's opinion shall be equal to the present value of the remaining lease payments.

Notes to the Consolidated Financial Statements

4. Standards issued but not yet effective (cont'd)

Implementation of IFRS 16 (cont'd)

The key assumption made under Management's estimation relates to the discounting rates (incremental borrowing rates) used in measuring the lease liabilities. The Group has carried a sensitivity analysis of its lease liabilities to examine the impact of changes in discount rate applied in the calculation of lease liabilities whilst assuming all other factors unchanged. The analysis was performed in order to present how reasonable changes to the valuation assumption may impact the value of lease liabilities and right to use asset as the date of initial application.

Average discount rate used in the calculation	impact of the change of discount rate on the value of the financial liabilities and perpetual usufruct as of 1 January 2019					
	<i>In thousands of Polish Zlotys (PLN)</i>					
	-2 pp	-1 pp	-0,5 pp	+0,5 pp	+1 pp	+2 pp
6,94%	45,561	38,686	35,932	31,421	29,557	26,419

The expected impact of IFRS 16 on the Consolidated Financial Statement is resulting in the increase in assets PLN 33,530 thousand and increase in liabilities PLN 33,530 thousand.

Consolidated Financial Statements for the year ended 31 December 2018

Notes to the Consolidated Financial Statements

5. Segment reporting

The Group's operating segments are defined as separate entities developing particular residential projects, which for the reporting purposes were aggregated. The aggregation for reporting purpose is based on geographical locations (Warsaw, Poznań, Wrocław and Szczecin) and type of activity (development of apartments and development of houses). Moreover, for two particular assets the reporting was based on type of income: rental income from investment property. The segment reporting method requires also the Company to present separately joint venture within Warsaw segment.

According to the Management Board's assessment, the operating segments identified have similar economic characteristics. Aggregation based on the type of development within the geographical location has been applied since primarily the location and the type of development determine the average margin that can be realized on each project and the project's risk factors. Considering the fact that the production process for apartments is different from that for houses and considering the fact that the characteristics of customers buying apartments slightly differ from those of customers interested in buying houses, aggregation by type of development within the geographical location has been used for segment reporting and disclosure purposes.

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated indirectly based on reasonable criteria. The unallocated result for the year comprises mainly head office expenses. Unallocated assets comprise mainly unallocated cash and cash equivalents and income tax assets. Unallocated liabilities comprise mainly bond loans and income tax liabilities.

Data presented in the table below are aggregated by type of development within the geographical location:

In thousands of Polish Zlotys (PLN)

As at 31 December 2018

	Warsaw				Poznań		Wrocław		Szczecin		Unallocated	IFRS adjustments	Total
	Apartments	Houses	Joint venture	Rental	Apartments	Houses	Apartments	Houses	Apartments	Houses			
Segment assets	460,810	68,847	75,727	8,743	65,217	-	109,219	-	72,028	-	-	(72,288)	788,303
Unallocated assets	-	-	-	-	-	-	-	-	-	-	16,818	-	16,818
Total assets	460,810	68,847	75,727	8,743	65,217	-	109,219	-	72,028	-	16,818	(72,288)	805,121
Segment liabilities	155,832	12,169	68,848	-	12,400	-	56,929	-	8,062	-	-	(68,848)	245,392
Unallocated liabilities	-	-	-	-	-	-	-	-	-	-	216,249	-	216,249
Total liabilities	155,832	12,169	68,848	-	12,400	-	56,929	-	8,062	-	216,249	(68,848)	461,641

In thousands of Polish Zlotys (PLN)

As at 31 December 2017

	Warsaw				Poznań		Wrocław		Szczecin		Unallocated	IFRS adjustments	Total
	Apartments	Houses	Joint venture	Rental	Apartments	Houses	Apartments	Houses	Apartments	Houses			
Segment assets	381,163	31,572	94,174	8,743	91,267	-	70,139	-	84,344	-	-	(82,090)	679,312
Unallocated assets	-	-	-	-	-	-	-	-	-	-	26,487	-	26,487
Total assets	381,163	31,572	94,174	8,743	91,267	-	70,139	-	84,344	-	26,487	(82,090)	705,799
Segment liabilities	104,079	443	76,928	-	20,492	-	7,879	-	18,690	-	-	(76,928)	151,583
Unallocated liabilities	-	-	-	-	-	-	-	-	-	-	212,204	-	212,204
Total liabilities	104,079	443	76,928	-	20,492	-	7,879	-	18,690	-	212,204	(76,928)	363,787

Consolidated Financial Statements for the year ended 31 December 2018

Notes to the Consolidated Financial Statements

5. Segment reporting (cont'd)

	<i>In thousands of Polish Zlotys (PLN)</i>												For the year ended 31 December 2018	
	Warsaw				Poznań		Wroclaw		Szczecin		Unallocated	IFRS adjustments	Total	
	Apartments	Houses	Joint venture	Rental	Apartments	Houses	Apartments	Houses	Apartments	Houses				
Revenue	191,491	26,926	28,877	859	33,970	-	11,390	-	29,451	-	-	(28,877)	294,087	
Segment result	37,817	2,762	7,548	575	(4,726)	-	2,582	-	(1,040)	-	-	(4,730)	40,788	
Unallocated result	-	-	-	-	-	-	-	-	-	-	(17,423)	-	(17,423)	
Result from operating activities	37,817	2,762	7,548	575	(4,726)	-	2,582	-	(1,040)	-	(17,423)	(4,730)	23,365	
Net finance income/ (expenses)	283	21	29	-	(126)	-	(12)	-	(18)	-	(4,850)	(29)	(4,702)	
Profit/(loss) before tax	38,100	2,783	7,577	575	(4,852)	-	2,570	-	(1,058)	-	(22,273)	(4,759)	18,663	
Income tax expenses	-	-	-	-	-	-	-	-	-	-	-	-	(3,592)	
Profit for the year													15,071	
Capital expenditure	-	-	-	-	-	-	-	-	-	-	377	-	377	

	<i>In thousands of Polish Zlotys (PLN)</i>												For the year ended 31 December 2017	
	Warsaw				Poznań		Wroclaw		Szczecin		Unallocated	IFRS adjustments	Total	
	Apartments	Houses	Joint venture	Rental	Apartments	Houses	Apartments	Houses	Apartments	Houses				
Revenue	121,219	1,008	94,916	835	72,080	-	32,284	-	4,318	-	-	(94,916)	231,744	
Segment result	25,176	(84)	27,343	498	874	-	5,284	-	(3,107)	-	-	(16,032)	39,952	
Unallocated result	-	-	-	-	-	-	-	-	-	-	(19,197)	-	(19,197)	
Result from operating activities	25,176	(84)	27,343	498	874	-	5,284	-	(3,107)	-	(19,197)	(16,032)	20,755	
Net finance income/ (expenses)	117	31	110	-	(11)	-	7	-	(11)	-	(6,998)	(110)	(6,865)	
Profit/(loss) before tax	25,293	(53)	27,453	498	863	-	5,291	-	(3,118)	-	(26,195)	(16,142)	13,890	
Income tax expenses	-	-	-	-	-	-	-	-	-	-	-	-	(2,593)	
Profit for the year													11,297	
Capital expenditure	-	-	-	-	-	-	273	-	-	-	254	-	527	

Notes to the Consolidated Financial Statements

6. Acquisition of the Nova Królikarnia project

On 10 April 2018, the Company completed the acquisition of certain shares in and loans granted to project companies owning properties constituting the Nova Królikarnia project for a price of PLN 83.8 million under a sale and purchase agreement with Global City Holdings B.V. ('GCH'). The Nova Królikarnia project is located around Jaśminowa street in Warsaw and consists of 197 units and an aggregate floor space of 19,500 m² (at the day of the transaction the project included, completed projects with 53 units and an aggregate floor space of 4,950 m², projects under construction with 126 units and an aggregate floor space of 11,150 m² and a project in pipeline with 18 units and an aggregate floor space of 3,400 m²).

From the above mentioned PLN 83.8 million, an amount of PLN 70.8 million has been paid by the Company to GCH until 31 December 2018 while PLN 13.0 million should be paid in April 2019. The amount payable as at 31 December 2018 (PLN 13.0 million) is presented in the Consolidated Statement of Financial Position under Trade and other payables and accrued expenses.

The transaction was qualified as asset deal. The surplus between the purchase price (including transaction cost) and the net assets value of Nova Group as the transaction date, was allocated to the inventory. The assets and liabilities of Nova Królikarnia project on a consolidated basis as at the date of acquisition were:

<i>In thousands of Polish Zlotys (PLN)</i>	As at 10 of April 2018
Assets	
Property and equipment	475
Deferred tax assets	983
Inventory	136,336
Trade and other receivables and prepayments	2,130
Other current financial assets	17,035
Cash and cash equivalents	3,780
Total assets	160,739
Liabilities	
Deferred tax liabilities	103
Trade and other accounts payable	9,231
Advances received	62,180
Provision	1,600
Income tax payable	2,755
Total liabilities	75,869
Total net assets	84,870
Purchase consideration	83,770
Transaction costs	1,100
Total	84,870

The table below presents analysis of cash flows on the acquisition of Nova Królikarnia project:

<i>In thousands of Polish Zlotys (PLN)</i>	Until 31 December 2018
Purchase consideration paid until 31 December 2018	70,770
Transaction costs	1,100
Less: Net cash acquired at the transaction date	(3,780)
Net cash outflow through 31 December 2018 ⁽¹⁾	68,090

⁽¹⁾ Does not include cash inflow from Nova Królikarnia companies after the date of the transaction

Notes to the Consolidated Financial Statements

6. Acquisition of the Nova Królikarnia project (cont'd)

From the date of acquisition (10 April 2018), Nova Królikarnia project has contributed PLN 69.0 million to revenue and PLN 8.9 million to the gross profit of the Group.

In addition, the Company and GCH have concluded a call option agreements for a total value of PLN 78.9 million, under which the Company has been granted three call options with respect to the shares in the eight other project companies holding the remaining stages of the Nova Królikarnia project, the last option shall be executed the latest till April 2020. The exercise of the three call options will allow the Company to develop 161 units with an aggregate floor space of approximately 21,500 m².

The first call option may be exercised until April 2019 while the price for the amount of PLN 33.9 million that shall be paid in two installments; the second call option may be exercised until October 2019 while the price for the amount of PLN 35.1 million shall be paid in two installments and the third call option may be exercised until April 2020 and the price for the amount of PLN 9.9 million shall be paid by April 2020. Certain fees in the maximum amount of PLN 11.9 million will be due by the Company if the Company does not exercise of all three call options within certain deadlines. However, the fees shall be reduced proportionally to the extent options have been exercised. A package of customary security, such as mortgages, share pledges and statement on submission to voluntary enforcement has been established for the benefit of GCH to secure the obligations of the Company under the sale and purchase agreement and the call option agreement. Also, it has been agreed with GCH that the Company will continue to manage the Nova Królikarnia project in whole, including the stages of the project that are related to the call option agreement.

7. Revenue

The majority of Group's revenues are generated through development and sale of units, primarily apartments, in residential real-estate projects to individual customers in Poland ("residential units"). The Group recognizes revenues at the moment performance obligations are satisfied. According to Group's policy the performance obligation is satisfied at the moment, the residential unit is handed over to the customer, which happens only after construction process is finalized and issuance of occupancy permit, based on hand-over protocol signed between the Group representatives and the customer and provided that the entire amount resulting from the sale agreement has been paid by the customer. The agreements with the customers do not contain variable considerations. The agreements, in the opinion of the Group, do not contain a significant financing component. Based on such characteristics of revenues, the Group, as a rule, does not present any receivables or other contract assets, except for costs to obtain the contract, capitalized to prepayments. Contract liabilities, are reflected by advances received, which are disclosed in the Note 32.

The table below presents breakdown of Revenue from residential projects per project:

For the year ended 31 December	2018	2017
<i>In thousands of Polish Zlotys (PLN)</i>		
Nova Królikarnia 1a - 1e	69,007	-
Miasto Moje I	56,520	-
Espresso II-IV	60,469	57,291
Moko	25,557	41,061
Młody Grunwald I-III	29,369	19,259
Panoramika II & III	29,452	4,319
Vitalia I	9,681	29,375
Chilli IV	4,204	1,269
Kamienica Jeżyce	85	51,553
Other (old) projects ⁽¹⁾	7,431	20,226
Total revenue	291,775	224,353

(1) Other revenue are related to sales of 9 units, parking places and storages in old projects that were completed in previous years, as well as, rental revenues.

Revenues from sale of services are associated with fee income for management services provided to joint ventures (2017: including fees charged to the Nova Królikarnia project). Revenues from sale of services amounted to PLN 2,312 thousand during the year ended 31 December 2018 and to PLN 5,791 thousand during the year ended 31 December 2017.

Notes to the Consolidated Financial Statements

8. Cost of sales

For the year ended 31 December	2018	2017
<i>In thousands of Polish Zlotys (PLN)</i>		
Nova Królikarnia 1a - 1e	60,098	-
Miasto Moje I	43,046	-
Espresso II-IV	47,344	47,327
Moko	18,042	28,111
Młody Grunwald I-III	29,479	19,439
Panoramika II & III	29,415	4,250
Vitalia I	7,617	23,102
Chilli IV	3,907	1,173
Kamienica Jeżyce	81	48,287
Other (old) projects	6,431	17,442
Write-down of inventory and residential landbank ⁽¹⁾	2,937	3,314
Total cost of sales	248,397	192,445

(1) For additional information see Note 20.

9. Selling and marketing expenses

For the year ended 31 December	2018	2017
<i>In thousands of Polish Zlotys (PLN)</i>		
Advertising	3,845	3,122
Brokerage fees ⁽¹⁾	-	1,339
Depreciation	585	494
Other	672	729
Total selling and marketing expenses	5,102	5,684

(2) Cost of brokerage fees were capitalized during the year 2018 on the Prepayments as the result of implementation of IFRS 15. For more information see Note 41.

10. Administrative expenses

For the year ended 31 December	Note	2018	2017
<i>In thousands of Polish Zlotys (PLN)</i>			
Personnel expenses ⁽¹⁾	11	11,844	12,657
External services		3,240	3,903
Consulting fees to main shareholder		840	840
Materials and energy		627	560
Depreciation		436	471
Taxes and charges		94	150
Other		602	754
Total administrative expenses		17,683	19,335

(1) Part of cost related to sales representative's bonuses during the year 2018 capitalized under Prepayments as a result of implementation of IFRS 15. For more information see Note 41.

Notes to the Consolidated Financial Statements

11. Personnel expenses

For the year ended 31 December	2018	2017
<i>In thousands of Polish Zlotys (PLN)</i>		
Wages and salaries ⁽²⁾	10,113	10,057
Incentive plan linked to financial results ^{(1)/(2)}	-	396
Share based payment	-	341
Social security and other benefits ⁽²⁾	1,731	1,863
Total personal expenses	11,844	12,657
Average number of personnel employed	73	68

(1) The Incentive plan linked to financial results contains Sales and Marketing Director bonus during the year 2018 was capitalized under Prepayments as a result of implementation of IFRS 15. For more information see Note 41.

(2) Part of cost related to sales representative's bonuses during the year 2018 capitalized under Prepayments as a result of implementation of IFRS 15. For more information see Note 41.

12. Other expenses

For the year ended 31 December	2018	2017
<i>In thousands of Polish Zlotys (PLN)</i>		
Maintenance expense of unsold units	1,908	2,667
Cost of repairs and defects	1,043	954
Expense for contractual penalties and compensation	23	61
Settlement of VAT	301	335
Write-down of trade receivables	68	22
Cost of research and due diligence of new projects	6	96
Cost of Group restructuring	264	-
Other expenses	321	292
Total other expenses	3,934	4,427

13. Other income

For the year ended 31 December	2018	2017
<i>In thousands of Polish Zlotys (PLN)</i>		
Revenues from contractual penalties and compensation	464	112
Rental income from inventory	963	636
Net profit on sale of property and equipment	24	5
Other income	125	59
Total other income	1,576	812

Notes to the Consolidated Financial Statements

14. Finance income and expense

For the year ended 31 December 2018	Total	Amount	Recognized in the
<i>In thousands of Polish Zlotys (PLN)</i>	amount	capitalized	statement of
			comprehensive income
Interest income on granted loans	44	-	44
Interest income on bank deposits	510	-	510
Other finance income	184	-	184
Finance income	738	-	738
Interest expense on financial liabilities	(11,572)	7,061	(4,511)
Commissions and fees	(2,496)	1,690	(806)
Other finance expense	(123)	-	(123)
Finance expense	(14,191)	8,751	(5,440)
Net finance expense	(13,453)	8,751	(4,702)

For the year ended 31 December 2017	Total	Amount	Recognized in the
<i>In thousands of Polish Zlotys (PLN)</i>	amount	capitalized	statement of
			comprehensive income
Interest income on granted loans	329	-	329
Interest income on bank deposits	413	-	413
Other finance income	117	-	117
Finance income	859	-	859
Interest expense on financial liabilities	(12,075)	5,623	(6,452)
Commissions and fees	(2,603)	1,564	(1,039)
Other finance expense	(233)	-	(233)
Finance expense	(14,911)	7,187	(7,724)
Net finance expense	(14,052)	7,187	(6,865)

Notes to the Consolidated Financial Statements

15. Income tax

For the year ended 31 December	2018	2017
<i>In thousands of Polish Zlotys (PLN)</i>		
Current tax		
Current period	8,328	2,734
Taxation in respect of previous periods	(10)	(66)
Total current tax expense	8,318	2,668
Deferred tax		
Origination and reversal of temporary differences	(7,110)	(1,607)
Tax losses utilized/(recognized)	2,384	1,532
Total deferred tax expense/(benefit)	(4,726)	(75)
Total income tax expense	3,592	2,593

Reconciliation of effective tax rate

For the year ended 31 December	2018	2017
<i>In thousands of Polish Zlotys (PLN)</i>		
Profit/(loss) for the year	15,071	11,297
Total income tax expense/(benefit)	3,592	2,593
Profit/(loss) before taxation	18,663	13,890
<i>Expected income tax using the Polish tax rate (19%)</i>	3,546	2,639
Tax effect of:		
Taxes in respect of previous periods	(10)	(66)
Non-deductible expenses, net	816	92
Movement in unrecognized deferred tax assets on loss carry forward in Poland	122	(7)
Movement in unrecognized deferred tax assets on loss carry forward in the Netherlands	(597)	1,198
Tax benefit in connection with the organizational restructuring of the Group	(1,930)	(1,475)
Reversal of surplus from Nova Królikarnia Transaction ⁽¹⁾	1,992	-
Other differences	(347)	212
Tax expense for the year	3,592	2,593
Effective tax rate	19.25%	18.67%

⁽¹⁾ The surplus between the purchase price (including transaction cost) and the net assets value of Nova Group as the transaction date, was allocated to the inventory, in relation to which the provision for deferred income tax was not recognized on the basis of an exception (IAS 12 par. 15 (b)).

Consolidated Financial Statements for the year ended 31 December 2018

Notes to the Consolidated Financial Statements

16. Property and equipment

For the year ended 31 December 2018				
	Vehicles	Equipment	Building	Total
<i>In thousands of Polish Zlotys (PLN)</i>				
Cost or deemed cost				
Balance at 1 January	1,016	2,466	8,116	11,598
Acquisition of the Nova Królikarnia project ⁽¹⁾	-	475	-	475
Additions	377	-	-	377
Sales and disposals	(173)	-	-	(173)
Closing balance	1,220	2,941	8,116	12,277
Depreciation and impairment losses				
Balance at 1 January	625	1,275	1,529	3,429
Depreciation for the period	203	622	196	1,021
Sales and disposals	(159)	-	-	(159)
Closing balance	669	1,897	1,725	4,291
Carrying amounts				
At 1 January	391	1,191	6,587	8,169
Closing balance	551	1,044	6,391	7,986

(1) For additional information see Note 6.

For the year ended 31 December 2017				
	Vehicles	Equipment	Building	Total
<i>In thousands of Polish Zlotys (PLN)</i>				
Cost or deemed cost				
Balance at 1 January	1,305	2,769	8,558	12,632
Additions	100	427	-	527
Sales and disposals	(389)	(730)	(442)	(1,561)
Closing balance	1,016	2,466	8,116	11,598
Depreciation and impairment losses				
Balance at 1 January	674	1,511	1,624	3,809
Depreciation for the period	211	492	262	965
Sales and disposals	(260)	(728)	(357)	(1,345)
Closing balance	625	1,275	1,529	3,429
Carrying amounts				
At 1 January	631	1,258	6,934	8,823
Closing balance	391	1,191	6,587	8,169

As at 31 December 2018 and 31 December 2017, an amount of PLN 5,575 thousands and of PLN 5,747 thousands used to secure bond loans series R, respectively.

Impairment loss

In the years ended 31 December 2018 and 31 December 2017, the Group did not recognize any impairment loss with respect to property and equipment.

Notes to the Consolidated Financial Statements

17. Investment property

For the year ended 31 December	2018	2017
<i>In thousands of Polish Zlotys (PLN)</i>		
Balance at 1 January	8,743	8,743
Sales	-	-
Change in fair value during the year	-	-
Balance as at 31 December, including:	8,743	8,743
<i>Cost</i>	<i>4,058</i>	<i>4,058</i>
<i>Fair value adjustments</i>	<i>4,685</i>	<i>4,685</i>

As at 31 December 2018, the investment property included property held for long-term rental yields and capital appreciation, and were not occupied by the Group. The investment property consists of two real estate objects located in Warsaw:

- i) a plot of land (71, Gwiaździsta Street) and an office building with an aggregate usable floor space of 1,318 m² located on this plot that is leased to third parties under lease agreements with an indefinite term subject to a three-month notice period for termination ("Bielany IP),
- ii) one commercial (office) unit located at 57, KEN Avenue (in the Gemini I project), with a total aggregate usable floor space of 89 m² leased to third parties with an indefinite term.

Investment property is valued at fair value determined as at 31 December 2018 and as at 31 December 2017 by the Management. The investment property has been also valued by an independent appraiser, having an appropriate recognized professional qualification, based on current prices on an active market. Both valuations came up with similar results.

The Bielany IP was valued based on the discounted cash flow approach, including the assumption as to an annual discount rate of 7.5% (during a 6 year forecast period), a capitalization exit yield of 7.5%, a monthly rate of PLN 39 per m² and a long term vacancy rate of 5%. The assumptions as at the end of 2018 were very similar as at the end of 2017.

If the yields used for the appraisals of investment property on 31 December 2018, had been 100 basis points higher than was the case at that time, the value of the investments would have been 12% lower (31 December 2017: 12% lower). In this situation, the Company's shareholders' equity would have been PLN 1.0 million lower (31 December 2017: PLN 1.0 million lower).

The continued instability in the financial markets causes volatility and uncertainty in the world's capital markets and real estate markets. There is a low liquidity level in the real estate market and transaction volumes have significantly reduced, resulting in a lack of clarity as to pricing levels and market drivers. As a result, there is less certainty with regard to valuations and market values can change rapidly due to the current market conditions.

During the year ended 31 December 2018 and 2017 the rental income from investment property amounted to PLN 859 thousand and PLN 835 thousand, respectively.

The investment property is currently occupied.

The investment property is used to secure bond loans series R.

Notes to the Consolidated Financial Statements

18. Investment in joint ventures

As at 31 December	2018	2017
<i>In thousands of Polish Zlotys (PLN)</i>		
Loans granted	-	6,922
Share in net equity value of joint ventures	3,439	5,162
The Company's carrying amount of the investment	3,439	12,084
Presented as Loans granted to joint ventures (current assets)	-	(6,922)
Investment in joint ventures	3,439	5,162

Share of profit/(loss) from joint ventures

The Investment in joint ventures comprise the Company's 50% interest in the joint ventures companies Ronson IS sp. z o.o. and in Ronson IS Sp. z o.o. Sp.k.. (That developing City Link I and II) Both joint ventures are involved in the development and sale of residential units in Warsaw. The investments in joint ventures are accounted for using the equity method.

The table below present the movements in the share in net equity value of joint ventures:

For the year ended 31 December	2018	2017
<i>In thousands of Polish Zlotys (PLN)</i>		
Opening balance	8,039	(3,272)
Share of profit/(loss) from joint ventures		
Net result from joint ventures during the year	2,774	10,997
Offsetting net results of the joint ventures with intercompany interest during the year	44	314
Share of profit/(loss) from joint ventures	2,818	11,311
Dividend paid	(4,497)	-
Closing balance before offset	6,360	8,039
Total net results of the joint ventures that were offset with intercompany interest as at the end of the year	(2,921)	(2,877)
Total closing balance	3,439	5,162

Summarised financial information of the joint ventures is presented below:

As at 31 December	2018	2017
<i>In thousands of Polish Zlotys (PLN)</i>		
Assets		
Inventory	62,624	60,268
Cash and cash equivalents	915	20,428
Other current assets	12,188	13,478
Liabilities		
Long-term loans from shareholders	-	(13,839)
Advances received	(63,738)	(58,276)
Other current liabilities	(5,110)	(11,735)
Equity	6,879	10,324
Company share	3,439	5,162

Notes to the Consolidated Financial Statements

18. Investment in joint ventures (cont'd)

Share of profit/(loss) from joint ventures (cont'd)

The summarised statement of comprehensive income for the joint ventures in aggregate is as follows:

For the year ended 31 December	2018	2017
<i>In thousands of Polish Zlotys (PLN)</i>		
Revenue	28,877	94,916
Cost of sales	(20,173)	(66,266)
Gross profit	8,704	28,650
Administrative expenses ⁽¹⁾	(2,656)	(5,883)
Selling and marketing expenses	(6)	(240)
Other income/(cost)	(476)	(15)
Finance income	90	123
Finance expense	(105)	(641)
Profit/(loss) before taxation	5,551	21,994
Income tax benefit/(expense)	(3)	-
Profit for the year (continuing operations)	5,548	21,994
Total comprehensive income for the year (continuing operations)	5,548	21,994
The Company's share of profit/(loss) for the year	2,774	10,997

(1) Including management fee to Ronson Group amounting to PLN 1,982 thousand and PLN 4,831 thousand during the year ended 31 December 2018 and 31 December 2017, respectively.

Loans granted to the joint ventures

The table below present the movements in the loans granted to the joint ventures.

For the year ended 31 December	2018	2017
<i>In thousands of Polish Zlotys (PLN)</i>		
Opening balance	4,044	19,922
Loans granted	-	1,000
Loans repaid	(1,312)	(17,137)
Accrued interest	87	627
Interest paid	(5,696)	(54)
Offsetting accrued interest with net results of the joint ventures during the year	(44)	(314)
	(2,921)	4,044
Total net accrued interest that were offset with net results of the joint ventures as at the end on the year	2,921	2,877
Total closing balance	-	6,921

During the year ended 31 December 2018 and during the year ended 31 December 2017 the loans bear a variable rate of 6.6% and a variable rate of 6.5% (variable interest is charged based on the latest interest rate as charged on the construction credit/loan granted by the banks to the Group and increased by 2%, and updated at beginning of each calendar year), respectively.

Notes to the Consolidated Financial Statements

19. Deferred tax assets and liabilities

Recognized deferred tax assets and liabilities

Deferred tax assets and liabilities as at the beginning and end of the financial periods are attributable to the following:

<i>In thousands of Polish Zlotys (PLN)</i>	Opening balance 1 January 2018	Recognized in the statement of comprehensive income	Acquisition of Nova Królikarnia Project ⁽¹⁾	Closing balance 31 December 2018
Deferred tax assets				
Tax loss carry forward	3,673	(2,384)	769	2,058
Accrued interest	1,848	500	-	2,348
Accrued expense	454	19	304	777
Write-down of inventory and residential landbank	2,400	388	-	2,788
Other	431	1,006	-	1,437
Total deferred tax assets	8,806	(471)	1,073	9,408
Deferred tax liabilities				
Difference between tax base and carrying value of inventory	13,646	(4,318)	193	9,521
Accrued interest	1,066	(1,066)	-	-
Fair value gain on investment property	890	-	-	890
Other	627	187	-	814
Total deferred tax liabilities	16,229	(5,197)	193	11,225
Total deferred tax benefit (see Note 15)		(4,726)		
Deferred tax assets	8,806			9,408
Deferred tax liabilities	16,229			11,225
Offset of deferred tax assets and liabilities for individual companies	(4,781)			(3,877)
Deferred tax assets reported in the Consolidated Statement of Financial Position	4,025			5,531
Deferred tax liabilities reported in the Consolidated Statement of Financial Position	11,448			7,348

⁽¹⁾ For additional information see Note 6.

Notes to the Consolidated Financial Statements

19. Deferred tax assets and liabilities (cont'd)

<i>In thousands of Polish Zlotys (PLN)</i>	Opening balance 1 January 2017	Recognized in the statement of comprehensive income	Closing balance 31 December 2017
Deferred tax assets			
Tax loss carry forward	5,205	(1,532)	3,673
Accrued interest	968	880	1,848
Accrued expense	466	(12)	454
Write-down of inventory and residential landbank	1,831	569	2,400
Other	431	-	431
Total deferred tax assets	8,901	(95)	8,806
Deferred tax liabilities			
Difference between tax base and carrying value of inventory	13,888	(242)	13,646
Accrued interest	968	98	1,066
Fair value gain on investment property	890	-	890
Other	653	(26)	627
Total deferred tax liabilities	16,399	(170)	16,229
Total deferred tax benefit (see Note 15)		(75)	
Deferred tax assets	8,901		8,806
Deferred tax liabilities	16,399		16,229
Offset of deferred tax assets and liabilities for individual companies	(5,285)		(4,781)
Deferred tax assets reported in the Consolidated Statement of Financial Position	3,616		4,025
Deferred tax liabilities reported in the Consolidated Statement of Financial Position	11,114		11,448

Realization of deferred tax assets

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income and tax planning strategies in making this assessment. In order to fully realize the deferred tax asset (before offsetting against deferred tax liability), the Group will need to generate future taxable income of approximately PLN 49,516 thousand. Based upon the level of historical taxable income and projections for future taxable income over the periods in which the deferred tax assets are deductible, management believes it is more likely than not that the Group will realize the benefits of these deductible differences. The amount of the deferred tax asset which is considered realizable, could however be reduced in the near term if estimates of future taxable income during the tax loss carry-forward period are reduced.

Tax losses in Poland are required to be utilized within 5 years following the period in which they originated, subject to the limitation that a maximum of 50% of the loss carry-forward can be used in one year.

Notes to the Consolidated Financial Statements

19. Deferred tax assets and liabilities (cont'd)

Tax losses carry forward

As at 31 December	2018			2017		
	Recognized tax losses	Unrecognized tax losses	Total tax losses	Recognized tax losses	Unrecognized tax losses	Total tax losses
<i>In thousands of Polish Zlotys (PLN)</i>						
Tax loss 2013 carried forward	-	-	-	-	611	611
Tax loss 2014 carried forward	-	78	78	13,596	150	13,746
Tax loss 2015 carried forward	613	87	700	5,734	87	5,821
Tax loss 2016 carried forward	1,100	145	1,245	-	145	145
Tax loss 2017 carried forward	8,348	153	8,501	-	146	146
Tax loss 2018 carried forward	770	348	1,118	-	-	-
Total tax losses carried forward	10,831	811	11,642	19,330	1,139	20,469

The deferred tax assets on tax losses carried forward expire in the following years:

<i>In thousands of Polish Zlotys (PLN)</i>	As at 31 December 2018
2019	-
2020	116
2021	209
2022	1,660
2023	73
Total deferred tax asset in respect of tax losses carried forward	2,058

Movement in unrecognized deferred tax assets on tax losses carried forward

Unrecognized deferred tax assets on tax losses carried forward in Poland are presented in the table below:

<i>In thousands of Polish Zlotys (PLN)</i>	Balance 1 January 2017	Tax losses expired	Additions/ (Realizations)	Balance 31 December 2017	Tax losses expired	Additions/ (Realizations)	Balance 31 December 2018
Tax losses	797	(574)	(7)	216	(184)	122	154
Total	797	(574)	(7)	216	(184)	122	154

Unrecognized deferred tax assets

A deferred tax asset is recognized only to the extent that it is more likely than not that future taxable profits will be available against which the asset can be utilized. Unrecognized deferred tax assets relate primarily to tax loss carry-forwards, which are not considered probable of realization prior to their expiration.

Until 31 October 2018, the Company was domiciled in the Netherlands. As a result, until that date the Company's tax returns were filed with the Dutch tax authorities. Following the transfer of office to Poland, all of the Company's (Dutch) tax losses carried forward are no longer available for compensation in future years. The Company didn't create deferred tax assets on those losses in previous years.

The Company did not recognize the entire deferred tax asset at consolidation level resulting from contributions as the recoverability of such assets is uncertain. Total unrecognized deferred tax assets as at 31 December 2018 are estimated to be PLN 6,640 thousand (31 December 2017: PLN 8,570 thousand).

Unrecognized deferred tax liabilities

Unrecognized deferred tax liabilities with respect to acquisition of Nova Królikarnia project amounts to PLN 3,346 thousand (IAS 12 par. 15(b)).

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Notes to the Consolidated Financial Statements

20. Inventory and Residential landbank

For the year ended 31 December 2018:

Inventory

<i>In thousands of Polish Zlotys (PLN)</i>	As at 1 January 2018	Nova Królikarnia project as at the acquisition date ⁽¹⁾	Reclassified to Residential landbank ⁽⁵⁾	Reclassified to Land for sale ⁽⁴⁾	Transferred to finished units	Additions	As at 31 December 2018
Land and related expense	238,700	49,753	(41,515)	(5,777)	(32,782)	86,105 ⁽²⁾	294,484
Construction costs	88,346	43,233	-	-	(104,869)	145,630	172,340
Planning and permits	15,383	3,904	(1,446)	(10)	(2,757)	5,285	20,359
Borrowing costs ⁽³⁾	39,842	252	(7,871)	(401)	(4,368)	8,751	36,205
Other	3,244	1,351	(347)	(117)	(1,814)	2,455	4,772
Work in progress	385,515	98,493	(51,179)	(6,305)	(146,590)	248,226	528,160

<i>In thousands of Polish Zlotys (PLN)</i>	As at 1 January 2018	Nova Królikarnia project as at the acquisition date ⁽¹⁾	Reclassified to Residential landbank ⁽⁵⁾	Reclassified to Land for sale	Transferred to finished units	Recognized in the statement of comprehensive income	As at 31 December 2018
Finished goods	139,664	37,843	-	-	146,590	(245,606)	78,491

<i>In thousands of Polish Zlotys (PLN)</i>	As at 1 January 2018	Reclassified to Residential landbank ⁽⁵⁾	Reclassified to Land for sale	Revaluation write-down recognized in statement of comprehensive income		As at 31 December 2018
				Increase	Utilization	
Write-down	(13,081)	4,952	-	(2,937)	1,342	(9,724)

Inventory, valued at lower of cost and net realisable value	512,098	596,927
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(1) See Note 6 – Acquisition of the Nova Królikarnia project.

(2) The increase is mainly related to the reclassification of Ursus land from Advances for land to Inventory, for additional information see Note 21.

(3) Borrowing costs are capitalized to the value of inventory with 5.94% average effective capitalization interest rate.

(4) On 25 February 2019, a subsidiary of the Company concluded an agreement for the sale of a property right located in Wrocław, at Buforowa Street to an unrelated entity. The sale price was set at PLN 6.5 million increased by VAT.

(5) See Residential landbank below.

Residential landbank

After analyzing and adjusting the Group's strategy and business plan for the coming years, the Management decided to change its intention and to classify land based on its business operating cycle, either as long-term or as short-term. Plots of land purchased for development purposes on which construction is not planned within a period of three years, with a total book value of PLN 46,227 thousand (after deduction of PLN 4,952 thousand for Write-down) as at 31 December 2018, has been reclassified as Residential landbank presented within Non-current assets.

Consolidated Financial Statements for the year ended 31 December 2018

Notes to the Consolidated Financial Statements

20. Inventory and Residential landbank (cont'd)

For the year ended 31 December 2017:

<i>In thousands of Polish Zlotys (PLN)</i>	Opening balance 1 January 2017	Transferred to Trade and other receivables and prepayments	Sales of land	Transferred to finished units	Additions	Closing balance 31 December 2017
Land and related expense	260,851	(2,315)	(1,221)	(21,485)	2,870	238,700
Construction costs	51,783	-	-	(77,890)	114,454	88,347
Planning and permits	14,437	-	-	(4,308)	5,254	15,383
Borrowing costs ⁽¹⁾	41,142	(151)	-	(8,337)	7,187	39,841
Other	2,805	(5)	-	(1,415)	1,859	3,244
Work in progress	371,018	(2,471)	(1,221)	(113,435)	131,624	385,515

<i>In thousands of Polish Zlotys (PLN)</i>	Opening balance 1 January 2017	Transferred to property and equipment	Transferred from work in progress	Recognized in the statement of comprehensive income	Closing balance 31 December 2017	
Finished goods	215,582	-	-	113,435	(189,353)	139,664

<i>In thousands of Polish Zlotys (PLN)</i>	Opening balance 1 January 2017	Transferred to Trade and other receivables and prepayments	Revaluation write-down recognized in statement of comprehensive income		Closing balance 31 December 2017
			Increase	Utilization	
Write-down	(12,502)	2,269	(3,314)	466	(13,081)
Total inventory at the lower of cost or net realizable value	574,098				512,098

(1) Borrowing costs are capitalized to the value of inventory with 6.13% average effective capitalization interest rate.

Write-down revaluating the inventory and residential landbank:

The Management internally assessed the net realizable value of the inventory and residential landbank and decreased the value when the net realizable value was lower than the cost amount. In view of the situation in the property market in which the Group operates, during the year ended 31 December 2018 and 31 December 2017 the Group performed an inventory and residential landbank review with regard to its valuation to net realizable value based on the most reliable evidence available to the Group.

The Group examined a possible write-down for each project separately, according to the projection of revenues net of cost of sales. As a result the net impact of Net Realizable Value (NRV) analysis and review on profit and loss amounted to PLN 2,937 thousand as at 31 December 2018 (the Group made a write-down adjustment of PLN 4,394 thousand, while at the same time write-down adjustment of one of the Company's projects was reversed for the amount of PLN 1,457 thousand) compare to PLN 3,314 thousand, as at 31 December 2017, and is included as part of cost of sales in the Consolidated Statement of Comprehensive Income.

Notes to the Consolidated Financial Statements

20. Inventory and residential landbank (cont'd)

The valuation of inventory and residential landbank is as follows:

As at 31 December	2018	2017
<i>In thousands of Polish Zlotys (PLN)</i>		
Valued at cost	504,852	373,600
Valued at net realizable value	138,302	138,498
Total Inventory and residential landbank	643,154	512,098

For information about future commitments to the general contractor for construction services related to inventory construction, see Note 36.

For information about the balance sheet value of Inventory and residential landbank used to secure banks loans and bond loans (series R), see Note 28.

21. Advances for land

In January 2017 and in February 2018, the Company entered into conditional sale and purchase agreements concerning the acquisition of perpetual usufruct rights of real properties located in Warsaw, Ursus district, and into certain cooperation agreements. The properties are covered by a local zoning plan which allows for the development of multi-family housing projects on the properties with approximately 1,600 apartments. The total price for the acquisition of the properties plus the value of the work which must be performed to allow the Company to carry out the housing projects (such work being the responsibility of the sellers) has been agreed at PLN 81.8 million plus applicable VAT. For three out of four plots the individual final agreements completing their acquisition were concluded in March 2018. For the one remaining plot the final agreement will be concluded not later than by 31 December 2019. The Company received from the seller an irrevocable power of attorney to execute all necessary actions for the development of the project on this last plot of land, including transferring its perpetual usufruct, obtaining all necessary permits and performing part of the construction works.

In March 2018, the Company paid the last tranche of the transaction price amounting to PLN 2.8 million. The total purchase price together with related expenses amounting to PLN 82.8 million has been reclassified from Advances for land to Inventory.

22. Trade and other receivables and prepayments

As at 31 December	2018	2017
<i>In thousands of Polish Zlotys (PLN)</i>		
Value added tax (VAT) receivables	6,641	8,427
Trade and other receivables	3,252	2,398
Bid bond ⁽¹⁾	1,437	-
Prepayments ⁽²⁾	3,363	879
Total trade and other receivables and prepayments	14,693	11,704

(1) On 27 June 2018 a subsidiary of the Company submitted the highest bid for a plot of land located in the Wola district as part of certain enforcement proceedings. After submitting the offer, further enforcement proceedings have been suspended and have not been completed yet.

(2) Prepayments include costs capitalized as a result of the implementation of IFRS 15. For more information see Note 41.

During the year ended 31 December 2018 and 31 December 2017, the Group wrote down an amount of PLN 68 thousand and PLN 22 thousand, respectively as irrecoverable debts included in trade and other receivables.

Notes to the Consolidated Financial Statements

23. Other current financial assets

Other current financial assets comprise escrow accounts only. The regulations related to the activity of the residential developers imposed on all residential developers in Poland an obligation to open an escrow account for all customers purchasing residential units during the construction period. According to these regulations, all amounts paid by the customers have to be paid directly to the escrow account. The developer is entitled to receive the money only once certain conditions – related mainly to progress of the construction process – are met or the upon the transfer of the ownership of the apartment to the customer.

As long as the money is kept in the escrow account, the Company cannot dispose of the cash in any way.

24. Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and in hand and short-term deposits freely available for the Group. Cash at bank comprises of overnight deposits, the short-term deposits have an original maturity varying from one day to three months.

As at 31 December	2018	2017
<i>In thousands of Polish Zlotys (PLN)</i>		
Cash at bank and in hand	34,641	43,020
Short-term deposit	33,890	7,750
Restricted cash	32,297	14,090
Total cash and cash equivalents	100,828	64,860

Cash at bank earns interest at floating rates based on daily bank deposit rates. As at 31 December 2018 and 31 December 2017 the Group held in saving accounts amounting to PLN 22,118 thousand and PLN 31,646 thousand, respectively. As at 31 December 2018 and 31 December 2017 the saving accounts that earn interest rates varying between 0.85% - 1.10% and 1.10% - 1.30%, respectively.

Short-term deposits have a duration varying between one day and three months depending on the immediate cash requirements of the Group. As at 31 December 2018 and 31 December 2017, they earn interest at the respective short-term deposit rates varying between 0.35% - 1.2% and 0.76% - 1.5%, respectively.

Restricted cash are pledge to the benefit of banks for securing construction loans.

For information about the fair value of cash and cash equivalents see Note 34.

25. Shareholders' equity

Share capital

The authorized share capital of the Company consists of 800,000,000 shares of EUR 0.02 par value each. The number of issued and outstanding ordinary shares as at 31 December 2018 amounted to 164,010,813 (as at 31 December 2017: 164,010,813 shares issued and outstanding). The number of outstanding shares equals the number of votes, as there are no privileged shares issued by the Company.

There are no restrictions regarding dividend payments, future dividends may be proposed and paid.

Notes to the Consolidated Financial Statements

25. Shareholders' equity (cont'd)

Dividend

During the year ended 31 December 2018, a dividend out of retained earnings reserve (i.e. dividend) in the amount of PLN 9,841 thousands which represents PLN 0.06 per ordinary share, was distributed (paid on 4 October 2018). During the year ended 31 December 2017, an interim dividend for the financial year 2016 amounting to PLN 14,761 thousands total or PLN 0.09 per ordinary share, was distributed (paid on 23 March 2017) and a final dividend for the financial year 2016 amounting to PLN 16,401 thousands total or PLN 0.10 per ordinary share, was distributed (paid on 10 August 2017).

The Management Board, in line with the prevailing dividend policy, will evaluate the possibility to recommend to the Ordinary General Meeting of the Company to be held in 2019 to distribute the dividend for year 2018, after the examination of the current and expected balance sheet of the Company, expected operating, financial and cash-flow position of the Company and taking into consideration: (i) the close observance of all balance-sheet linked debt covenants, (ii) ability of future repayment of debts, (iii) financial needs of the Company aiming to be ranked amongst leading residential developers and (iv) changing market environment.

26. Non-controlling interests

Movements in non-controlling interests during the year ended 31 December 2018 and 31 December 2017 are as follows:

As at 31 December	2018	2017
<i>In thousands of Polish Zlotys (PLN)</i>		
Opening balance	4,123	2,290
Comprehensive income/(loss) attributable to non-controlling interests	1,573	1,833
Acquisition of Non-controlling interests ⁽¹⁾	(5,696)	-
Closing balance	-	4,123

(1) On 10 October 2018, the Group acquired 18% of the share of ownership and voting rights in Ronson Espresso Sp. z o.o. (hereinafter "Espresso") from the minority shareholders of Espresso, for a total amount of PLN 3,762 thousand. Following the transaction Ronson Group became the sole shareholder of Espresso. The book value of the Non-controlling interests as at day of acquisition amounted to PLN 5,696 thousand

Summarised financial information of Ronson Espresso Sp. z o.o. is presented below:

	As at 10 October 2018	As at 31 December 2017
<i>In thousands of Polish Zlotys (PLN)</i>		
Assets		
Property and equipment	-	40
Inventory	2,720	40,398
Cash and cash equivalents	30,598	17,092
Other current assets	2,328	3,029
Liabilities		
Advances received	(597)	(40,248)
Income tax payable and deferred tax liability	(3,838)	(1,362)
Other current liabilities	(2,588)	(5,122)
Equity	28,623	13,827

Notes to the Consolidated Financial Statements

26. Non-controlling interests (cont'd)

The summarised statement of comprehensive income for Ronson Espresso Sp. z o.o. in aggregate is as follows:

	For the period ended 10 October 2018	For the year ended 31 December 2017
<i>In thousands of Polish Zlotys (PLN)</i>		
Revenue	60,656	57,623
Cost of sales	(42,479)	(42,941)
Gross profit	18,177	14,682
Administrative expenses	(588)	(1,333)
Selling and marketing expenses	(124)	(528)
Other expenses	(393)	(401)
Finance income	218	116
Finance expense	(28)	(164)
Profit before taxation	17,262	12,372
Income tax expense	(2,467)	(1,395)
Profit for the period (continuing operations)	14,795	10,977
Total comprehensive income for the period (continuing operations)	14,795	10,977

27. Net earnings per share

Basic and diluted earnings per share

Basic earnings per share amounts are calculated by dividing net profit/(loss) attributable to equity holders of the parent company for the year by the weighted average number of ordinary shares outstanding and in circulation during the year. Diluted earnings per share amounts are calculated by dividing the net profit/(loss) attributable to equity holders of the parent company for the year by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on conversion of all the dilutive instruments into ordinary shares, no such instruments exists as at 31 December 2018 and 2017.

Weighted average number of ordinary shares (basic):

For the year ended 31 December	2018	2017
<i>(in thousands of Polish Zlotys)</i>		
Net income attributable to the equity holders of the parent company	13,498	9,464
Balance at beginning of the period	164,010,813	164,010,813
Weighted average number of ordinary shares (basic)	164,010,813	164,010,813
Basic earnings per share	0.082	0.058

There have been no other transactions involving ordinary shares between the reporting date and the date of authorization of these Consolidated Financial Statements.

Consolidated Financial Statements for the year ended 31 December 2018

Notes to the Consolidated Financial Statements

28. Loans and borrowings

As at 31 December		2018	2017
<i>In thousands of Polish Zlotys (PLN)</i>	<i>Note</i>		
Bond loans	29	205,547	197,308
Secured bank loans	30	37,687	13,920
Total loans and borrowings		243,234	211,228

Information about the contractual terms of the Group's interest-bearing loans and borrowings is presented in the table below. For more information about the Group's exposure to interest rate, see Note 38.

Loans as at 31 December 2018:

<i>In thousands of Polish Zlotys (PLN)</i>	Currency	Nominal interest rate	Year of maturity	Capital	Accrued interest	Charges and fees	Carrying value
Bond loans series I	PLN	Wibor + 4.00%	2019	10,000	252	-	10,252
Bond loans series J	PLN	Wibor + 3.60%	2019	15,500	167	(23)	15,644
Bond loans series K	PLN	Wibor + 3.60%	2019	4,500	9	(10)	4,499
Bond loans series M	PLN	Wibor + 3.65%	2020	10,000	191	(56)	10,135
Bond loans series N	PLN	Wibor + 3.60%	2019	10,000	159	(43)	10,116
Bond loans series O	PLN	Wibor + 3.50%	2019	10,000	122	(18)	10,104
Bond loans series P	PLN	5.25%	2020	10,000	62	(78)	9,984
Bond loans series Q	PLN	Wibor + 3.50%	2020	15,000	336	(103)	15,233
Bond loans series R	PLN	Wibor + 2.85%	2021	50,000	235	(454)	49,781
Bond loans series S	PLN	Wibor + 3.40%	2021	20,000	34	(78)	19,956
Bond loans series T	PLN	Wibor + 3.50%	2022	50,000	391	(548)	49,843
Subtotal (Bond loans)				205,000	1,958	(1,411)	205,547
Bank loans	PLN	Wibor + 2.6%	2019	7,584	-	(13)	7,571
Bank loans	PLN	Wibor + 2.7% -3.3%	2020	30,462	55	(401)	30,116
Subtotal (Bank loans)				38,046	55	(414)	37,687
Total				243,046	2,013	(1,825)	243,234

Consolidated Financial Statements for the year ended 31 December 2018

Notes to the Consolidated Financial Statements

28. Loans and borrowings (cont'd)

Loans as at 31 December 2017:

<i>In thousands of Polish Zlotys (PLN)</i>	Currency	Nominal interest rate	Year of maturity	Capital	Accrued interest	Charges and fees	Carrying value
Bond loans series F	PLN	Wibor + 3.50%	2018	22,160	132	(54)	22,238
Bond loans series H	PLN	Wibor + 4.25%	2018	5,000	31	(4)	5,027
Bond loans series I	PLN	Wibor + 4.00%	2019	10,000	253	(9)	10,244
Bond loans series J	PLN	Wibor + 3.60%	2019	15,500	165	(101)	15,564
Bond loans series K	PLN	Wibor + 3.60%	2019	4,500	9	(32)	4,477
Bond loans series L	PLN	Wibor + 3.50%	2018	15,000	7	(53)	14,954
Bond loans series M	PLN	Wibor + 3.65%	2020	10,000	191	(105)	10,086
Bond loans series N	PLN	Wibor + 3.60%	2019	10,000	160	(105)	10,055
Bond loans series O	PLN	Wibor + 3.50%	2019	10,000	122	(85)	10,037
Bond loans series P	PLN	5.25%	2020	10,000	62	(126)	9,936
Bond loans series Q	PLN	Wibor + 3.50%	2020	15,000	338	(168)	15,170
Bond loans series R	PLN	Wibor + 2.85%	2021	50,000	237	(643)	49,594
Bond loans series S	PLN	Wibor + 3.40%	2021	20,000	35	(109)	19,926
Subtotal (Bond loans)				197,160	1,742	(1,594)	197,308
Bank loans	PLN	Wibor + 2.8%	2018	4,844	-	(79)	4,765
Bank loans	PLN	Wibor + 2.8%	2019	9,841	-	(686)	9,155
Subtotal (Bank loans)				14,685	-	(765)	13,920
Total				211,845	1,742	(2,359)	211,228

Balance sheet value of assets used to secure loans received from banks and bond loans series R:

As at 31 December	2018	2017
<i>In thousands of Polish Zlotys (PLN)</i>		
Inventory and residential landbank	267,117	250,184
Investment property	8,743	8,743
Property and equipment	5,575	5,747
Balance sheet value of pledged assets	281,435	264,674
Amount of loans and borrowings	87,468	85,752

Notes to the Consolidated Financial Statements

29. Bond Loans

The table below presents the movement in bond loans:

For the year ended 31 December	2018	2017
<i>In thousands of Polish Zlotys (PLN)</i>		
Opening balance	197,308	222,591
Repayment of bond loans	(42,160)	(95,500)
Proceeds from bond loans	50,000	70,000
Issue cost paid	(654)	(882)
Issue cost amortization	837	1,166
Accrued interest	10,958	11,281
Interest repayment	(10,742)	(11,348)
Total closing balance	205,547	197,308
Closing balance includes:		
Current liabilities	51,864	43,791
Non-current liabilities	153,683	153,517
Total closing balance	205,547	197,308

During the year ended 31 December 2018, the Company issued 50,000 series T bonds (total nominal value of PLN 50,000 thousand).

As at 31 December 2018 and as at 31 December 2017 all covenants on bond loans are met.

Series I

On 23 January 2015, the Company issued 100,000 series I bonds with a total nominal value of PLN 10,000 thousand. The nominal value of one bond amounts to PLN 100 and is equal to its issue price. The series I bonds was redeemed on 25 January 2019. The bonds carried an interest rate composed of a base rate equal to 6 months Wibor plus 4.0% margin. Interest was payable semi-annually in January and July until redemption date.

The series I bonds was not secured.

Series J

On 21 April 2015, the Company issued 15,500 series J bonds with a total nominal value of PLN 15,500 thousand. The nominal value of one bond amounts to PLN 1,000 and is equal to its issue price. The series J bonds shall be redeemed on 19 April 2019. The bonds carry an interest rate composed of a base rate equal to 6 months Wibor plus 3.6% margin. Interest is payable semi-annually in April and October until redemption date. The terms and conditions of the issuance of the J bonds include provisions regarding early redemption at a bondholder's request to be made prior to 19 April 2019 in case of the occurrence of certain events covering a number of obligations and restrictions applicable to the Company, including the obligation to maintain its financial ratios at certain levels and restrictions on related party transactions.

The series J bonds are not secured.

Notes to the Consolidated Financial Statements

29. Bond loans (cont'd)

Series K

On 18 June 2015, the Company issued 45,000 series K bonds with a total nominal value of PLN 4,500 thousand. The nominal value of one bond amounts to PLN 100 and is equal to its issue price. The series K bonds shall be redeemed on 18 June 2019. The bonds carry an interest rate composed of a base rate equal to 6 months Wibor plus 3.6% margin. Interest is payable semi-annually in June and December until redemption date.

The terms and conditions of the issuance of the K bonds include provisions regarding early redemption at a bondholder's request to be made prior to 18 June 2019 in case of the occurrence of certain events covering a number of obligations and restrictions applicable to the Company, including the obligation to maintain its financial ratios at certain levels and restrictions on related party transactions.

The series K bonds are not secured.

Series M

On 25 February 2016, the Company issued 10,000 series M bonds with a total nominal value of PLN 10,000 thousand. The nominal value of one bond amounts to PLN 1,000 and is equal to its issue price. The series M bonds shall be redeemed on 25 February 2020. The bonds carry an interest rate composed of a base rate equal to 6 months Wibor plus 3.65% margin. Interest is payable semi-annually in February and August until redemption date.

The terms and conditions of the issuance of the M bonds include provisions regarding early redemption at a bondholder's request to be made prior to 25 February 2020 in case of the occurrence of certain events covering a number of obligations and restrictions applicable to the Company, including the obligation to maintain its financial ratios at certain levels and restrictions on related party transactions.

The series M bonds are not secured.

Series N

On 17 March 2016, the Company issued 10,000 series N bonds with a total nominal value of PLN 10,000 thousand. The nominal value of one bond amounts to PLN 1,000 and is equal to its issue price. The series N bonds shall be redeemed on 14 September 2019. The bonds carry an interest rate composed of a base rate equal to 6 months Wibor plus 3.60% margin. Interest is payable semi-annually in March and September until redemption date.

The terms and conditions of the issuance of the N bonds include provisions regarding early redemption at a bondholder's request to be made prior to 14 September 2019 in case of the occurrence of certain events covering a number of obligations and restrictions applicable to the Company, including the obligation to maintain its financial ratios at certain levels and restrictions on related party transactions.

The series N bonds are not secured.

Series O

On 8 April 2016, the Company issued 10,000 series O bonds with a total nominal value of PLN 10,000 thousand. The nominal value of one bond amounts to PLN 1,000 and is equal to its issue price. The series O bonds shall be redeemed on 8 April 2019. The bonds carry an interest rate composed of a base rate equal to 6 months Wibor plus 3.50% margin. Interest is payable semi-annually in April and October until redemption date.

The terms and conditions of the issuance of the O bonds include provisions regarding early redemption at a bondholder's request to be made prior to 8 April 2019 in case of the occurrence of certain events covering a number of obligations and restrictions applicable to the Company, including the obligation to maintain its financial ratios at certain levels and restrictions on related party transactions.

The series O bonds are not secured.

Notes to the Consolidated Financial Statements

29. Bond loans (cont'd)

Series P

On 18 August 2016, the Company issued 10,000 series P bonds with a total nominal value of PLN 10,000 thousand. The nominal value of one bond amounts to PLN 1,000 and is equal to its issue price. The series P bonds shall be redeemed on 18 August 2020. The bonds carry an interest rate of 5.25%. Interest is payable quarterly in February, May, August and November until redemption date.

The terms and conditions of the issuance of the P bonds include provisions regarding early redemption at a bondholder's request to be made prior to 18 August 2020 in case of the occurrence of certain events covering a number of obligations and restrictions applicable to the Company, including the obligation to maintain its financial ratios at certain levels and restrictions on related party transactions.

The series P bonds are not secured.

Series Q

On 29 July 2016, the Company issued 15,000 series Q bonds with a total nominal value of PLN 15,000 thousand. The nominal value of one bond amounts to PLN 1,000 and is equal to its issue price. The series Q bonds shall be redeemed on 29 July 2020. The bonds carry an interest rate composed of a base rate equal to 6 months Wibor plus 3.50% margin. Interest is payable semi-annually in July and January until redemption date.

The terms and conditions of the issuance of the Q bonds include provisions regarding early redemption at a bondholder's request to be made prior to 29 July 2020 in case of the occurrence of certain events covering a number of obligations and restrictions applicable to the Company, including the obligation to maintain its financial ratios at certain levels and restrictions on related party transactions.

The series Q bonds are not secured.

Series R

On 24 May 2017, the Company issued 50,000 series R bonds with a total nominal value of PLN 50,000 thousand. The nominal value of one bond amounts to PLN 1,000 and is equal to its issue price. The series R bonds shall be redeemed on 24 May 2021. The bonds bear interest at a variable rate based on the WIBOR rate for six-month deposits increased by a margin of 2.85%. Interest is payable semi-annually in May and November until redemption date.

The terms and conditions of the issuance of the R bonds include provisions regarding early redemption at a bondholder's request to be made prior to 24 May 2021 in case of the occurrence of certain events covering a number of obligations and restrictions applicable to the Company, including the obligation to maintain its financial ratios at certain levels and restrictions on related party transactions.

The series R bonds are secured with a joint mortgage established by the subsidiaries of the Company up to PLN 75,000 thousand.

Series S

On 19 June 2017, the Company issued 20,000 series S bonds with a total nominal value of PLN 20,000 thousand. The nominal value of one bond amounts to PLN 1,000 and is equal to its issue price. The series S bonds shall be redeemed on 19 June 2021. The bonds bear interest at a variable rate based on the WIBOR rate for six-month deposits increased by a margin of 3.40%. Interest is payable semi-annually in June and December until redemption date.

The terms and conditions of the issuance of the S bonds include provisions regarding early redemption at a bondholder's request to be made prior to 19 June 2021 in case of the occurrence of certain events covering a number of obligations and restrictions applicable to the Company, including the obligation to maintain its financial ratios at certain levels and restrictions on related party transactions.

The series S bonds are not secured and will not be listed.

Notes to the Consolidated Financial Statements

29. Bond loans (cont'd)

Series T

On 9 May 2018, the Company issued 50,000 series T bonds with a total nominal value of PLN 50,000 thousand. The nominal value of one bond amounts to PLN 1,000 and is equal to its issue price. The series T bonds shall be redeemed on 9 May 2022. The bonds bear interest at a variable rate based on the WIBOR rate for six-month deposits increased by a margin of 3.50%. Interest is payable semi-annually in May and November until redemption date.

The terms and conditions of the issuance of the T bonds include provisions regarding early redemption at a bondholder's request to be made prior to 9 May 2022 in case of the occurrence of certain events covering a number of obligations and restrictions applicable to the Company, including the obligation to maintain its financial ratios at certain levels and restrictions on related party transactions.

The series T bonds are not secured.

Bond loans repaid during the year ended 31 December 2018:

In February 2018, the Company repaid all outstanding 5,000 series H bonds with total nominal value of PLN 5,000 thousand. After this repayment, the total number of outstanding bonds series H amounted to nil.

In May 2018, the Company repaid all outstanding 221,600 series F bonds with total nominal value of PLN 22,160 thousand. After this repayment, the total number of outstanding bonds series F amounted to nil.

In December 2018, the Company repaid all outstanding 15,000 series L bonds with total nominal value of PLN 15,000 thousand. After this repayment, the total number of outstanding bonds series L amounted to nil.

Financial ratio covenants:

Series I, J, K, M, N, O, P and Q:

Based on the conditions of bonds I, J, K, M, N, O, P and Q in each reporting period the Company shall test the ratio of Net debt to Equity (hereinafter "Net Indebtedness Ratio). The Ratio shall not exceed 80% on the Check Date.

The Net Indebtedness Ratio is a non-GAAP Financial Measure and is calculated according to formulas provided below:

Net debt – shall mean the total consolidated balance sheet value of all interest-bearing liabilities (as well as payment guarantees) less the consolidated value of cash and cash equivalents and less cash paid by Company's clients blocked temporarily on the escrow accounts servicing ongoing projects that are under construction (presented in the Company's consolidated balance sheet under Other current financial assets).

Equity – shall mean the consolidated balance sheet value of the equity.

Check date – last day of each calendar quarter.

The table presenting the Net Indebtedness Ratio as at the end of the Reporting period:

As at	31 December 2018
<i>In thousands of Polish Zlotys (PLN)</i>	
Net debt	133,885
Equity	343,480
Net Indebtedness Ratio	39.0%

Notes to the Consolidated Financial Statements

29. Bond loans (cont'd)

Financial ratio covenants (cont'd):

Series R and S:

Based on the conditions of bonds R and S in each reporting period the Company shall test the ratio of Net debt to Equity (hereinafter "Net Indebtedness Ratio). The Ratio shall not exceed 80% on the Check Date.

The Net Indebtedness Ratio is Non-GAAP Financial Measure and is calculated according to formulas provided below:

Net debt - shall mean the total consolidated balance sheet value of all interest-bearing liabilities (as well as payment guarantees) less the consolidated value of cash and cash equivalents and less cash paid by Company's clients blocked temporarily on the escrow accounts servicing ongoing projects that are under construction (presented in the Company's consolidated balance sheet under Other current financial assets; the limit is PLN 40 million).

Equity - shall mean the consolidated balance sheet value of the equity attributable to equity holders of the parent, less the value of the intangible assets (excluding any financial assets and receivables), including specifically (i) the intangible and legal assets, goodwill and (ii) the assets constituting deferred income tax decreased by the value of the provisions created on account of the deferred income tax, however, assuming that the balance of those two values is positive. If the balance of assets and provisions on account of deferred income tax is negative, the adjustment referred to in item (ii) above shall be zero.

Check date – last day of each calendar quarter.

The table presenting the Net Indebtedness Ratio as at the end of the Reporting period:

As at	31 December 2018
<i>In thousands of Polish Zlotys (PLN)</i>	
Net debt	133,885
Equity	343,480
Net Indebtedness Ratio	39.0%

Series S

In addition to the above, based on the conditions of bonds S, in each reporting period the Company shall test the Net debt to Inventory Ratio (hereinafter "Net Debt to Inventory Ratio). The Ratio shall not exceed 60% on the Check Date.

The Net Debt to Inventory Ratio is non-GAAP Financial Measure and is calculated according to formulas provided below:

Net debt - shall mean the total consolidated balance sheet value of all interest bearing liabilities (as well as payment guarantees) less the consolidated value of cash and cash paid by Company's clients blocked temporarily on the escrow accounts servicing ongoing projects that are under construction (presented in the Company's consolidated balance sheet under Other current financial assets; the limit is PLN 40 million).

Inventory - shall mean the consolidated balance sheet value of the inventory (including Residential landbank) of the Company less advances received from the customers.

Check date – last day of each calendar quarter.

The table presenting the Net Debt to Inventory Ratio as at the end of the Reporting period:

As at	31 December 2018
<i>In thousands of Polish Zlotys (PLN)</i>	
Net debt	133,885
Inventory and Residential landbank*	490,702
Net Debt to Inventory Ratio	27.3%

** After analyzing and adjusting the Group's strategy and business plan for the coming years, the Management decided to change its intention and to classify land based on its business operating cycle, either as long-term or as short-term. Plots of land purchased for development purposes on which construction is not planned within a period of three years, with a total book value of PLN 46,227 thousand.*

Notes to the Consolidated Financial Statements

29. Bond loans (cont'd)

Financial ratio covenants (cont'd):

Series T

Based on the conditions of bonds T in each reporting period the Company shall test the ratio of Net debt to Equity (hereinafter "Net Indebtedness Ratio"). The Ratio shall not exceed 80% on the Check Date.

The Net Indebtedness Ratio is Non-GAAP Financial Measure and is calculated according to formulas provided below:

Net debt - shall mean the total consolidated balance sheet value of all interest-bearing liabilities (as well as payment guarantees) less the consolidated value of cash and cash equivalents and less cash paid by Company's clients blocked temporarily on the escrow accounts servicing ongoing projects that are under construction (presented in the Company's consolidated balance sheet under Other current financial assets).

Equity - shall mean the consolidated balance sheet value of the equity attributable to equity holders of the parent.

Check date – last day of each calendar quarter.

The table presenting the Net Indebtedness Ratio as at the end of the Reporting period:

As at	31 December 2018
<i>In thousands of Polish Zlotys (PLN)</i>	
Net debt	133,885
Equity	343,480
Net Indebtedness Ratio	39.0%

Other covenants:

Series R, S and T:

Based on the conditions of bonds R, S and T transactions with related-parties (shareholders holding more than 25% of the shares in the Company "within the meaning of IAS 24 or with related parties "including with entities controlling the Company whether jointly or individually, whether directly or indirectly or with their subsidiaries which are not members of the Group) shall not exceed the aggregate amount of PLN 1.0 million during any given calendar year.

During the year ended 31 December 2018, the consulting fees related to A. Luzon Group amounted to PLN 840 thousand. For additionally information see Note 37.

Notes to the Consolidated Financial Statements

30. Secured bank loans

The table below presents the movement in Secured bank loans:

For the year ended 31 December	2018	2017
<i>In thousands of Polish Zlotys (PLN)</i>		
Opening balance	13,920	1,941
New bank loan drawdown	85,168	76,077
Bank loans repayments	(61,805)	(64,071)
Bank charges paid	(543)	(792)
Bank charges amortization	893	783
Accrued interest/(interest repayment) on bank loans, net	54	(18)
Total closing balance	37,687	13,920
Closing balance includes:		
Current liabilities	7,626	4,765
Non-current liabilities	30,061	9,155
Total closing balance	37,687	13,920

For information related to unutilized bank loan facilities see Note 36.

For information related to new bank loans drawn see Note 42.

Covenants on secured bank loans:

As at 31 December 2018 and 2017, the Company has not breached any loan covenant, which would expose the Company for risk of obligatory and immediate repayment of any loan.

For the bank loans the following collateral was given:

- Ordinary and floating mortgages on Inventory, see Note 20.
- Pledge over bank accounts which are presented in the Consolidated Statement of Financial Position as Cash and cash equivalents (Restricted cash), see Note 24.
- Assignment of receivables arising from insurance agreement and from the agreements concluded with clients.
- Subordination agreement on loans from related parties.
- Blank promissory note drawn by particular subsidiary companies with a promissory note declaration up to the amount of the loan plus interest.
- Advance payments of dividends by the borrowers until full repayment of loans are not allowed.

Notes to the Consolidated Financial Statements

31. Trade and other payables and accrued expenses

As at 31 December	2018	2017
<i>In thousands of Polish Zlotys (PLN)</i>		
Trade payables	20,927	18,792
Payables for Nova Królikarnia project ⁽¹⁾	13,000	-
Accrued expenses	16,183	14,054
Guarantees for construction work	1,640	1,844
Value added tax (VAT) and other tax payables	1,325	2,043
Non-trade payables	862	913
Advance for sales of land ⁽²⁾	650	-
Total trade and other payables and accrued expenses	54,587	37,646

(1) Payables related to Acquisition of the Nova Królikarnia project. For more information see Note 6.

(2) On 25 February 2019, a subsidiary of the Company concluded an agreement for the sale of a property right located in Wrocław, at Buforowa Street to an unrelated entity. The sale price was set at PLN 6.5 million increased by VAT.

Trade and non-trade payables are non-interest bearing and are normally settled on 30-day terms.

32. Advances received

Advances received consist of customer advances for construction work in progress (deferred revenue) and comprise customer advances for the following projects:

<i>In thousands of Polish Zlotys (PLN)</i>	As at 31 December 2017	Acquisition of the Nova Królikarnia project	Revenue recognized during the year 2018	Advances received during the year 2018	As at 31 December 2018
City Link III	7,050	-	-	41,166	48,216
Nova Królikarnia project	-	62,180	(69,007)	48,167	41,340
Vitalia I	2,001	-	(9,681)	7,959	279
Vitalia II	107	-	-	11,489	11,596
Miasto Moje I	18,454	-	(56,520)	39,369	1,303
Miasto Moje II	203	-	-	27,335	27,538
Miasto Marina	1,178	-	-	9,065	10,243
Panoramika II & III	15,928	-	(29,452)	13,603	79
Panoramika IV	-	-	-	4,034	4,034
Grunwald ²	-	-	-	5,387	5,387
Moko	3,599	-	(25,557)	23,206	1,248
Młody Grunwald I-III	10,587	-	(29,369)	18,991	209
Espresso II-IV	40,248	-	(60,469)	20,367	146
Chilli IV	1,126	-	(4,204)	3,108	30
Other	1,763	-	(7,516)	6,557	804
Total	102,244	62,180	(291,775)	279,803	152,452

For information about contingent receivables from signed contracts with clients, see Note 36. The income from these contracts will be recognized as revenue at the moment units are handed over to the customers, which is expected to happen once the building process is completed and necessary administrative decisions are obtained by the Group, which usually takes from 1 up to 3 months following completion of the construction.

Notes to the Consolidated Financial Statements

33. Provisions

For the year ended 31 December	2018	2017
<i>In thousands of Polish Zlotys (PLN)</i>		
Balance at the beginning of the year	1,132	1,099
Acquisition of the Nova Królikarnia project ⁽¹⁾	1,600	-
Increase	-	498
Decrease	(167)	(465)
Balance at the end of the year	2,565	1,132

(1) For more information see Note 6.

As at 31 December 2018, the provision included expected necessary costs of guarantees for construction works amounting to PLN 2,565 thousand, whereas as at 31 December 2017, the provision included expected necessary costs of guarantees for construction works amounting to PLN 1,132 thousand.

34. Fair value estimation of financial assets and liabilities

The fair values of financial assets and liabilities, together with the carrying amounts shown in the Consolidated Statement of Financial Position, are as follows:

<i>In thousands of Polish Zlotys (PLN)</i>	<i>Category</i>	<i>Note</i>	As at 31 December 2018	
			Carrying amount	Fair value
Assets:				
Trade and other receivables	<i>Financial assets</i>	22	3,252	3,252
Other current financial assets	<i>Financial assets</i>	23	14,319	14,319
Cash and cash equivalents	<i>Financial assets</i>	24	100,828	100,828
Liabilities:				
Bond loans	<i>Loans and borrowings</i>	28	205,547	202,722
Secured bank loans	<i>Loans and borrowings</i>	28	37,687	37,666
Trade and other payables and accrued expenses	<i>Trade and other payables</i>	31	53,262	53,262
Unrecognized profit/(loss)				2,846

<i>In thousands of Polish Zlotys (PLN)</i>	<i>Category</i>	<i>Note</i>	As at 31 December 2017	
			Carrying amount	Fair value
Assets:				
Trade and other receivables	<i>Financial assets</i>	22	2,398	2,398
Other current financial assets	<i>Financial assets</i>	23	3,466	3,466
Cash and cash equivalents	<i>Financial assets</i>	24	64,860	64,860
Loans granted to joint ventures	<i>Financial assets</i>	18	6,922	6,928
Liabilities:				
Bond loans	<i>Loans and borrowings</i>	28	197,308	196,899
Secured bank loans	<i>Loans and borrowings</i>	28	13,920	13,902
Trade and other payables and accrued expenses	<i>Trade and other payables</i>	31	35,342	35,342
Unrecognized profit/(loss)				433

Notes to the Consolidated Financial Statements

34. Fair value estimation of financial assets and liabilities (cont'd)

Estimation of fair values

The following methods and assumptions were used to estimate the fair value of each class of financial instruments:

- trade and other receivables, cash and cash equivalents, other current financial assets and trade and other payables and accrued expenses: the carrying amounts approximate fair value because of the short maturity of these instruments;
- loans and borrowings and loans granted to joint ventures: the fair value is estimated by discounting the future cash flows of each instrument using discount rates offered to the Group for similar instruments of comparable maturities by the Group's bankers. The own non-performance risk as at 31 December 2018 was assessed as insignificant.

Interest rates used for determining fair value

The interest rates used to discount estimated cash flows (PLN denominated), where applicable, are based on WIBOR plus margin as at 31 December 2018 and 31 December 2017 and are as follows:

As at 31 December	2018	2017
Loans and borrowings	4.8-5.8%	4.6-5.2%

35. Fair value measurement hierarchy

The table below provides the fair value measurement hierarchy of the Group's assets and liabilities:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices);
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Quantitative disclosures fair value hierarchy for assets as at 31 December 2018:

<i>In thousands of Polish Zlotys (PLN)</i>	<i>Date of valuation</i>	Fair value measurement using:		
		Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Assets measured at fair value:				
Investment property	31-Dec-18	-	-	8,743
Liabilities for which fair values are disclosed:				
Loans granted to joint ventures	31-Dec-18	-	-	-
Bond loans	31-Dec-18	-	202,722	-
Secured bank loans	31-Dec-18	-	37,666	-

During 2018, there have been no transfers between Level 1 and Level 2.

For information related additional information about the significant unobservable inputs (Level 3) see Note 17.

Notes to the Consolidated Financial Statements

36. Commitments and contingencies

Investment commitments:

The amounts in the table below present uncharged investment commitments of the Group in respect of construction services to be rendered by the general contractors:

As at 31 December	2018	2017
<i>In thousands of Polish Zlotys (PLN)</i>		
City Link III	42,718	71,751
Panoramika IV	13,016	21,894
Miasto Moje II	993	24,356
Marina Miasto	4,076	21,185
Vitalia II	4,150	18,516
Grunwald ²	46,835	-
Nova Królikarnia 2a	3,109	-
Nova Królikarnia 2b	4,106	-
Nova Królikarnia 2c	19,835	-
Miasto Moje I	-	7,753
Espresso IV	-	4,277
Total	138,838	169,732

Unutilized construction loans:

The table below presents the list of the construction loan facilities, which the Group arranged for in conjunction with entering into loan agreements with the banks in order to secure financing of the construction and other outstanding costs of the ongoing projects. The amounts presented in the table below include the unutilized part of the construction loans available to the Group:

As at 31 December	2018	2017
<i>In thousands of Polish Zlotys (PLN)</i>		
City Link III	78,331	101,163
Miasto Marina	16,278	34,915
Panoramika IV	21,950	-
Vitalia II	12,641	-
Miasto Moje II	4,666	-
Miasto Moje I	-	14,861
Młody Grunwald III	-	4,955
Total	133,866	155,894

Notes to the Consolidated Financial Statements

36. Commitments and contingencies (cont'd)

Contingent receivables - contracted sales not yet recognized:

The table below presents amounts to be received from the customers having bought apartments from the Group and which are based on the value of the sale and purchase agreements signed with the clients until 31 December 2018 after deduction of payments received at reporting date (such payments being presented in the Consolidated Statement of Financial Position as Advances received):

As at 31 December	2018	2017
<i>In thousands of Polish Zlotys (PLN)</i>		
Moko	5,309	4,763
Espresso II, III & IV	490	20,091
Młody Grunwald I-III	622	5,364
Panoramika II & III	333	5,130
Panoramika IV	9,066	531
Vitalia I	605	3,543
Vitalia II	10,605	1,733
Grunwald2	15,146	-
Chilli IV	569	1,518
Miasto Moje I	1,571	26,751
Miasto Moje II	10,779	3,414
Miasto Marina	13,397	3,128
City Link III	83,378	30,007
Nova Królikarnia 1a - 1e	5,216	-
Nova Królikarnia 2a	9,669	-
Nova Królikarnia 2b	5,931	-
Other (old) projects	1,567	3,497
Total	174,253	109,470

Contingent liabilities on purchase of plots

Nova Królikarnia transaction

The Company and GCH have concluded call option agreements for a total value of PLN 78.9 million, under which the Company has been granted three call options with respect to the shares in the eight other project companies holding the remaining stages of the Nova Królikarnia project. The last option shall be executed the latest till April 2020. The exercise of the three call options will allow the Company to develop 161 units with an aggregate floor space of approximately 21,500 m².

The first call option may be exercised until April 2019 for an amount of PLN 33.9 million to be paid in two installments; the second call option may be exercised until October 2019 for an amount of PLN 35.1 million to be paid in two installments and the third call option may be exercised until April 2020 for an amount of PLN 9.9 million to be paid by April 2020. Certain fees in the maximum amount of PLN 11.9 million will be due by the Company if the Company does not exercise all three call options within certain deadlines. However, the fees shall be reduced proportionally to the extent options have been exercised. A package of customary security, such as mortgages, share pledges and statement on submission to voluntary enforcement has been established for the benefit of GCH to secure the obligations of the Company under the sale and purchase agreement and the call option agreements. Also, it has been agreed with GCH that the Company will continue to manage the Nova Królikarnia project in whole, including the stages of the project that are related to the call option agreements.

Notes to the Consolidated Financial Statements

36. Commitments and contingencies (cont'd)

Wilanów Tulip

On 13 December 2018 the Company, via joint venture entity in which the Company holds a 50% interest (hereinafter the "JV Company"), signed a preliminary purchase agreement for the acquisition of the right of perpetual usufruct of property located in Warsaw, Wilanów district, at Syta street. The purchase price of this project has been set at PLN 15 million and will be increased by the applicable VAT (the Company's share is PLN 7.5 million).

The JV Company purchased the project together with the valid building where part of the construction works already commenced; the project will comprise 157 units with an aggregate floor space of 8,700 m².

On 4 March 2019, the JV Company signed the final purchase agreement.

Guarantees granted by the Company

The Company granted 121 surieties amounting in total to PLN 5.8 million to clients that purchased apartments in Verdis project, a project completed by the Company in October 2015. Surieties relate to the claim raised by natural persons regarding the adverse possession of the real property adjacent to the Verdis project and a part of the Verdis project.

37. Related parties

Parent company

The Company enters into various transactions with its subsidiaries and with its directors and executive officers.

As at 31 December 2018, 66.06% of the outstanding shares are controlled by A. Luzon Group. The remaining 39.94% of the outstanding shares are held by other investors including Nationale Nederlanden Otworthy Fundusz Emerytalny and Metlife Otworthy Fundusz Emerytalny.

For a list of subsidiaries reference is made to Note 1(b).

The main related parties' transactions arise on:

- agreement with the major shareholder for remuneration of Board member;
- transactions with key management personnel;
- loans granted to related parties;
- sale of a development project to and acquisition of own shares from a former shareholder;
- other.

Outstanding balances with related parties as at 31 December 2018 and as at 31 December 2017 are unsecured, interest free and settlement occurs in cash. The Group did not record any impairment of receivables relating to amounts owed by related parties in either year. This assessment is undertaken each financial year through examining the financial position of the related party and the market in which the related party operates. All transactions with related parties were performed based on market conditions.

Agreement with the major shareholder for remuneration of Board member

During the year ended 31 December 2017, the Company entered into an agreement with its major (indirect) shareholder, A. Luzon Group, covering costs of remuneration of two members of the Board of Managing Directors and of Chairman of the Board of Supervisory Directors. For total monthly amount of PLN 70 thousand and covering travel and out of pocket expenses.

Notes to the Consolidated Financial Statements

37. Related parties (cont'd)

Transactions with key management personnel

During the year ended 31 December 2018 and the year ended 31 December 2017, key management personnel of the Company included the following members of the Management Board:

Nir Netzer (from 20 November 2017)	- President, Chief Executive Officer
Rami Geris (from 30 June 2017)	- Member, Chief Financial Officer
Andrzej Gutowski	- Member, Sales & Marketing Director
Alon Haver	- Member of the Management Board
Erez Tik (until 16 May 2018)	- Member of the Management Board
Shraga Weisman (until 27 April 2017)	- President, Chief Executive Officer
Tomasz Łapiński (until 20 November 2017)	- Member/President, Chief Financial/Chief Executive Officer

Key Management Board personnel compensation

Apart from the compensation listed below, there were no further benefits granted/paid to key management personnel. Key management personnel compensation can be presented as follows:

As at 31 December	2018	2017
<i>In thousands of Polish Zlotys (PLN)</i>		
Salary and other short term benefits ⁽¹⁾	981	117
Other ⁽²⁾	303	25
Subtotal - Mr Nir Netzer	1,284	142
Salary and other short term benefits	496	210
Bonuses	98	128
Other ⁽²⁾	50	33
Subtotal - Mr Rami Geris	644	371
Salary and other short term benefits	367	335
Incentive plan linked to financial results	330	351
Incentive plan linked to share price performance	-	85
Other ⁽²⁾	39	40
Subtotal - Mr Andrzej Gutowski	736	811
Salary and other short term benefits	-	634
Management bonus	-	(612)
Subtotal - Mr Shraga Weisman	-	22
Salary and other short term benefits	-	530
Incentive plan linked to financial results	-	45
Incentive plan linked to share price performance	-	120
Subtotal - Mr Tomasz Łapiński	-	695
Total	2,664	2,041

(1) The consulting services agreement is expected to be signed in the near future after completion of respective legal and corporate procedures.

(2) Mainly related to car expenses, flights and accommodation.

Notes to the Consolidated Financial Statements

37. Related parties (cont'd)

Key Management Board personnel compensation (cont'd)

Messrs Erez Tik and Alon Haver did not receive any direct remuneration from the Company nor from any of the Company's subsidiaries. Instead, their remuneration is covered by and included in the agreement with A. Luzon Group covering costs of remuneration of two members of the Board of Managing Directors and of the Chairman of the Board of Supervisory Directors for a total monthly amount of PLN 70 thousand.

Loans to directors

As at 31 December 2018 and 31 December 2017, there were no loans granted to directors.

Other transactions with directors and management personnel

During the year ended 31 December 2018, the Group sold one residential unit including one storage and parking place to Mr Andrzej Gutowski for a total net amount (excluding VAT) of PLN 723 thousand.

Those transactions were executed at arm's length and were in adherence to the Group's policy in respect of related-party transactions.

During the year ended 31 December 2017, the Group sold one residential unit including one storage to Mr Andrzej Gutowski for a total net amount (excluding VAT) of PLN 854 thousand. This transaction was executed at arm's length and was in adherence to the Group's policy in respect of related-party transactions.

Supervisory Board remuneration

The supervisory directors are entitled to an annual fee of EUR 8,900 plus an amount of EUR 1,500 per board meeting (EUR 750 if attendance is by telephone). The total amount due in respect of Supervisory Board fees during 2018 and 2017 amounted to PLN 341 thousand (EUR 80 thousand) and PLN 336 thousand (EUR 79 thousand), respectively.

Mr Amos Luzon did not receive any direct remuneration from the Company nor from any of the Company's subsidiaries. Instead, his remuneration is covered by and included in the agreement with A. Luzon Group covering costs of remuneration of two members of the Board of Managing Directors and of the Chairman of the Board of Supervisory Directors for a total monthly amount of PLN 70 thousand.

Loans granted to related parties

All loans granted to the joint venture (Ronson IS sp. z o.o. Sp.k) were repaid during the year 2018. For additional information see Note 18.

Other

As a result of requirements pertaining to A. Luzon Group, one of the Company's larger (indirect) shareholders, whose shares are listed on the Tel Aviv stock exchange, the first quarter reports, semi-annual reports and third quarter reports are subject to a full scope review by the Company's auditors. For the Company itself that listed on the Warsaw Stock Exchange, only the semi-annual report is subject to a review by the auditor. The Company has agreed with A. Luzon Group that the costs for the first and third quarter auditors' reviews will be shared between the Company and its shareholder.

Notes to the Consolidated Financial Statements

38. Financial risk management, objectives and policies

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, price risk and interest rate risk), credit risk and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Group's financial performance. The Management Board reviews and agrees policies for managing each of these risks and they are summarized below. The Group also monitors the market price risk arising from all financial instruments.

The Group does not use derivative financial instruments to hedge currency or interest rate risks arising from the Group's operations and its sources of finance. It is, and has been throughout the year ended 31 December 2018 and 2017, the Group's policy that no trading in (derivative) financial instruments shall be undertaken.

The Group's principal financial instruments comprise cash balances, bank loans, bonds, trade receivables and trade payables. The main purpose of these financial instruments is to manage the Group's liquidity and to raise finance for the Group's operations.

Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counter party to a financial instrument fails to meet its contractual obligations. Financial instruments that potentially expose the Group to concentrations of credit risk consist principally of cash and cash equivalents and receivables.

The Group is making significant cash payments as security for preliminary land purchase agreements. The Group minimizes its credit risk arising from such payments by registering advance repayment obligations in the mortgage register of the respective property. Management has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis. The Group does not expect any counter parties to fail in meeting their obligations. The carrying amounts of the financial assets represent the maximum credit risk exposure. The maximum exposure to credit risk at the reporting date was as follows:

<i>In thousands of Polish Zloty (PLN)</i>	As at 31 December 2018	As at 31 December 2017
Trade and other receivables	8,052	3,277
Advances for land	-	80,060
Cash and cash equivalents	100,828	64,860
Total	108,880	148,197

The Group places its cash and cash equivalents in financial institutions with high credit ratings. Management does not expect any counterparty to fail to meet its obligations. Concentrations of credit risk with respect to trade receivables are limited due to the large number of customers comprising the Group's customer base. The credit quality of cash at banks and short-term bank deposits can be assessed by reference to external credit ratings:

<i>In thousands of Polish Zloty (PLN)</i>	As at 31 December 2018	As at 31 December 2017
Rating		
AAA	4	6
A	26,848	42,983
BBB	14,504	8,667
BB+	59,472	13,204
Total cash and cash equivalents	100,828	64,860

Notes to the Consolidated Financial Statements

38. Financial risk management, objectives and policies (cont'd)

Market risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices, such as foreign exchange rates and interest rates will affect the Group's income or the value of its holdings of financial instruments, such as bond loans, bank loans, cash and cash equivalents. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing return.

(i) Foreign currency risk

The Group is exposed to foreign currency risk on receivables and payables denominated in a currency other than PLN to a limited extent only. As at 31 December 2018 and 2017, trade receivables and payables denominated in foreign currencies were insignificant.

(ii) Price risk

The Group's exposure to marketable and non-marketable securities price risk does not exist because the Group has not invested in securities as at 31 December 2018 and 2017.

(iii) Interest rate risk

Except for bonds series P that amounting to PLN 10.0 million, the Group didn't enter into any fixed-rate borrowings transaction. The Group's variable-rate borrowings are exposed to a risk of change in cash flows due to changes in interest rates. Short-term receivables and payables are not exposed to interest rate risk.

Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The Group monitors its risk to a shortage of funds using a recurring liquidity planning tool. This tool considers the maturity of both its financial investments and financial assets (e.g. accounts receivable, other financial assets) and projected cash flows from operations. The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank overdrafts, bank loans and bond loans.

Notes to the Consolidated Financial Statements

38. Financial risk management, objectives and policies (cont'd)

Interest rate risk and liquidity risk analyzed

In respect of income-earning financial assets and interest-bearing financial liabilities, the following tables indicate their average effective interest rates at the reporting date and the periods in which they mature or, if earlier, re-price.

As at 31 December 2018								
<i>In thousands of Polish Zlotys (PLN)</i>	Note	Average effective interest rate	Total	6 months or less	6-12 months	1-2 years	2-5 years	More than 5 years
Fixed rate instruments								
Cash and cash equivalents	24	0.0%-0.1%	43,407	43,407	-	-	-	-
Bond loans	28	5.25%	(9,984)	(62)	-	(9,922)	-	-
Variable rate instruments								
Cash and cash equivalents	24	0.35%-1.20%	57,421	57,421	-	-	-	-
Secured bank loans	28	WIBOR + 2.6% - 3.3%	(37,687)	(7,608)	-	(30,079)	-	-
Floating rate bonds	28	Wibor 6M + 2.85%-4.0%	(195,563)	(41,845)	(9,957)	(24,841)	(118,920)	-

As at 31 December 2017								
<i>In thousands of Polish Zlotys (PLN)</i>	Note	Average effective interest rate	Total	6 months or less	6-12 months	1-2 years	2-5 years	More than 5 years
Fixed rate instruments								
Cash and cash equivalents	24	0.05%-0.1%	24,107	24,107	-	-	-	-
Bond loans	28	5.25%	(9,936)	(62)	-	-	(9,874)	-
Variable rate instruments								
Cash and cash equivalents	24	0.76%-1.50%	40,753	40,753	-	-	-	-
Secured bank loans	28	Wibor + 2.8%	(13,920)	(4,765)	-	(9,155)	-	-
Floating rate bonds	28	Wibor + 2.85% - 4.25%	(187,372)	(28,782)	(14,947)	(49,669)	(93,974)	-

Consolidated Financial Statements for the year ended 31 December 2018

Notes to the Consolidated Financial Statements

38. Financial risk management, objectives and policies (cont'd)

Interest rate risk and liquidity risk analyzed (cont'd)

It is estimated that a general increase of one percentage point in interest rates at the reporting date would increase/(decrease) the net assets and the statement of comprehensive income by the amounts listed in the table below. The analysis is prepared for 12-month periods assumes that all other variables remain unchanged.

<i>In thousands of Polish Zlotys (PLN)</i>	As at 31 December 2018		As at 31 December 2017	
	Increase by 1%	Decrease by 1%	Increase by 1%	Decrease by 1%
Statement of comprehensive income				
Variable interest rate assets	191	(191)	136	(136)
Variable interest rate liabilities *	(778)	778	(671)	671
Total	(587)	587	(535)	535
Net assets				
Variable interest rate assets	191	(191)	136	(136)
Variable interest rate liabilities *	(778)	778	(671)	671
Total	(587)	587	(535)	535

* The financial costs which are related to loans and borrowing are capitalized by the Group to work-in-progress. Such costs are gradually recognized in the statement of comprehensive income based on the proportion of residential units sold. It has been assumed in the above analysis that one third of the financial costs calculated and capitalized in a given period is disclosed in the statement of comprehensive income based on the proportion of residential units sold of a given period and the remaining part of the costs remains in the inventories and will be disclosed in the statement of comprehensive income in the following accounting periods.

The table below analyses the Group's financial liabilities into relevant maturity groupings based on the remaining period from reporting date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

<i>In thousands of Polish Zlotys (PLN)</i>	As at 31 December 2018			
	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Bond loans	60,926	42,007	124,979	-
Secured bank loans	9,090	31,774	-	-
Trade and other payables	53,262	-	-	-
Total	123,278	73,781	124,979	-
<i>In thousands of Polish Zlotys (PLN)</i>	As at 31 December 2017			
	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Bond loans	53,343	56,347	110,777	-
Secured bank loans	5,135	10,069	-	-
Trade and other payables	35,603	-	-	-
Total	94,081	66,416	110,777	-

Notes to the Consolidated Financial Statements

38. Financial risk management, objectives and policies (cont'd)

Real-estate risk

While the improving market in 2017 and 2018 potentially bodes well for the Company in 2019, the overall economic situation and geopolitical situation in Europe and in Poland and the ongoing uncertainties in the housing market make it very difficult to predict with precision results for 2019. The level of development of the Polish economy, the performance of the banking industry and consumers' interest in new housing projects, increase in construction cost, the challenge of securing lands for considerable prices and the significant impact of it on the margins of new phases and projects, as well as increasing competition in the market are considered to be the most significant uncertainties for the financial year ending 31 December 2019.

Construction cost risk

Construction costs increased significantly over the last 2 years and might continue to increase also during 2019. The increase is mainly related to the growth in costs of hiring qualified workforce, as well as to an increase in costs of building materials. The Company and the Group do not operate a construction business, but, instead, for each project an agreement is concluded with a third party general contractor, who is responsible for running the construction and for finalizing the project including obtaining all permits necessary for safe use of the apartments. In order to mitigate the risk of the increase in construction costs, the Company and the Group are signing a lump-sum contract with the general contractor, which will allow the Group to complete the project based on the estimated budget.

Risk of claims against contractors

In each project or stage of the project, the Group has concluded and will conclude contracts for the construction and implementation of development projects with one general contractor. There is a risk that non-performance by such a general contractor of its obligations may cause delays in the project or significantly impact the business, financial condition or results of the Company and the Group. The Company sees a potential risk for non-performance of obligations by the general contractor in the availability of qualified workforce and in the increase of salaries and cost of construction materials. Such non-performance may result in claims against general contractor and the general contractor may also fail to fully satisfy possible claims of the Company and the Group. Important selection criteria when hiring a general contractor include experience, professionalism and financial strength of the general contractor (including securing a bank or insurance guarantee) as well as the quality of the insurance policy covering all risks associated with the construction process.

Changes in legislation regarding open escrow accounts

Potential future changes in the legislation with respect to escrow accounts (contemplated deletion of open escrow accounts) also constitute a risk that could directly or indirectly affect the Company's and the Group's activities and results. The Management Board assesses, however, that the possible introduction of such a change may have a negative impact on the Group's activities to a lesser extent than on other market operators, primarily due to the Company's and the Group's comfortable financial situation and also because of the trust and good reputation, which the Company and the Group enjoys among financial institutions.

Availability of mortgages

The demand for residential real estate largely depends on the availability of credits and loans for financing the purchase of apartments and houses. Possible increase in interest rates, deterioration of the economic situation in Poland or administrative restrictions on lending activities of the banks may cause a drop in demand for apartments and houses, and therefore a decrease in interest from potential buyers in the Group's development projects, which in turn may have a significant adverse impact on activities, financial standing or performance of the Company and the Group. In 2018, access to mortgages was relatively high and interest rates on a mortgage were stable, at levels around their historic minimum. Growth in salaries and low inflation had a positive impact on the disposable income of households, thus increasing creditworthiness.

Notes to the Consolidated Financial Statements

38. Financial risk management, objectives and policies (cont'd)

Real-estate risk (cont'd)

Administration

The nature of real estate development projects requires a number of licenses, approvals and arrangements to be obtained by the Company and the Group at every stage of the development process. Despite significant caution applied in the project execution schedules, there is always a risk of delay in their obtainment, challenges made against decisions which have already been issued (also due to appeals with no consequences for the appellants) or even failing to obtain them, an additional risk might rise with respect to properties under perpetual usufruct. All these factors affect the ability of the Group to conduct and complete its executed and planned projects.

39. Capital management

When managing capital, it is the Group's objective to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure, the Group may adjust the profit appropriation, return capital to shareholders, issue new shares or sell assets to reduce debt. Consistent with others in the industry, the Group monitors capital on the basis of the gearing ratio and leverage. The Group's policy is to keep the gearing ratio of the Group lower than 60%, and a leverage of the Group lower than 50%.

Banking covenants vary according to each loan agreement, but typically are not related directly to the gearing ratio of the Company but to the proportion of loan to value of the mortgage collateral which usually is required not to cross the limit of 70% or 80%. Moreover the Company is obliged to monitor its indebtedness according to the conditions of the bond issuance, which require, amongst others, that in each reporting period the Company shall test the ratio between Net debt to Equity. The Ratio shall not exceed 80% (for additional information see Note 29).

The gearing ratio is calculated as net debt divided by total equity. Net debt is calculated as total borrowings (including 'current and non-current borrowings' as shown in the consolidated Statement of Financial Position) less cash and cash equivalents. Leverage is calculated as net debt divided by total capital employed. Total capital employed is calculated as 'equity' as shown in the Consolidated Statement of Financial Position plus net debt financing assets in operation.

The gearing ratios and leverage at 31 December 2018 and 31 December 2017 were as follows:

As at 31 December	2018	2017
<i>In thousands of Polish Zlotys (PLN)</i>		
Loan and borrowings, including current portion	243,234	211,228
Less: cash and cash equivalents	(100,828)	(64,860)
Net debt	142,406	146,368
Total equity	343,480	342,012
Total capital employed	485,886	488,380
Gearing ratio	41.5%	42.8%
Leverage	29.3%	30.0%

Notes to the Consolidated Financial Statements

39. Capital management (cont'd)

Neither the Company nor its subsidiaries are subject to externally imposed capital requirements. There were no changes in the Groups approach to capital management during the year.

During the period the Group did not breach any of its loan and borrowings covenants, nor did it default on any other of its obligations under its loan agreements.

40. Cash flow reconciliation

Inventory and Residential landbank

For the year ended 31 December	2018	2017
<i>In thousands of Polish Zlotys (PLN)</i>		
Balance sheet change in inventory	(84,829)	62,000
Finance expense, net capitalized into inventory	8,751	7,187
Transferred to trade and other receivables and prepayments	-	(202)
Transferred to Land for sale	(6,305)	-
Transferred to Residential landbank	(46,227)	-
Transferred from advance for land	82,810	-
Acquisition of the Nova Królikarnia project	136,336	-
Write-down of Inventory and Residential landbank	(2,937)	(3,314)
Change in Inventory and Residential landbank in the consolidated statement of cash flows	87,599	65,671

Trade and other receivables and prepayments

For the year ended 31 December	2018	2017
<i>In thousands of Polish Zlotys (PLN)</i>		
Balance sheet change in trade and other receivables and prepayments	(2,989)	(1,559)
Transferred to inventory	-	202
Acquisition of the Nova Królikarnia project	2,130	-
Change in Trade and other receivables and prepayments in the consolidated statement of cash flows	(859)	(1,357)

Trade and other accounts payable

For the year ended 31 December	2018	2017
<i>In thousands of Polish Zlotys (PLN)</i>		
Balance sheet change in Trade and other accounts payable	16,941	(3,236)
Acquisition of the Nova Królikarnia project	(22,231)	-
Change in Trade and other payables and accrued expenses in the consolidated statement of cash flows	(5,290)	(3,236)

Notes to the Consolidated Financial Statements

40. Cash flow reconciliation (cont'd)

Advances received

For the year ended 31 December	2018	2017
<i>In thousands of Polish Zlotys (PLN)</i>		
Balance sheet change in Advances received	50,208	1,637
Acquisition of the Nova Królikarnia project	(62,180)	-
Change in Advances received in the consolidated statement of cash flows	(11,972)	1,637

Other current financial assets

For the year ended 31 December	2018	2017
<i>In thousands of Polish Zlotys (PLN)</i>		
Balance sheet change in Other current financial assets	10,853	(1,014)
Acquisition of the Nova Królikarnia project	(17,035)	-
Change in Other current financial assets in the consolidated statement of cash flows	(6,182)	(1,014)

41. Impact of IFRS 15

IFRS 15 requires incremental costs of obtaining a contract to be recognized as an asset if certain criteria are met. With regards to the Group's operations such costs include sales representatives' bonuses and other sales commissions which are incremental to obtaining a contract with customer. The Group, applying IFRS 15, decided, that such costs will be capitalized (under prepayments) and will be recognized in the consolidated statement of comprehensive income as cost of goods sold at the moment revenues related to sale of units are recognized.

The tables below present the impact of IFRS 15 on the consolidated profit and loss and on the consolidated statement of financial positions.

For the year ended 31 December 2018

<i>In thousands of Polish Zlotys (PLN)</i>	<i>Before implementation of IFRS 15</i>	<i>Impact of IFRS 15</i>	<i>After implementation of IFRS 15</i>
Cost of sales residential projects	(247,801)	(596)	(248,397)
Selling and marketing expenses (Brokerage fees)	(5,926)	824	(5,102)
Administrative expenses	(19,615)	1,932	(17,683)
Income tax benefit	(3,182)	(410)	(3,592)
Total impact on Consolidated Statement of Comprehensive Income		1,750	

Notes to the Consolidated Financial Statements

41. Impact of IFRS 15

As at 31 December 2018	<i>Before implementation of IFRS 15</i>	<i>Impact of IFRS 15</i>	<i>After implementation of IFRS 15</i>
<i>In thousands of Polish Zlotys (PLN)</i>			
Assets			
Deferred tax assets	5,688	(157)	5,531
Trade and other receivables and prepayments	12,533	2,160	14,693
Total impact on Assets		2,003	
Equity and liabilities			
Retained earnings	178,949	1,750	180,699
Deferred tax liability	7,094	254	7,348
Total impact on Equity and liabilities		2,003	

42. Events during the financial year

Acquisition of the Nova Królikarnia project

On 10 April 2018, the Company completed the acquisition of certain shares in and loans granted to project companies owning properties constituting the Nova Królikarnia project for a price of PLN 83.8 million under a sale and purchase agreement with Global City Holdings B.V. ('GCH'). The Nova Królikarnia project is located at Jaśminowa street in Warsaw and consists of 197 units and an aggregate floor space of 19,500 m² (including completed projects with 53 units and an aggregate floor space of 4,950 m², projects under construction with 126 units and an aggregate floor space of 11,150 m² and a project in pipeline with 18 units and an aggregate floor space of 3,400 m²).

In addition, the Company and GCH have concluded a call option agreements for a total value of PLN 78.9 million, under which the Company has been granted three call options with respect to the shares in the eight other project companies holding the remaining stages of the Nova Królikarnia project, the last option shall be executed the latest till April 2020. The exercise of the three call options amounts to PLN 78.9 million and will allow the Company to develop 161 units with an aggregate floor space of approximately 21,500 m². The first call option may be exercised until April 2019 while the price for the amount of PLN 33.9 million that shall be paid in two installments; the second call option may be exercised until October 2019 while the price for the amount of PLN 35.1 million shall be paid in two installments and the third call option may be exercised until April 2020 and the price for the amount of PLN 9.9 million shall be paid by April 2020. Certain fees in the maximum amount of PLN 11.9 million will be due by the Company if the Company does not exercise of all three call options within certain deadlines. However, the fees shall be reduced proportionally to the extent options have been exercised.

Wilanow Tulip

On 13 December 2018 the Company, via joint venture entity in which the Company holds a 50% interest (hereinafter the "JV Company"), signed preliminary purchased agreement for purchasing the right of perpetual usufruct of property located in Warsaw, Wilanów district, at Syta street. The purchase price of this project has been set at PLN 15 million and will be increased by the applicable VAT (The Group share PLN 7.5 million).

The JV Company purchased the project together with the valid building where part of the construction works already commenced; the project will comprise 157 units with an aggregate floor space of 8,700 m².

On 4 March 2019 the JV Company signed the final purchase agreement.

Notes to the Consolidated Financial Statements

42. Events during the financial year (cont'd)

Purchase of land (Ursus)

In January 2017 and in February 2018, the Company entered into conditional sale and purchase agreements concerning the acquisition of perpetual usufruct rights of real properties located in Warsaw, Ursus district, and into certain cooperation agreements. The properties are covered by a local zoning plan which allows for the development of multi-family housing projects on the properties with approximately 1,600 apartments. The total price for the acquisition of the properties plus the value of the work which must be performed to allow the Company to carry out the housing projects (such work being the responsibility of the sellers) has been agreed at PLN 81.8 million plus applicable VAT. For three out of four plots the individual final agreements completing their acquisition were concluded in March 2018. For the one remaining plot the final agreement will be concluded not later than by 31 December 2019. The Company received from the seller an irrevocable power of attorney to execute all necessary actions for the development of the project on this last plot of land, including transferring its perpetual usufruct, obtaining all necessary permits and performing part of the construction works.

In March 2018, the Company paid the last tranche of the transaction price amounting to PLN 2.8 million. The total purchase price together with related expenses amounting to PLN 82.8 million has been reclassified from Advances for land to Inventory.

Bonds loans

In February 2018, the Company repaid all outstanding 5,000 series H bonds with total nominal value of PLN 5,000 thousand. After this repayment, the total number of outstanding bonds series H amounted to nil.

In May 2018, the Company repaid all outstanding 221,600 series F bonds with total nominal value of PLN 22,160 thousand. After this repayment, the total number of outstanding bonds series F amounted to nil.

In May 2018, the Company issued 50,000 series T bonds with a total nominal value of PLN 50,000 thousand. The nominal value of one bond amounts to PLN 1,000 and is equal to its issue price. The series T bonds shall be redeemed on 9 May 2022. The Bonds bear interest at a variable rate based on the WIBOR rate for six-month deposits increased by a margin of 3.5%. Interest is payable semi-annually in May and November until redemption date.

In December 2018, the Company repaid all outstanding 15,000 series L bonds with total nominal value of PLN 15,000 thousand. After this repayment, the total number of outstanding bonds series L amounted to nil.

Bank loans

In March 2018, the Company executed a loan agreement with Alior Bank S.A. related to the second stage of the Vitalia project in Wrocław. Under this loan agreement Alior Bank S.A. is to provide financing to cover the costs of construction up to a total amount of PLN 20.5 million. Under the loan agreement, the final repayment date of the loan facility is December 2020.

In April 2018, the Company executed a loan agreement with Bank Zachodni WBK S.A. relating to the second stage of the Miasto Moje project in Warsaw. Under this loan agreement Bank Zachodni WBK S.A. is to provide financing to cover the costs of construction up to a total amount of PLN 29.1 million. Under the loan agreement, the final repayment date of the loan facility is June 2020.

In August 2018, the Company executed a loan agreement with PKO Bank Polski S.A. relating to the fourth stage of the Panoramika project in Szczecin. Under this loan agreement PKO Bank Polski S.A. is to provide financing to cover the costs of construction up to a total amount of PLN 25.0 million. Under the loan agreement, the final repayment date of the loan facility is December 2020.

Notes to the Consolidated Financial Statements

42. Events during the financial year (cont'd)

Commencements of new projects

In February 2018, before the completion of the Nova Królikarnia acquisition, the Company commenced the construction work of the Nova Królikarnia 2b project, which will comprise 28 units with an aggregate floor space of 2,300 m².

In June 2018, the Company commenced the construction work of the Grunwald² project, which will comprise 267 apartments and 1 commercial unit with an aggregate floor space of 14,500 m². The sales for this project were commenced in April 2018.

In December 2018, the Company commenced the construction work of the Nova Królikarnia 2c project, which will comprise 18 houses with an aggregate floor space of 3,600 m².

Completions of projects

In February 2018, the Company completed the construction of the fourth (and last) stage of Espresso project comprising 146 units with a total area of 8,100 m².

In May 2018, the Company completed the construction of the first stage of the Miasto Moje project comprising 191 apartments and 14 commercial units with an aggregate floor space of 10,900 m².

In February and March 2018, before the completion of the Nova Królikarnia acquisition, the construction of the Nova Królikarnia 1a and Nova Królikarnia 1d projects was completed under the Company's management. Nova Królikarnia 1a project comprises 41 units and an aggregate floor space of 3,450 m². Nova Królikarnia 1d project comprises 12 units and an aggregate floor space of 1,500 m².

In July 2018, the Company completed the construction of the Nova Królikarnia 1b project comprising 13 units and an aggregate floor space of 1,850 m².

In July 2018, the Company completed the construction of the Nova Królikarnia 1c project comprising 14 units and an aggregate floor space of 2,200 m².

In July 2018, the Company completed the construction of the Nova Królikarnia 1e project comprising 26 units and an aggregate floor space of 1,600 m².

Dividend

On 18 July 2018, the Supervisory Board approved the proposal of the Management Board of the Company from 11 July 2018 to make a distribution to its shareholders out of the retained earnings reserve (i.e. dividend) in the amount of PLN 9,840,649, which represents PLN 0.06 per ordinary share. On 14 September 2018, during the extra-ordinary General Meeting of Shareholders, the shareholders of the Company approved the distribution of the dividend. The final payment in the amount of PLN 9,840,649 or PLN 0.06 per ordinary share, with record date of 25 September 2018, was paid on 4 October 2018.

Acquisition of Non-controlling interests

On 10 October 2018, the Group acquired 18% of the equity in Ronson Espresso Sp. z o.o. (hereinafter "Espresso") from the minority shareholders of Espresso, for a total amount of PLN 3,762 thousand. Following the transaction Ronson Group became the sole shareholder of Espresso.

Notes to the Consolidated Financial Statements

42. Events during the financial year (cont'd)

Transformation of the Company and transfer of registered office to Poland

On 6 April 2018, the Company changed its name and transformed into a European Company (SE). On 14 September 2018, during the extra-ordinary General Meeting of Shareholders, the shareholders of the Company approved the decision to migrate the registered office of the Company from the Netherlands to Poland. On 31 October 2018, the transfer of the registered office from the Netherlands to Poland was effectuated.

New regulations

On 5 October 2018, the Act on the conversion of the right of perpetual usufruct of plots of land built for housing purposes into the ownership right to these lands (Journal of Laws of 2018, item 1716) came into force. The Company is in the process of analyzing the possible impact of the act on the Company's activities.

43. Subsequent events

Bank loans

In February 2019, the Company executed a loan agreement with Santander Bank Polska S.A. related to the Grunwald² project in Poznań. Under this loan agreement Santander Bank Polska S.A. is to provide financing and re-financing to cover the costs of construction up to a total amount of PLN 57.7 million. Under the loan agreement, the final repayment date is November 2021.

Bond loans

In January 2019, the Company issued 32,317 series U bonds with a total nominal value of PLN 32,317 thousand. The nominal value of one bond amounts to PLN 1,000 and is equal to its issue price. The series U bonds shall be redeemed on 31 January 2023. The Bonds bear interest at a variable rate based on the WIBOR rate for six-month deposits increased by a margin of 3.5%. Interest is payable semi-annually in January and July until redemption date. In addition, the Bonds are the subject to mandatory depreciation at the end of the 4th and the 6th interest period (on 31 January 2021 and 31 January 2022, respectively) by reducing the nominal value of each Bond each time in the amount of PLN 150 for each Bond.

The Bonds will be secured with a joint mortgage up to PLN 48,475 thousand.

Commencements of new projects

In March 2019, the Company commenced the construction work of the third stage of the Miasto Moje project comprising 196 apartments with an aggregate floor space of 10,200 m².

In March 2019, the Company commenced the construction work of the Wilanów Tulip project comprising 157 apartments with an aggregate floor space of 8,700 m², via joint venture entity in which the Company holds a 50% interest.

In March 2019, the Company commenced the presale and construction work of the fifth stage of the Panoramika project comprising 115 apartments with an aggregate floor space of 5,800 m².

Completions of projects

In February 2019, the Company completed the construction of the second stage of the Miasto Moje project comprising 145 apartments and 3 commercial units with an aggregate floor space of 8,100 m².

Sales of land

On 25 February 2019 a subsidiary of the Company concluded an agreement for the sale of a property right located in Wrocław, at Buforowa Street to an unrelated entity. The sale price was set at PLN 6.5 million to be increased by VAT.

Notes to the Consolidated Financial Statements

43. Subsequent events (cont'd)

Buy-back

On 24 January 2019, the Extraordinary General Meeting of the Company adopted the resolution regarding the adoption of the own share purchase plan and the creation of a reserve fund for the purposes of such plan. Based on that resolution, the Extraordinary General Meeting of the Company granted its consent to and authorised the Company's Management Board to purchase fully-paid ordinary bearer shares of the Company with the total nominal value not greater than 1.53% of the Company's share capital, i.e. not greater than 2,500 thousand shares, on the conditions indicated in this resolution.

Wilanów Tulip

On 4 March 2019, the Company, via joint venture entity in which the Company holds a 50% interest, signed the final agreement for purchasing the right of perpetual usufruct of property located in Warsaw, Wilanów district, at Syta street. For additional information see Note 42.

Appointment of new Member of the Management Board

On 11 March 2019, the Supervisory Board of the Company, appointed Boaz Haim to the position of member of the Management Board of the Company as of 1 April 2019 for a five-year joint term of office of the management board.

The commencement of a subsequent joint five-year term of office of the Management Board

On 11 March 2019, the Supervisory Board decided to terminate the current joint five-year term of office of the Management Board as of 31 March 2019. At the same time, the Supervisory Board appointed the current members of the management board (Nir Netzer, Rami Geris, Andrzej Gutowski and Alon Haver) for a subsequent joint term of office of five years, commencing on 1 April 2019. The members of the Management Board referred to above were appointed to the positions they have held to date.

Nir Netzer

President of the Management Board

Rami Geris

Vicepresident of the Management Board, CFO
Person responsible for the accounting records

Andrzej Gutowski

Vicepresident of the Management Board,
Sales and Marketing Director

Alon Haver

Member of the Management Board

Warsaw, 13 March 2019