Ronson Development SE

Consolidated Financial Statements
for the year ended 31 December 2020

Management Board

Boaz Haim, *President of the Management Board*
Yaron Shama, *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
02-797 Warsaw
Poland

Auditors

PricewaterhouseCoopers Polska spółka z ograniczoną odpowiedzialnością Audyt sp. k.
ul. Polna 11
00-633 Warsaw
Poland

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Consolidated Statement of Comprehensive Income

For the year ended 31 December		**2020**	**2019**
In thousands of Polish Zlotys (PLN)	***Note***		
Revenue from residential projects	*6*	400,257	223,464
Revenue from the sale of land		-	6,500
Revenue from sale of services	*6*	976	2,654
Revenue		**401,233**	**232,618**
Cost of sales residential projects	*7*	(315,023)	(181,984)
Cost of sales of land		-	(6,312)
Cost of sales		**(315,023)**	**(188,296)**
Gross profit		**86,210**	**44,322**
Changes in the value of investment property	*16*	(307)	802
Selling and marketing expenses	*8*	(5,928)	(5,803)
Administrative expenses	*9*	(22,542)	(20,181)
Share of profit/(loss) from joint ventures	*17*	(803)	9,082
Other expenses	*11*	(3,401)	(3,763)
Other income	*12*	1,923	1,734
Result from operating activities		**55,152**	**26,193**
Finance income	*13*	558	750
Finance expense	*13*	(5,168)	(4,862)
Net finance income		**(4,610)**	**(4,112)**
Profit/(loss) before taxation		**50,542**	**22,081**
Income tax benefit	*14*	(10,399)	(4,667)
Profit/(loss) for the year		**40,143**	**17,414**
Other comprehensive income		-	-
Total comprehensive income for the year, net of tax		**40,143**	**17,414**
Total profit/(loss) for the year attributable to:			
equity holders of the parent	*24*	40,143	17,414
non-controlling interests		-	-
Total profit/(loss) for the year		**40,143**	**17,414**
Total comprehensive income attributable to:			
equity holders of the parent		40,143	17,414
Non-controlling interests		-	-
Total comprehensive income for the year, net of tax		**40,143**	**17,414**
Weighted average number of ordinary shares (basic and dilluted)	*24*	163,103,163	163,689,616
In Polish Zlotys (PLN)			
Net earnings per share attributable to the equity holders of the parent (basic)	*24*	**0.246**	**0.106**
Net earnings per share attributable to the equity holders of the parent (dilluted)	*24*	**0.246**	**0.106**

The notes on pages 5 to 69 are an integral part of these consolidated financial statements.

Consolidated Statement of Financial Position

As at 31 December *In thousands of Polish Zlotys (PLN)*	*Note*	2020	2019
Assets			
Non-current assets			
Property and equipment	*15*	8,797	8,552
Investment property	*16*	8,956	10,098
Intangible fixed assets		39	-
Investment in joint ventures	*17*	8,902	10,617
Deferred tax assets	*18*	9,037	6,935
Land designated for development	*19*	45,486	44,321
Total non-current assets		**81,217**	**80,523**
Current assets			
Inventory	*19*	664,761	718,060
Trade and other receivables and prepayments	*20*	37,374	24,745
Advances for Land		3,700	-
Income tax receivable		338	130
Loans granted to joint ventures	*17*	1,039	1,977
Other current financial assets	*21*	14,239	22,157
Cash and cash equivalents	*22*	135,099	95,591
Total current assets		**856,550**	**862,660**
Total assets		**937,767**	**943,183**
Equity and liabilities			
Equity			
Shareholders' equity	*23*		
Share capital		12,503	12,503
Share premium		157,905	150,278
Treasury shares		(1,613)	(580)
Retained earnings		211,022	188,293
Total equity		**379,817**	**350,494**
Liabilities			
Non-current liabilities			
Floating rate bond loans	*25, 26*	175,382	151,078
Deferred tax liability	*18*	9,562	9,618
Lease liabilities related to perpetual usufruct of investment property	*28*	590	552
Total non-current liabilities		**185,534**	**161,248**
Current liabilities			
Trade and other payables and accrued expenses	*29*	58,347	97,715
Floating rate bond loans	*25,26*	52,625	34,924
Other payables - accrued interests on bonds	*25,26*	2,065	1,967
Secured bank loans	*25,26*	-	12,875
Interest bearing deferred trade payables		8,482	2,338
Advances received	*30*	224,267	254,970
Income tax payable		11,734	1,087
Provisions	*31*	994	2,016
Lease liabilities related to perpetual usufruct of land	*28*	13,902	23,549
Total current liabilities		**372,416**	**431,441**
Total liabilities		**557,950**	**592,689**
Total equity and liabilities		**937,767**	**943,183**

The notes on pages 5 to 69 are an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Equity

For the years ended 31 December 2020 and 31 December 2019:

In thousands of Polish Zlotys (PLN)	Share capital	Share premium	Treasury shares	Retained earnings	Total equity
Balance at 1 January 2020	**12,503**	**150,278**	**(580)**	**188,293**	**350,494**
Comprehensive income:					
Profit for the year ended 31 December 2020	-	-	-	40,143	40,143
Other comprehensive income	-	-	-	-	-
Total comprehensive income/(expense)	**-**	**-**	**-**	**40,143**	**40,143**
Own shares acquired	-	-	(1,033)	-	(1,033)
Dividend	-	-	-	(9,787)	(9,787)
Allocation of 2019 result - share premium increase	-	7,627	-	(7,627)	-
Balance at 31 December 2020	**12,503**	**157,905**	**(1,613)**	**211,022**	**379,817**

In thousands of Polish Zlotys (PLN)	Share capital	Share premium	Treasury shares	Retained earnings[(1)]	Total equity
Balance at 1 January 2019	**12,503**	**150,278**	**-**	**180,699**	**343,480**
Comprehensive income:					
Profit for the year ended 31 December 2019	-	-	-	17,414	17,414
Other comprehensive income	-	-	-	-	-
Total comprehensive income	**-**	**-**	**-**	**17,414**	**17,414**
Dividend paid	-	-	-	(9,820)	(9,820)
Repurchase of own shares	-	-	(580)	-	(580)
Balance at 31 December 2019	**12,503**	**150,278**	**(580)**	**188,293**	**350,494**

(1) In order to fund the purchase of own shares under the buyback program, a capital reserve (within retained earnings) is established for an amount of PLN 2,000 thousand. The capital reserve is subsequently reduced by the amount of the consideration paid for the shares bought back. The capital reserve as at 31 December 2019 amounted to PLN 1,420 thousand and is presented as a part of the retained earnings. As at 25 January 2020 the capital reserve was liquidated.

The notes on pages 5 to 69 are an integral part of these consolidated financial statements.

Consolidated Statement of Cash Flows

For the year ended 31 December		2020	2019
In thousands of Polish Zlotys (PLN)	***Note***		
Cash flows from/(used in) operating activities			
Profit/(loss) for the period		40,143	17,414
Adjustments to reconcile profit for the period to net cash used in operating activities			
Depreciation		1,029	983
Decrease/(increase) in the value of investment property		(163)	(802)
Write-down/(reversal) of inventory		1,326	(594)
Finance expense		5,168	4,862
Finance income		(558)	(750)
Loss/(profit) on sale of property and equipment		60	(115)
Share of loss /(profit) from joint ventures		803	(9,082)
Income tax expense/(benefit)	*14*	10,399	4,667
Decrease/(increase) in inventory and land designated for development	*38*	46,262	(7,496)
Acqustion of Nova Królikarnia project	*5*	(46,914)	(46,069)
Decrease/(increase) in advances for land		(3,700)	-
Decrease/(increase) in trade and other receivables and prepayments	*38*	(11,669)	(8,147)
Decrease/(increase) in other current financial assets		7,918	(7,838)
Increase/(decrease) in trade and other payables and accrued expenses	*38*	17,580	19,566
Increase/(decrease) in provisions		(1,022)	(549)
Increase/(decrease) in advances received		(30,703)	102,518
Interest paid		(8,331)	(12,269)
Interest received		473	582
Income tax received/(paid)	*14*	(2,118)	(4,176)
Net cash from/(used in) operating activities		**25,983**	**52,705**
Cash flows from/(used in) investing activities			
Acqustion of new entity		(1,000)	-
Acquisition of property and equipment		(70)	(1,549)
Proceeds from loans garnet to JV		3,127	3,450
Loans granted to joint ventures		(1,126)	(16,190)
Dividend received from joint ventures		-	12,836
Proceeds from sale of property and equipment		146	115
Net cash from/(used in) investing activities		**1,077**	**(1,338)**
Cash flows (used in)/from financing activities			
Proceeds from bank loans, net of bank charges	*27*	26,029	71,200
Repayment of bank loans	*27*	(39,217)	(96,754)
Proceeds from bond loans, net of issue costs and of bonds replacement	*26*	96,223	31,560
Repayment of bond loans	*26*	(55,000)	(50,000)
Repayment of loans from other		(3,500)	-
Payment of dividend	*23*	(9,787)	(9,820)
Payment of perpetual usufruct rights	*28*	(1,268)	(2,210)
Buy-back of shares	*23*	(1,033)	(580)
Net cash from/(used in) financing activities		**12,447**	**(56,604)**
Net change in cash and cash equivalents		**39,508**	**(5,237)**
Cash and cash equivalents at beginning of period		95,591	100,828
Cash and cash equivalents at end of period*		**135,099**	**95,591**

** Including restricted cash that amounted to PLN 17,606 thousand and PLN 3,829 thousand as 31 December 2020 and as 31 December 2019, respectively.*

The notes on pages 5 to 69 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'), formerly named Ronson Europe N.V., is an European Company with its statutory seat in Warsaw, Poland. The registered office is located at al. Komisji Edukacji Narodowej 57. The Company was incorporated in the Netherlands on 18 June 2007 as Ronson Europe N.V. with statutory seat in Rotterdam. During 2018, the Company changed its name and was transformed into an European Company (SE) and, effectively as of 31 October 2018, transferred its registered office of the Company from the Netherlands to Poland. Address of the Company's registered office is the same as domicile of the Company.

The Company (together with its subsidiaries, 'the Group') is active in the development and sale of residential units, primarily apartments, in multi-family residential real-estate projects to individual customers in Poland. The Company prepared Consolidated Financial Statements for the year ended 31 December 2020, which was authorized for issue on 10 March 2021.

The shares of the Company are traded on the Warsaw Stock Exchange since 5 November 2007. According to publicly available information, as at 31 December 2020, 66.06% of the outstanding shares are controlled indirectly by Amos Luzon Development and Energy Group Ltd. ('A. Luzon Group') and 0.91% of the shares are held by the Company. The remaining 33.03% of the outstanding shares are held by other investors including Nationale Nederlanden Powszechne Towarzystwo Emerytalne S.A. and Metlife Powszechne Towarzystwo Emerytalne S.A.. 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. It shall be noted that as at 31 December 2020, the Company held 1,489,235 own shares (0.91%) and, in accordance with art. 364 § 2 of the Code of Commercial Companies, it does not exercise voting rights from own shares.

As at 31 December 2020, 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 assets 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 2020 and as at 31 December 2019, 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.

Notes to the Consolidated Financial Statements

1. Background and business of the Company

	Entity name	Year of incorporation	Share of ownership & voting rights at the end of	
	Share of ownership & voting rights at the end of		31 December 2020	31 December 2019
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. (2)	2000	-	100%
3	Ronson Development Warsaw Sp. z o.o.	2000	100%	100%
4	Ronson Development Investment Sp. z o.o.	2011	100%	100%
5	Ronson Development Metropol Sp. z o.o.	2011	100%	100%
6	Ronson Development Properties Sp. z o.o. (2)	2002	-	100%
7	Apartments Projekt Sp. z o.o. (2)	2003	-	100%
8	Ronson Development Enterprise Sp. z o.o. (2)	2004	-	100%
9	Ronson Development Company Sp. z o.o. (2)	2005	-	100%
10	Ronson Development Creations Sp. z o.o.	2005	100%	100%
11	Ronson Development Buildings Sp. z o.o. (2)	2005	-	100%
12	Ronson Development Structure Sp. z o.o. (2)	2005	-	100%
13	Ronson Development Poznań Sp. z o.o. (2)	2005	-	100%
14	E.E.E. Development Sp. z o.o. (2)	2005	-	100%
15	Ronson Development Innovation Sp. z o.o. (2)	2006	-	100%
16	Ronson Development Wrocław Sp. z o.o. (2)	2006	-	100%
17	Ronson Development Capital Sp. z o.o. (2)	2006	-	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. (2)	2007	-	100%
23	Ronson Development Architecture Sp. z o.o. (2)	2007	-	100%
24	Ronson Development Skyline Sp. z o.o.	2007	100%	100%
25	Continental Development Sp. z o.o. (2)	2007	-	100%
26	Ronson Development Universal Sp. z o.o. (1)	2007	100%	100%
27	Ronson Development Retreat Sp. z o.o. (2)	2007	-	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.	2009	100%	100%
35	Ronson Development Skyline 2010 Sp. z o.o. w likwidacji (2)	2010	-	100%
36	Ronson Development Partner 3 Sp. z o.o.	2012	100%	100%
37	ACG 23 Sp. z o.o. / Ronson Development Studzienna Sp. z o.o. (9)	2019	100%	-

Notes to the Consolidated Financial Statements

1. Background and business of the Company

	Entity name	Year of incorporation	Share of ownership & voting rights at the end of	
	Share of ownership & voting rights at the end of		31 December 2020	31 December 2019
b.	held indirectly by the Company :			
38	Nova Królikarnia B.V. *(Company with the registered office in the Netherlands)*	2016	100%	100%
39	AGRT Sp. z o.o.	2007	100%	100%
40	Ronson Development Partner 4 Sp. z o.o. – Panoramika Sp.k.	2007	100%	100%
41	Ronson Development Sp z o.o. - Estate Sp.k.	2007	100%	100%
42	Ronson Development Sp. z o.o. - Home Sp.k.	2007	100%	100%
43	Ronson Development Sp z o.o. - Horizon Sp.k.	2007	100%	100%
44	Ronson Development Partner 3 Sp. z o.o. - Sakura Sp.k.	2007	100%	100%
45	Destiny Sp. z o.o. (6)	2007	-	100%
46	Ronson Development Millenium Sp. z o.o. (6)	2007	-	100%
47	Ronson Development Partner 3 sp. z o.o. – Viva Jagodno sp. k.	2009	100%	100%
48	Ronson Development Sp. z o.o. - Apartments 2011 Sp.k.	2009	100%	100%
49	Ronson Development Sp. z o.o. - Idea Sp.k.	2009	100%	100%
50	Ronson Development Partner 2 Sp. z o.o. – Destiny 2011 Sp.k.	2009	100%	100%
51	Ronson Development Partner 2 Sp. z o.o. - Enterprise 2011 Sp.k.	2009	100%	100%
52	Ronson Development Partner 2 Sp. z o.o. - Retreat 2011 Sp.k.	2009	100%	100%
53	Ronson Development Partner 5 Sp. z o.o - Vitalia Sp.k.	2009	100%	100%
54	Ronson Development Sp. z o.o. - 2011 Sp.k.	2009	100%	100%
55	Ronson Development Sp. z o.o. - Gemini 2 Sp.k.	2009	100%	100%
56	Ronson Development Sp. z o.o. - Verdis Sp.k.	2009	100%	100%
57	Ronson Espresso Sp. z o.o.	2006	100%	100%
58	Ronson Development Apartments 2010 Sp. z o.o. (6)	2010	-	100%
59	RD 2010 Sp. z o.o. (6)	2010	-	100%
60	Retreat Sp. z o.o.	2010	100%	100%
61	Enterprise 2010 Sp. z o.o.(6)	2010	-	100%
62	Wrocław 2010 Sp. z o.o. (6)	2010	-	100%
63	E.E.E. Development 2010 Sp. z o.o. (6)	2010	-	100%
64	Ronson Development Nautica 2010 Sp. z o.o.	2010	100%	100%
65	Gemini 2010 Sp. z o.o. (6)	2010	-	100%
66	Ronson Development Sp. z o.o. - Naturalis Sp.k.	2011	100%	100%
67	Ronson Development Sp. z o.o. - Impressio Sp.k.	2011	100%	100%
68	Ronson Development Partner 3 Sp. z o.o.- Nowe Warzymice Sp. k	2011	100%	100%
69	Ronson Development Sp. z o.o. - Providence 2011 Sp.k.	2011	100%	100%
70	Ronson Development Partner 2 Sp. z o.o. - Capital 2011 Sp. k.	2011	100%	100%
71	Ronson Development Partner 5 Sp. z o.o. - Miasto Marina Sp.k.	2011	100%	100%
72	Ronson Development Partner 5 Sp. z o.o. - City 1 Sp.k.	2012	100%	100%
73	Ronson Development Partner 2 Sp. z o.o. - Miasto Moje Sp. k.	2012	100%	100%
74	Ronson Development sp. z o.o. – Ursus Centralny Sp. k.	2012	100%	100%
75	Ronson Development Sp. z o.o. - City 4 Sp.k.	2016	100%	100%
76	Ronson Development Partner 2 Sp. z o.o. – Grunwald Sp.k.	2016	100%	100%
77	Ronson Development Sp. z o.o. Grunwaldzka" Sp.k. *(before named as Ronson Development Sp. z o.o. - Projekt 2 Sp.k.)*	2016	100%	100%
78	Ronson Development Sp. z o.o. - Projekt 3 Sp.k.	2016	100%	100%
79	Ronson Development Sp. z o.o. - Projekt 4 Sp.k.	2017	100%	100%
80	Ronson Development Sp. z o.o. - Projekt 5 Sp.k.	2017	100%	100%
81	Ronson Development Sp. z o.o. - Projekt 6 Sp.k.	2017	100%	100%
82	Ronson Development Sp. z o.o. - Projekt 7 Sp.k.	2017	100%	100%
83	Ronson Development Sp. z o.o. - Projekt 8 Sp.k.	2017	100%	100%
84	Ursus 2017 Sp. z o.o. (4)	2017	-	100%
85	Projekt City Sp. z o.o. (5)	2017	-	100%
86	Bolzanus Limited *(Company with the registered office in Cyprus)*	2013	100%	100%
87	Park Development Properties Sp. z o.o. - Town Sp.k.	2007	100%	100%
88	Tras Sp. z o.o. (7)	2015	-	100%
89	Pod Skocznią Project Sp. z o.o. (7)	2015	-	100%
90	District 20 Sp. z o.o. (7)	2015	-	100%
91	Arkadia Development Sp. z o.o. (7)	2015	-	100%
92	Królikarnia 2015 Sp. z o.o. (7)	2015	-	100%
93	Tras 2016 Sp. z o.o.	2011	100%	100%
94	Pod Skocznia Projekt 2016 Sp. z o.o. (3)	2011	-	100%

Notes to the Consolidated Financial Statements

1. Background and business of the Company

	Entity name	Year of incorporation	Share of ownership & voting rights at the end of	
	Share of ownership & voting rights at the end of		31 December 2020	31 December 2019
b.	**held indirectly by the Company :**			
95	District 20 – 2016 Sp. z o.o. (3)	2011	-	100%
96	Arkadia Development 2016 Sp. z o.o. (3)	2011	-	100%
97	Królikarnia 2016 Sp. z o.o. (3)	2011	-	100%
98	Kroli Development Sp. z o.o. (3)	2012	-	100%
99	Park Development Properties Sp. z o.o.	2011	100%	100%
100	Jasminova 2016 Sp. z o.o.	2016	100%	100%
101	Town 2016 Sp. z o.o.	2016	100%	100%
102	E.E.E. Development 2016 Sp. z o.o. (7)	2016	-	100%
103	Enterprise 2016 Sp. z o.o.	2016	100%	100%
104	Wrocław 2016 Sp. z o.o.	2016	100%	100%
105	Darwen Sp. z o.o.	2017	100%	100%
106	Truro Sp. z o.o.	2017	100%	100%
107	Tregaron Sp. z o.o.	2017	100%	100%
108	Totton Sp. z o.o.	2017	100%	100%
109	Tring Sp. z o.o.	2017	100%	100%
110	Thame Sp. z o.o.	2017	100%	100%
111	Troon Sp. z o.o.	2017	100%	100%
112	Tywyn Sp. z o.o. (8)	2018	100%	-
c.	**other entities not subject to consolidation:**			
113	Coralchief sp. z o.o.	2018	50%	50%
114	Coralchief sp. z o.o. - Projekt 1 sp. k.	2016	n/a	n/a
115	Ronson IS sp. z o.o.	2009	50%	50%
116	Ronson IS sp. z o.o. sp. k.	2012	n/a	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) In connection with the merger, registered in the National Court Register on 4 May 2020, the company was taken over by the Ronson Development South sp. z o.o. and by law from 4 May 2020 Ronson Development South sp. z o.o. took over all the rights and obligations of the company

(3) In connection with the merger, registered in the National Court Register on 7 May 2020, the company was taken over by the Tras 2016 sp. z o.o. and by law from 7 May 2020 Tras 2016 sp. z o.o. took over all the rights and obligations of the company

(4) In connection with the merger, registered in the National Court Register on 1 April 2020, the company was taken over by the Destiny sp. z o.o. and by law from 1 April 2020 Destiny sp. z o.o. took over all the rights and obligations of the company

(5) In connection with the merger, registered in the National Court Register on 1 April 2020, the company was taken over by the RD 2010 sp. z o.o. and by law from 1 April 2020 RD 2010 sp. z o.o. took over all the rights and obligations of the company

(6) In connection with the merger, registered in the National Court Register on 1 July 2020, the company was taken over by the Ronson Development South sp. z o.o. and by law from 1 July 2020 Ronson Development South sp. z o.o. took over all the rights and obligations of the company

(7) In connection with the merger, registered in the National Court Register on 1 July 2020, the company was taken over by the Tras 2016 sp. z o.o. and by law from 1 July 2020 Tras 2016 sp. z o.o. took over all the rights and obligations of the company.

(8) Acquired during execution of third call option agreement on 9 April 2020.

(9) Entity acquired on 18 December 2020. Change of the name into Ronson Development Studzienna Sp. z o.o. was registered in KRS on 8 March 2021.

Notes to the Consolidated Financial Statements

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 2020. The Group is aware about new standards and interpretations that have been issued but have not yet become effective. Information about standards and interpretations were presented below.

The Consolidated Financial Statements were authorized by the Boards of Directors of Ronson Development SE on 10 March 2021. 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 2020 in both English and Polish languages, while the Polish version is binding.

New and amended standards adopted by the Group

The Group has applied the following standards and amendments for the first time for their annual reporting period commencing 1 January 2020:

• Definition of Material – amendments to IAS 1 and IAS 8
• Definition of a Business – amendments to IFRS 3
• Interest Rate Benchmark Reform – amendments to IFRS 9, IAS 39 and IFRS 7
• Revised Conceptual Framework for Financial Reporting

The Group also elected to adopt the following amendments early:

• Annual Improvements to IFRS Standards 2018-2020 Cycle.

The above standards, amendments and improvements do not have any material impact on the Consolidated Financial Statements of the Group and should not have any material impact on current and future periods.

New standards and interpretations not yet adopted

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2020 reporting periods and have not been early adopted by the Group. These standards are not expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

(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(q), Note 16 and Note 32.

(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.

Notes to the Consolidated Financial Statements

2. Basis of preparation and measurement

(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 16 – Investment property
- Note 18 – Deferred tax asset recognition
- Note 19 – Inventory and residential land bank
- Note 31 – Provisions
- Note 34 – 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.

Recognition of revenue

The revenue from the sale of real estate (residential units, commercial units, etc.) is recognised at the moment when control over the real estate is transferred to the customer of said real estate together with the transfer of significant risks and rewards typical to the ownership rights. According to the Company's judgement this occurs at the moment of handover of the real estate to the customer, which is based on a handover document signed by both parties and subject to the condition that the customer has paid 100% of the sale price for the real estate.

Estimation of net realizable value for inventory and residential land bank

Inventory and residential land bank 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 land bank 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.

Valuation of lease liability

According to the IFRS 16 standard that was implemented by the Company the lease payments shall be discounted using the rate implicit in the lease contract, or if this rate cannot be readily determined, the Company's incremental borrowing rate. The Company decided to use incremental borrowing rate ('IBR') that was determined based on reference rate adjusted by margin. The IBR rate was built based on reference rate (30 years state bonds quotation) increased by margin which represents higher credit risk of the Company due to worse ratios, risk related to unusual length of potential financing and no possibility to establish security for such long-term financing.

Notes to the Consolidated Financial Statements

2. Basis of preparation and measurement

(d) Use of estimates and judgments

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 strategies.

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 authorized 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 amend to 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 14 and Note 18.

Notes to the Consolidated Financial Statements

2. Basis of preparation and measurement

(e) Basis of consolidation

These Consolidated Financial Statements comprise the financial statements of the Company and its subsidiaries as at 31 December 2020. 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.

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, 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

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 the 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), after receiving valid occupancy permit for the building.

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 to 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 transaction costs. In the case of a financial asset not at fair value through profit or loss. 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

(c) Financial instruments

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

(c) Financial instruments

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

Category	Statement of financial position item	Measurement
Assets measured at amortized costs	Other current financial assets	Amortized cost method
	Loans granted to joint ventures	Fair value through P&L
	Cash and cash equivalent	Amortized cost method
	Trade and other receivables and prepayments	Amortized cost method
Liabilities measured at amortized costs	Bond loans	Amortized cost method
	Secured bank loans	Amortized cost method
	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

The Group recognizes assets and liabilities resulting from leases with a period exceeding 12 months, unless the underlying asset is of low value. The only material lease agreements with a period exceeding 12 months into which the Group has entered, are the rights of perpetual usufruct of real estate properties.

Notes to the Consolidated Financial Statements

3. Significant accounting policies

(e) Leases

The method of valuation and presentation of lease in the Group's financial statements

The Group recognizes 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 recognizes 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. The Group has decided to present right-of-use assets under the same item in the Consolidated Statement of Financial Position, under which the relevant underlying assets would be presented if they were owned by the Group. The lease liabilities are presented separately from other liabilities in long term liabilities with respect to lease of investment properties and short term liabilities with respect to lease of inventory.

The right of perpetual usufruct of land related to residential projects:

Assets - was recognized in the Consolidated Statement of Financial Position under "Inventory".

Liabilities - was presented in the Consolidated Statement of Financial Position as a short term under "Lease liabilities related to perpetual usufruct of land".

Costs - the Group depreciates the right of use asset on straight line basis over the lease period. On the other hand the Group recognizes finance expense to reflect interest expense on lease liability. Those costs are capitalized to Inventory as long as development project qualifies for capitalization.

Derecognition – at the moment occupancy permit is issued the Group becomes the owner of the land (based on The Act of July 20, 2018 on transformation of the right of perpetual usufruct of land built for housing purposes into the ownership right of these lands). Since then the Group is no longer liable for perpetual usufruct fees but pays conversion fees. At the moment occupancy permit is issued and revenue from the sale of residential units is recognized (when the performance obligations are satisfied and when the customer obtains control of the good, i.e. upon signing of the protocol of technical acceptance and the transfer of the key to the buyer of the residential unit and total payment obtained) the liability for conversion fee and related asset are reclassified to other payables and other receivables and are presented under "Trade and other payables and accrued expenses" and "Trade and other receivables and prepayments" respectively. The Group is legally released from the obligation to pay conversion fees only upon signing the final notary deed for transferring the ownership of unit together with share in the land to the client. Carrying amounts of receivables and payables are derecognized from Consolidated Statement of Financial Position once final notary deeds are signed with clients.

Despite the fact that based on the Group's core business the operating cycle of inventory is on average 5 years i.e. plots of land are purchased for the purpose of the development of residential projects and transferring the ownership of the units together with share in the land to the client. Under IFRS 16 the Group is not allowed to consider the period for which the Group expects to be the usufructuary despite the fact that the period is quite precisely known. Therefore once lease liabilities are recognized, the Group is required to discount all future payments resulting from the right of perpetual usufruct for the period for which the right is granted to individual properties (it can be up to 99 years). Following the requirements of IFRS 16 the Group recognize lease liabilities of which majority will not be paid by the Group.

The right of perpetual usufruct of investment properties:

Assets - was recognized in the balance sheet under "Investment properties".

Liabilities - was presented in the balance sheet as a long term under "Lease liabilities related to perpetual usufruct of investment property".

Notes to the Consolidated Financial Statements

3. Significant accounting policies

(e) Leases

Costs - the Group fair values the right of use asset at each balance sheet date and recognizes finance expense to reflect interest expense on lease liability.

(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 land bank and Inventories

The Group estimates that an operating cycle for projects/stage of a big project lasts for 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.
When a project is within the operating cycle the project presented as short-term assets under inventory, in other cases the project presented as long-term under Residential land bank.

(i) Inventory

Inventory is measured at cost increased by capitalized costs incurred relating to the preparation of the projects for construction, in the value not higher than the net realizable value. The cost of inventory includes expenditure incurred relating to the construction of a project.
Inventory comprises residential real estate projects to individual customers.

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,
f) professional fees attributable to the development of the project,
g) construction overheads and other directly related costs.
h) lease assets, see note 3 (e).

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

(g) Residential land bank and Inventories

(ii) Residential land bank

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 land bank", whereas short-term part of the land bank is presented in current assets of the consolidated statement of financial position, in inventory balance. Residential land bank is measured at cost increased by capitalized costs incurred relating to the preparation of the projects for construction, in the value not higher than the net realizable value.

(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.

Notes to the Consolidated Financial Statements

3. Significant accounting policies

(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.

(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) 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.

Notes to the Consolidated Financial Statements

3. Significant accounting policies

(o) 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.

(p) 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

(q) 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 32 and Note 16.

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. 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 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 2020**

	Warsaw				**Poznań**		**Wrocław**		**Szczecin**		**Unallocated**	**IFRS adjustments**	**Total**
	Apartments	**Houses**	**Joint venture**	**Rental**	**Apartments**	**Houses**	**Apartments**	**Houses**	**Apartments**	**Houses**			
Segment assets	417,474	224,241	57,143	9,797	39,602	-	86,106	-	72,486	-	-	(47,202)	859,648
Unallocated assets	-	-	-	-	-	-	-	-	-	-	78,119	-	78,119
Total assets	**417,474**	**224,241**	**57,143**	**9,797**	**39,602**	**-**	**86,106**	**-**	**72,486**	**-**	**78,119**	**(47,202)**	**937,767**
Segment liabilities	187,191	64,058	48,937	1,552	5,601	-	45,123	-	11,047	-	-	(48,937)	314,572
Unallocated liabilities	-	-	-	-	-	-	-	-	-	-	243,378	-	243,378
Total liabilities	**187,191**	**64,058**	**48,937**	**1,552**	**5,601**	**-**	**45,123**	**-**	**11,047**	**-**	**243,378**	**(48,937)**	**557,950**

In thousands of Polish Zlotys (PLN) — **As at 31 December 2019**

	Warsaw				**Poznań**		**Wrocław**		**Szczecin**		**Unallocated**	**IFRS adjustments**	**Total**
	Apartments	**Houses**	**Joint venture**	**Rental**	**Apartments**	**Houses**	**Apartments**	**Houses**	**Apartments**	**Houses**			
Segment assets	478,448	108,162	34,104	10,098	90,333	-	88,723	-	100,179	-	-	(21,510)	888,537
Unallocated assets	-	-	-	-	-	-	-	-	-	-	54,646	-	54,646
Total assets	**478,448**	**108,162**	**34,104**	**10,098**	**90,333**	**-**	**88,723**	**-**	**100,179**	**-**	**54,646**	**(21,510)**	**943,183**
Segment liabilities	214,686	38,902	22,090	-	49,344	-	50,928	-	37,333	-	-	(22,090)	391,193
Unallocated liabilities	-	-	-	-	-	-	-	-	-	-	201,496	-	201,496
Total liabilities	**214,686**	**38,902**	**22,090**	**-**	**49,344**	**-**	**50,928**	**-**	**37,333**	**-**	**201,496**	**(22,090)**	**592,689**

Notes to the Consolidated Financial Statements

4. Segment reporting

In thousands of Polish Zlotys (PLN) **For the year ended 31 December 2020**

	Warsaw				Poznań		Wrocław		Szczecin		Unallocated	IFRS adjustments	Total
	Apartments	Houses	Joint venture	Rental	Apartments	Houses	Apartments	Houses	Apartments	Houses			
Revenue	186,290	28,027	2,065	747	82,924	-	46,600	-	56,645	-	-	(2,065)	401,233
Segment result	62,931	4,405	(911)	(260)	17,648	-	(395)	-	994	-	-	911	85,322
Unallocated result	-	-	-	-	-	-	-	-	-	-	(30,169)	-	(30,169)
Result from operating activities	**62,931**	**4,405**	**(911)**	**(260)**	**17,648**	**-**	**(395)**	**-**	**994**	**-**	**(30,169)**	**911**	**55,153**
Net finance income/ (expenses)	(275)	(450)	(533)	(49)	(44)	-	(414)	-	(110)	-	(3,269)	533	(4,611)
Profit/(loss) before tax	**62,655**	**3,955**	**(1,444)**	**(309)**	**17,604**	**-**	**(809)**	**-**	**884**	**-**	**(33,438)**	**1,444**	**50,542**
Income tax expenses													(10,399)
Profit for the year													**40,143**
Capital expenditure	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**

In thousands of Polish Zlotys (PLN) **For the year ended 31 December 2019**

	Warsaw				Poznań		Wrocław		Szczecin		Unallocated	IFRS adjustments	Total
	Apartments	Houses	Joint venture	Rental	Apartments	Houses	Apartments	Houses	Apartments	Houses			
Revenue	161,545	15,118	87,190	767	10,392	-	41,621	-	3,175	-	-	(87,190)	232,618
Segment result	33,558	108	20,688	431	(3,228)	-	5,696	-	1,347	-	-	(11,606)	46,994
Unallocated result	-	-	-	-	-	-	-	-	-	-	(20,801)	-	(20,801)
Result from operating activities	**33,558**	**108**	**20,688**	**431**	**(3,228)**	**-**	**5,696**	**-**	**1,347**	**-**	**(20,801)**	**(11,606)**	**26,193**
Net finance income/ (expenses)	(105)	(22)	(216)	(37)	(28)	-	(30)	-	(17)	-	(3,873)	216	(4,112)
Profit/(loss) before tax	**33,453**	**86**	**20,472**	**394**	**(3,256)**	**-**	**5,666**	**-**	**1,330**	**-**	**(24,674)**	**(11,390)**	**22,081**
Income tax expenses													(4,667)
Profit/(loss) for the year													**17,414**
Capital expenditure	**830**	**-**	**-**	**-**	**-**	**-**	**317**	**-**	**-**	**-**	**402**	**-**	**1,549**

Notes to the Consolidated Financial Statements

5. Acquisition of the Nova Królikarnia project

On 10 April 2018, the Company completed the acquisition of certain shares 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 m^2 (at the day of the transaction the project included, completed projects with 53 units and an aggregate floor space of 4,950 m^2, projects under construction with 126 units and an aggregate floor space of 11,150 m^2 and a project in pipeline with 18 units and an aggregate floor space of 3,400 m^2). All amounts were repaid as at 31 December 2019.

In addition to the above, 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 exercise of the three call options allows the Company to develop 161 units with an aggregate floor space of approximately 21,500 m^2.

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.

On 5 April 2019, the Company exercised the first call option under the Call Option Agreements for the total price of PLN 33.9 million as a result of which the Company (via its subsidiary) acquired shares in companies holding four substages of Nova Królikarnia project comprising 84 units with an aggregate floor space of around 9,200 m^2. Moreover the Company signed the annex changing the schedule of payment of the first call option in which the price was determined to be paid in three installments: PLN 7.0 million was paid in April 2019, PLN 16.9 million was paid in October 2019 and PLN 10.0 million was paid in October 2020.

On 7 October 2019, the Company exercised the second call option under the Call Option Agreements for the total price of PLN 35.1 million as a result of which the Company (via its subsidiary) acquired shares in companies holding three substages of Nova Królikarnia project comprising 44 units with an aggregate floor space of around 9,000 m^2. Moreover the Company signed the annexes changing the schedule of payment of second call option in which the price is determined to be paid in three installments: PLN 8.1 million was paid in October 2019, PLN 5.0 million was paid in February 2020 and PLN 22.0 million was paid in April 2020.

On 9 April 2020, the Company (via its subsidiary) exercised that last (third) call option under the Call Option Agreement in total amount of PLN 9.9 mio, as a result of this transaction the Company acquired shares in one substage of the Nova Królikarnia project with an aggregate floor space of 3,300 m^2. All price for realization of third call option in amount of PLN 9.9 mio was paid in April 2020.

All payments concerning realization of all three call options were made according to the abovementioned schedule. As at 31 December 2020 all payables related to Acquisition of Nova Królikarnia Project were reduced to nil.

Certain fees in the maximum amount of PLN 11.9 million were due by the Company if the Company would not exercise all three call options within certain deadlines. As at 31 December 2020 as a result of realization of all three call options all fees were reduced to nil.

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

For the year ended 31 December *In thousands of Polish Zlotys (PLN)*	**2020**	**2019**
Purchase consideration paid (Nova Królikarnia transaction)	-	13,000
Purchase consideration paid (Call Option I)	10,000	23,916
Purchase consideration paid (Call Option II)	27,000	8,084
Purchase consideration paid (Call Option III)	9,900	-
Transaction costs	22	1,071
Less: Net cash acquired at the transaction date	-	(2)
Net cash outflow	**46,922**	**46,069**

Notes to the Consolidated Financial Statements

6. 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 30.

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

For the year ended 31 December *In thousands of Polish Zlotys (PLN)*	**2020**	**2019**
City Link III	149,448	30,950
Grunwald2	80,916	-
Miasto Marina	46,485	4,356
Panoramika IV	28,888	2,241
Miasto Moje III	33,388	-
Panoramika V	27,757	-
Nova Królikarnia 2c	18,584	-
Miasto Moje I&II	1,446	51,979
Nova Królikarnia 2b	4,074	50,998
Nova Królikarnia 1d	2,237	28,162
Vitalia I & II	-	29,763
Chilli IV	-	6,103
Moko	-	8,847
Młody Grunwald	1,248	3,775
Other	5,786	6,290
Total revenue	**400,257**	**223,464**

(1) Other revenue are related to sales of 7 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. Revenues from sale of services amounted to PLN 976 thousand during the year ended 31 December 2020 and to PLN 2,654 thousand during the year ended 31 December 2019.

Notes to the Consolidated Financial Statements

7. Cost of sales

For the year ended 31 December *In thousands of Polish Zlotys (PLN)*	2020	2019
City Link III	91,999	18,955
Grunwald2	62,265	-
Miasto Marina	46,472	4,356
Panoramika IV	28,639	2,241
Miasto Moje III	27,546	-
Panoramika V	27,034	-
Nova Królikarnia 2c	16,856	-
Miasto Moje I&II	1,127	40,632
Nova Królikarnia 2b	3,676	45,909
Nova Królikarnia 1d	1,845	24,124
Vitalia I & II	-	24,644
Chilli IV	-	5,878
Moko	-	6,545
Młody Grunwald	1,199	3,775
Other	5,041	5,519
Write-down of inventory and residential land bank (1)	1,325	(594)
Total cost of sales	**315,023**	**181,984**

(1) For additional information see Note 19.

8. Selling and marketing expenses

For the year ended 31 December *In thousands of Polish Zlotys (PLN)*	2020	2019
Advertising	4,684	4,560
Depreciation	385	509
Other	859	734
Total selling and marketing expenses	**5,928**	**5,803**

9. Administrative expenses

For the year ended 31 December *In thousands of Polish Zlotys (PLN)*	*Note*	2020	2019
Personnel expenses	*10*	15,762	14,450
External services		3,007	2,889
Consulting fees to main shareholder		865	840
Materials and energy		628	653
Depreciation		644	474
Taxes and charges		1,336	157
Other		300	718
Total administrative expenses		**22,542**	**20,181**

Notes to the Consolidated Financial Statements

10. Personnel expenses

For the year ended 31 December *In thousands of Polish Zlotys (PLN)*	**2020**	**2019**
Wages and salaries	13,746	12,489
Social security and other benefits	2,016	1,961
Total personal expense	**15,762**	**14,450**
Average number of personnel employed	**74**	**73**

11. Other expenses

For the year ended 31 December *In thousands of Polish Zlotys (PLN)*	**2020**	**2019**
Maintenance expense of unsold units	1,463	1,344
Cost of repairs and defects	548	1,087
Expense for contractual penalties and compensation	106	274
Settlement of VAT related of previous periods	-	399
Write-down of trade receivables	1,081	163
Cost of research and due diligence of new projects	-	63
Other expenses	202	433
Total other expenses	**3,401**	**3,763**

12. Other income

For the year ended 31 December *In thousands of Polish Zlotys (PLN)*	**2020**	**2019**
Revenues from contractual penalties and compensation	299	337
Rental income from inventory	455	706
Net profit on sale of property and equipment	321	115
Return of perpetual usefruct from the city hall related to previous years	-	508
Other income	847	68
Total other income	**1,923**	**1,734**

Notes to the Consolidated Financial Statements

13. Finance income and expense

For the year ended 31 December 2020 *In thousands of Polish Zlotys (PLN)*	Total amount	Amount capitalized	Amount capitalized (under IFRS 16)	Recognized in the statement of comprehensive income
Interest on granted loans	375	-	-	375
Interest income on bank deposits	133	-	-	133
Other Finance income	50	-	-	50
Finance income	**558**	**-**	**-**	**558**
Interest expense on financial liabilities	(8,428)	5,156	-	(3,272)
Commissions and fees	(2,943)	1,718	-	(1,225)
Other finance expense	(639)	-	-	(639)
Finance expense	**(12,011)**	**6,875**	**-**	**(5,136)**
Finance expense - on lease liabilities	**(949)**	**-**	**917**	**(32)**
Net finance income	**(12,401)**	**6,875**	**917**	**(4,610)**

For the year ended 31 December 2019 *In thousands of Polish Zlotys (PLN)*	Total amount	Amount capitalized	Amount capitalized (under IFRS16)	Recognized in the statement of comprehensive income
Interest on granted loans	257	-	-	257
Interest income on bank deposits	396	-	-	396
Other finance income	97	-	-	97
Finance income	**750**	**-**	**-**	**750**
Interest expense on financial liabilities	(11,013)	7,187	-	(3,826)
Commissions and fees	(2,651)	1,766	-	(885)
Other finance expense	(221)	106	-	(115)
Finance expense	**(13,885)**	**9,059**	**-**	**(4,826)**
Finance expense - on lease liabilities	**(2,141)**	**-**	**2,105**	**(36)**
Net finance expense	**(15,276)**	**9,059**	**2,105**	**(4,112)**

Notes to the Consolidated Financial Statements

14. Income tax

For the year ended 31 December	2020	2019
In thousands of Polish Zlotys (PLN)		
Current tax		
Current period	12,558	3,438
Taxation in respect of previous periods	-	363
Total current tax expense	**12,558**	**3,801**
Deferred tax		
Origination and reversal of temporary differences	(792)	932
Tax losses utilized/(recognized)	(1,367)	(66)
Total deferred tax expense/(benefit)	**(2,159)**	**866**
Total income tax expense	**10,399**	**4,667**

For the year ended 31 December	2020	2019
In thousands of Polish Zlotys (PLN)		
Profit for the year	40,143	17,414
Total income tax benefit	10,399	4,667
Profit before income tax	**50,542**	**22,081**
Expected income tax using the Polish tax rate (19%)	**9,603**	**4,195**
Tax effect on:		
Taxes in respect of previous periods	(334)	363
Non-deductible expenses, net	368	567
Movement in unrecognized deferred tax assets on loss carry forward in Poland	315	938
Tax benefit in connection with the organizational restructuring of the Group	(452)	(2,422)
Reversal of surplus in Nova Transaction (1)	735	1,770
Unrecognized deferred tax assets in previous periods	-	(325)
Deferred tax asset write-off	506	-
Other differences	(342)	(419)
Tax expense/(benefit) for the period	**10,399**	**4,667**
Effective tax rate	**20.57%**	**21.14%**

(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)).

Notes to the Consolidated Financial Statements

15. Property and equipment

For the year ended 31 December 2020

In thousands of Polish Zlotys (PLN)	Vehicles	Equipment	Building	Total
Cost or deemed cost				
Balance at 1 January	1,510	3,374	8,632	13,516
	-	-	-	-
Additions	-	70	1,473	1,543
Sales and disposals	(480)	-	-	(480)
Closing balance	**1,030**	**3,444**	**10,105**	**14,579**
Depreciation and impairment losses				
Balance at 1 January	582	2,435	1,947	4,964
Depreciation for the period	237	525	267	1,029
Sales and disposals	(211)	-	-	(211)
Closing balance	**608**	**2,960**	**2,214**	**5,782**
Carrying amounts				
At 1 January	928	939	6,685	8,552
Closing balance	**422**	**484**	**7,891**	**8,797**

For the year ended 31 December 2019

In thousands of Polish Zlotys (PLN)	Vehicles	Equipment	Building	Total
Cost or deemed cost				
Balance at 1 January	1,220	2,941	8,116	12,277
Additions	600	433	516	1,549
Sales and disposals	(310)	-	-	(310)
Closing balance	**1,510**	**3,374**	**8,632**	**13,516**
Depreciation				
Balance at 1 January	669	1,897	1,725	4,291
Depreciation for the period	223	538	222	983
Sales and disposals	(310)	-	-	(310)
Closing balance	**582**	**2,435**	**1,947**	**4,964**
Carrying amounts				
At 1 January	551	1,044	6,391	7,986
Closing balance	**928**	**939**	**6,685**	**8,552**

As at 31 December 2020 and 31 December 2019, the Property for the amount of PLN 6,489 thousands and of PLN 5,402 thousands was used to secure bond loans series R, respectively.

Impairment loss

In the years ended 31 December 2020 and 31 December 2019, the Group did not recognize any impairment loss with respect to property and equipment.

Notes to the Consolidated Financial Statements

16. Investment property

For the year ended 31 December *In thousands of Polish Zlotys (PLN)*	2020	2019
Balance at 1 January	10,098	8,743
IFRS 16	(8)	553
Transfer to Property, equipment and intangible assets	(827)	-
Change in fair value during the year	(307)	802
Balance as at 31 December, including:	**8,956**	**10,098**
Cost	***3,646***	***4,058***
IFRS 16	***545***	***553***
Fair value adjustments	***4,765***	***5,487***

As at 31 December 2020, 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 a plot of land located in Warsaw (71, Gwiaździsta Street) and an office building with an aggregate usable floor space of 1,318 m^2 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").

Investment property is valued at fair value determined as at 31 December 2020 by an independent appraiser, having an appropriate recognized professional qualification using the method of discounted cash flows. As at 31 December 2019, the fair value of Investment property was determined by the Management.

As at 31 December 2020, the Bielany IP was valued based on the discounted cash flow approach, including the assumption as to an annual discount rate of 7% (during a 6 year forecast period), a capitalization exit yield of 7.5%, a monthly rate of PLN 45 per m^2. If the yields used for the appraisals of investment property on 31 December 2020, had been 100 basis points higher than was the case at that time, the value of the investments would have been 10% lower. In this situation, the Company's shareholders' equity would have been PLN 874 thousand lower.

During the year ended 31 December 2020 and 2019 the rental income from investment property amounted to PLN 757 thousand and PLN 767 thousand, respectively.

The investment properties are currently occupied.

The investment properties are used to secure bond loans series R.

Notes to the Consolidated Financial Statements

17. Investment in joint ventures

As at 31 December

In thousands of Polish Zlotys (PLN)	2020	2019
Loans granted	11,634	12,311
Share in net equity value of joint ventures	(1,693)	283
The Company's carrying amount of the investment	**9,941**	**12,594**
Presented as Loans granted to joint ventures (current assets)	(1,039)	(1,977)
Investment in joint ventures	**8,902**	**10,617**

Share of profit/(loss) from joint ventures

The Investment in joint ventures comprise the Company's 50% interest in four joint ventures companies:
- Ronson IS sp. z o.o. and in Ronson IS Sp. z o.o. Sp.k., both involved in the development and sale of residential units in Warsaw known as City Link I and II,
- Coralchief Sp. z o.o. and Coralchief Sp. z o.o. – Projekt 1 Sp.k. which are running the Wilanów Tulip project.

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:

As at 31 December

In thousands of Polish Zlotys (PLN)	2020	2019
Opening balance	**(572)**	**3,439**
Share of profit/(loss) in joint ventures		
Net result from joint venture during the period	(1,121)	8,825
Offsetting net results of the joint venture with inter-company interest during the period	318	257
Share of profit/(loss) of joint ventures	**(803)**	**9,082**
Dividend paid	**-**	**(12,836)**
Closing balance before offsets	**(1,375)**	**(315)**
Cancelling the offset of intercompany interest accrued during the period	(318)	(257)
Total closing balance	**(1,693)**	**(572)**
Cancelling the negative result from joint venture during the period	**-**	**855**
Total closing balance	**(1,693)**	**283**

Notes to the Consolidated Financial Statements

17. Investment in joint ventures

Share of profit/(loss) from joint ventures

Summarised financial information of the joint ventures is presented below:

As at 31 December	**2020**	**2019**
In thousands of Polish Zlotys (PLN)		
Assets		
Fixed assets	40	98
Inventory	52,026	26,011
Cash and cash equivalents	1,942	2,511
Other current financial assets	3,177	2,560
Loans granted to related parties	-	1,977
Other assets	-	947
Liabilities		
Loans from shareholders	(28,476)	(26,143)
Advances received	(24,760)	(4,620)
Other liabilities	(7,335)	(4,485)
Equity	**(3,386)**	**(1,144)**
Company share	**(1,693)**	**(572)**

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

For the year ended 31 December	**2020**	**2019**
In thousands of Polish Zlotys (PLN)		
Revenue	2,065	87,190
Cost of sales	(1,511)	(65,300)
Gross profit	**554**	**21,890**
Administrative expenses[(1)]	(1,123)	(3,058)
Selling and marketing expenses	(627)	(429)
Other income/(cost)	(215)	(277)
Finance income	12	75
Finance expense	(843)	(548)
Profit/(loss) before taxation	**(2,242)**	**17,653**
Income tax benefit/(expense)	-	(1)
Profit for the year (continuing operations)	**(2,242)**	**17,652**
Total comprehensive income for the year (continuing operations)	**(2,242)**	**17,652**
The Company's share of profit/(loss) for the year	**(1,121)**	**8,825**

(1) Including management fee to the Group amounting to 976 thousand and PLN 2,564 thousand during the year ended 31 December 2020 and 31 December 2019, respectively.

Notes to the Consolidated Financial Statements

17. Investment in joint ventures

Loans granted to the joint ventures

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

As at 31 December

In thousands of Polish Zlotys (PLN)	2020	2019
Opening balance	**13,166**	**-**
Loans granted	1,126	16,190
Loans repaid	(3,107)	(3,450)
Accrued interest	595	514
Interest paid	(146)	(88)
Total closing balance	**11,634**	**13,166**
Offset of the negative result from joint venture during the period	**-**	**(855)**
Total closing balance	**11,634**	**12,311**

As at 31 December 2020, from the total amount of loans granted to joint ventures (amounting in total to PLN 11,634 thousand – before offset) loans in the aggregate amount of PLN 1,039 thousand are maturing no later than 31 December 2021. The short term loans granted to joint ventures cannot be regarded as a part of the investment in joint ventures and are presented in the Consolidated Statement of the Financial Position under current assets as Loans granted to joint ventures.

The loans granted to joint venture bear a variable rate of WIBOR 3M plus 4% margin.

Notes to the Consolidated Financial Statements

18. 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:

In thousands of Polish Zlotys (PLN)	**Opening balance 1 January 2020**	**Recognized in the statement of comprehensive income**	**Closing balance 31 December 2020**
Deferred tax assets			
Tax loss carry forward	2,124	1,367	3,491
Accrued interest	3,704	856	4,560
Accrued expense	657	62	719
Write-down on work in progress	2,452	(850)	1,602
Other*	4,106	(438)	3,668
Total deferred tax assets	**13,043**	**997**	**14,040**
Deferred tax liabilities			
Difference between tax base and carrying value of inventory	13,732	(947)	12,785
Accrued interest	437	(271)	166
Fair value gain on investment property	1,042	(11)	1,031
Other	515	67	582
Total deferred tax liabilities	**15,726**	**(1,162)**	**14,564**
Total deferred tax benefit (see Note 14)		**(2,159)**	
Deferred tax assets	13,043		14,040
Deferred tax liabilities	15,726		14,564
Offset of deferred tax assets and liabilities for individual companies	(6,108)		(5,003)
Deferred tax assets reported in the Consolidated Statement of Financial Position	**6,935**		**9,037**
Deferred tax liabilities reported in the Consolidated Statement of Financial Position	**9,618**		**9,562**

* *Including deferred tax asset from contributions.*

Notes to the Consolidated Financial Statements

18. Deferred tax assets and liabilities

In thousands of Polish Zlotys (PLN)	Opening balance 1 January 2019	Recognized in the statement of comprehensive income	Closing balance 31 December 2019
Deferred tax assets			
Tax loss carry forward	2,058	66	2,124
Accrued interest	2,348	1,356	3,704
Accrued expense	777	(120)	657
Write-down of inventory and residential landbank	2,788	(336)	2,452
Other*	1,437	2,669	4,106
Total deferred tax assets	**9,408**	**3,635**	**13,043**
Deferred tax liabilities			
Difference between tax base and carrying value of inventory	9,521	4,211	13,732
Accrued interest	-	437	437
Fair value gain on investment property	890	152	1,042
Other	814	(299)	515
Total deferred tax liabilities	**11,225**	**4,501**	**15,726**
Total deferred tax benefit		**866**	
Deferred tax assets	9,408		13,043
Deferred tax liabilities	11,225		15,726
Offset of deferred tax assets and liabilities for individual companies	(3,877)		(6,108)
Deferred tax assets reported in the Consolidated Statement of Financial Position	**5,531**		**6,935**
Deferred tax liabilities reported in the Consolidated Statement of Financial Position	**7,348**		**9,618**

* *Including deferred tax asset from contributions.*

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 73,895 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. The management believes there is a higher probability 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

18. Deferred tax assets and liabilities

Tax losses carry forward

As as 31 December	2020			2019		
In thousands of Polish Zlotys (PLN)	Recognized tax losses	Unrecognized tax losses	Total tax losses	Recognized tax losses	Unrecognized tax losses	Total tax losses
Tax loss 2015 carried forward	-	-	-	3	47	50
Tax loss 2016 carried forward	2	126	129	-	145	145
Tax loss 2017 carried forward	6,318	87	6,405	3,950	4,086	8,036
Tax loss 2018 carried forward	3,228	222	3,450	4,050	386	4,436
Tax loss 2019 carried forward	2,894	610	3,504	3,179	965	4,144
Tax loss 2020 carried forward	5,931	2,880	8,811			
Total tax losses carried forward	**18,373**	**3,926**	**22,299**	**11,182**	**5,629**	**16,811**

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

In thousands of Polish Zlotys (PLN)	As at 31 December 2020
2021	2,267
2022	1,137
2023	86
2024	2
2025	-
Total tax losses carry forward	**3,491**

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:

In thousands of Polish Zlotys (PLN)	Balance 1 January 2019	Tax losses expired	Additions/ (Realizations)	Balance 31 December 2019	Tax losses expired	Additions/ (Realizations)	Balance 31 December 2020
Tax losses	154	(22)	938	1,070	(9)	(315)	746
Total	**154**	**(22)**	**938**	**1,070**	**(9)**	**(315)**	**746**

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.

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 2020 are estimated to be PLN 4,548 thousand (31 December 2019: PLN 5,035 thousand).

Unrecognized deferred tax liabilities

Unrecognized deferred tax liabilities with respect to acquisition of Nova Królikarnia project amounts to PLN 841 thousand (IAS 12 par. 15(b)) as at 31 December 2020.

Notes to the Consolidated Financial Statements

19. Inventory and Residential land bank

For the year ended 31 December 2020:

Inventory

In thousands of Polish Zlotys (PLN)	As at 1 January 2020	Transferred from/to land designated for development	Transferred to finished units	Additions	As at 31 December 2020
Land and related expense	293,592	1,443	(34,804)	34,199	294,430
Construction costs	131,467	(1,640)	(158,306)	223,018	194,539
Planning and permits	20,408	(1,507)	(4,036)	1,895	16,760
Borrowing costs (2)	32,291	3,312	(7,633)	6,875	34,844
Borrowing costs on lease and deprecation perpetual usefruct right (1)	1,656	-	(164)	1,266	2,758
Other	4,426	64	(2,320)	1,669	3,839
Work in progress	**483,840**	**1,672**	**(207,263)**	**268,921**	**547,170**

In thousands of Polish Zlotys (PLN)	As at 1 January 2020		Transferred from work in progress	Recognized in the statement of comprehensive income	As at 31 December 2020
Finished goods	**217,123**	**-**	**207,263**	**(314,967)**	**109,419**

In thousands of Polish Zlotys (PLN)	As at 1 January 2020	Transferred from/to land designated for development	Revaluation write-down recognized in statement of comprehensive income		As at 31 December 2020
			Reversal	Utilization	
Write-down	**(6,023)**	**(4,330)**	**680**	**4,170**	**(5,503)**

In thousands of Polish Zlotys (PLN)	As at 1 January 2020	First adoption of IFRS 16	Depreciation	Transfer to Other receivables	As at 31 December 2020
Perpetual usefruct right	**23,120**	**-**	**(268)**	**(9,177)**	**13,675**

Inventory, valued at lower of - cost and net realisable value	**718,060**				**664,761**

(1) *For additional information see Note 28.*
(2) *Borrowing costs are capitalized to the value of inventory with 4.50% average effective capitalization interest rate.*

Notes to the Consolidated Financial Statements

19. Inventory and Residential land bank

For the year ended 31 December 2019:

Inventory

In thousands of Polish Zlotys (PLN)	As at 1 January 2019	Acquisition of Nova Królikarnia [1]	Transferred to finished units	Additions	As at 31 December 2019
Land and related expense	294,484	70,108	(74,596)	3,596	293,592
Construction costs	172,340	-	(221,401)	180,528	131,467
Planning and permits	20,359	-	(6,661)	6,710	20,408
Borrowing costs [2]	36,205	-	(12,973)	9,059	32,291
Borrowing costs on lease and deprecation of the perpetual usefruct right	-	-	(889)	2,545	1,656
Other	4,772	-	(3,543)	3,197	4,426
Work in progress	**528,160**	**70,108**	**(320,063)**	**205,635**	**483,840**

In thousands of Polish Zlotys (PLN)	As at 1 January 2019	Transferred from work in progress	Recognized in the statement of comprehensive income	As at 31 December 2019
Finished goods	**78,491**	**320,063**	**(181,431)**	**217,123**

In thousands of Polish Zlotys (PLN)	As at 1 January 2019	Revaluation write-down recognized in statement of comprehensive income		As at 31 December 2019
		Reversal	Utilization	
Write-down	**(9,724)**	**2,524**	**1,177**	**(6,023)**

In thousands of Polish Zlotys (PLN)	As at 1 January 2019	First adoption /Recalculation adjustment of IFRS 16	Depreciation	Transfer to Other receivables	As at 31 December 2019
Perpetual usufruct rights	**-**	**25,872**	**(440)**	**(2,312)**	**23,120**

Inventory, valued at lower of - cost and net realisable value	**596,927**	**718,060**

(1) For additional information see Note 5.

(2) Borrowing costs are capitalized to the value of inventory with 5.78% average effective capitalization interest rate.

Notes to the Consolidated Financial Statements

19. Inventory and Residential land bank

Residential land bank

In December 2020, plots of land purchased for development purposes on which construction is not planned within a period of three years has been reclassified as Residential land bank presented within non-current assets. The table below presents the movement in the Residential land bank:

For the year ended 31 December	**2020**	**2019**
In thousands of Polish Zloty (PLN)		
Openning balance	**44,321**	**46,227**
Reclassified from inventory	31,920	-
Moved to inventory	(28,750)	24
Write-down adjustment	(2,005)	(1,930)
Total closing balance	**45,486**	**44,321**
Closing balance includes:		
Book value	50,043	51,203
Write-down	(4,557)	(6,882)
Total Closing balance	**45,486**	**44,321**

Write-down revaluating the inventory and residential land bank:

The Management internally assessing the net realizable value of the inventory and residential land bank and decrease the value when the net realizable value is 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 2020 and 31 December 2019 the Group performed an inventory and residential land bank review with regard to its valuation to net realizable value based on the most reliable evidence available to the Group.

During the year ended 31 December 2020 the Group reversed a write-down adjustment made during previous periods of PLN 4,849 thousand, whereas a write-down adjustment of PLN 2,005 thousand was made, which is included as part of cost of sales in the Consolidated Statement of Comprehensive Income. During the year ended 31 December 2019 the Group made a net write-down adjustment of PLN 594 thousand. The Group examined a possible write-down on inventory for each project separately, according to the projection of revenues net of cost of sales.

The valuation of inventory and residential land bank is as follows:

As at 31 December	**2020**	**2019**
In thousands of Polish Zlotys (PLN)		
Valued at cost	640,348	610,829
Valued at net realizable value	69,899	151,552
Total Inventory and residential land bank	**710,247**	**762,381**

For information about future commitments to the general contractor for construction services related to inventory construction, see Note 34. For information about the balance sheet value of Inventory and Residential land bank used to secure banks loans and bond loans (series R and U), see Note 25.

Notes to the Consolidated Financial Statements

20. Trade and other receivables and prepayments

As at 31 December *In thousands of Polish Zlotys (PLN)*	2020	2019
Value added tax (VAT) receivables	12,748	12,361
Trade and other receivables	8,649	3,696
Trade and other receivables - IFRS 16	1,377	1,753
Bid bond	1,437	1,437
Notary's deposit[(2)]	6,765	-
Prepayments[(1)]	6,398	5,498
Total trade and other receivables and prepayments	**37,374**	**24,745**

(1) For additional information see Note 3
(2) For additional information see Note 40

During the year ended 31 December 2020 and 31 December 2019, the Group booked allowance for doubtful accounts in the amount of PLN 999 thousand and PLN 163 thousand, respectively as irrecoverable debts included in trade and other receivables.

21. 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.

22. 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 *In thousands of Polish Zlotys (PLN)*	2020	2019
Cash at bank and in hand	112,127	59,982
Short-term deposit	5,366	31,780
Restricted cash	17,606	3,829
Total cash and cash equivalents	**135,099**	**95,591**

Cash at bank earns interest at floating rates based on daily bank deposit rates. As at 31 December 2020 and 31 December 2019 the Group held in saving accounts amounting to PLN 0 thousand and PLN 45,269 thousand, respectively. As at 31 December 2020 and 31 December 2019 the saving accounts that earn interest rates varying between 0.25% - 1.16% and 0.85% - 1.10%, 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 2020 and 31 December 2019, they earn interest at the respective short-term deposit rates varying between 0.35% - 1.2% and 0.00% - 0.44%, 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 32.

Notes to the Consolidated Financial Statements

23. 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 2020 amounted to 164,010,813 (as at 31 December 2019: 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. As at 31 December 2020, the Company held 1,489,235 own shares (0.91%) in treasury (see below) and, in accordance with art. 364 § 2 of the Code of Commercial Companies, it does not exercise voting rights from own shares.

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

Treasury shares

During the Extraordinary General Meeting of Shareholders held on 24 January 2019, the shareholders of the Company resolved to approve a share buyback program and the establishment of a capital reserve for the purpose of such program, whereby the Management Board of the Company is authorized to purchase ordinary bearer shares in the Company. In order to fund the purchase of own shares under the buyback program a capital reserve (within retained earnings) is established for an amount of PLN 2.0 million. The capital reserve is subsequently reduced by the amount of the consideration paid for the shares bought back. The amount of capital reserve as at 24 January 2020 amounted to PLN 1,369 thousand and was presented as a part of the retained earnings. As at 25 January 2020 the capital reserve was liquidated.

In connection with the implementation of the treasury shares repurchase program that was approved under resolution No. 21 of the Ordinary General Meeting dated 30 June 2020 regarding the approval of a buy-back program (the "Authorization Resolution"), the Management Board of the Company on 1 July 2020 resolved to determine the detailed terms of the repurchase of the shares in the Company ("Buy-back"), which were also approved by the Supervisory Board of the Company. The treasury shares will be acquired under the Buy-back until three years starting from the adoption of the Authorization Resolution, by way of transactions concluded on the regulated market and on terms similar to those provided in the Commission Delegated Regulation (EU) 2016/1052 of 8 March 2016 supplementing Regulation (EU) No. 596/2014 of the European Parliament and of the Council with regards to regulatory technical standards for the conditions applicable to buy-back program and stabilization measures, in particular in terms of determining the price and the number of the shares, which may be acquired pursuant to the Buy-back. The maximum amount allocated for the purchase of all of the shares pursuant to the Buy-back shall not be higher than PLN 1,369,761.99 (one million, three hundred and sixty-nine thousand, seven hundred and sixty-one zloty and 99/100).

During the year ended 31 December 2020, the Company acquired 814,335 own shares for a total price of PLN 1,030 thousand (on average PLN 1.265 per share).

As at 9 March 2021, the Company held 1,567,954 own shares representing 0.96% of total shares issued by the Company.

Dividend

On 30 June 2020, the General Meeting of the Company resolved to distribute the net profit of the Company for year 2019 in the amount of PLN 17,414 thousands in a following way:

- to allocate for the dividend payment to the shareholders of the Company the amount of PLN 0.06 (six groszy) per share, with the total amount depending on the number of own shares (where there is no right to dividend) held by the Company on the dividend record date and such total amount not exceeding, in any case, PLN 9,787 thousands,
- to allocate the remaining portion of the net profit of the Company for year 2019 in amount of PLN 7,627 thousand to retained earnings of the Company.

The dividend in the total amount of PLN 9,787 thousand was paid on 24 August 2020 (in 2019: PLN 9,820 thousand).

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

Notes to the Consolidated Financial Statements

23. Shareholders' equity

Proposed profit appropriation

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 2021 to distribute the dividend for year 2020, 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.

24. 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 2020 and 2019.

Weighted average number of ordinary shares (basic):

For the year ended 31 December *(in thousands of Polish Zlotys)*	**2020**	**2019**
Net income attributable to the equity holders of the parent company	40,143	17,414
Balance at beginning of the period	163,335,913	164,010,813
Treasury shares - average value	(232,750)	(321,197)
Weighted average number of ordinary shares (basic)	**163,103,163**	**163,689,616**
Basic earnings per share	**0.246**	**0.106**

Notes to the Consolidated Financial Statements

25. Loans, borrowings and bonds

As at 31 December		**2020**	**2019**
In thousands of Polish Zlotys (PLN)	*Note*		
Floating rate bonds	*26*	230,072	187,969
Secured bank loans		-	12,875
Total loans and borrowings		**230,072**	**200,844**

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 36.

Borrowings and bonds as at 31 December 2020:

In thousands of Polish Zlotys (PLN)	Currency	Nominal interest rate	Year of maturity	Capital	Accrued interest	Charges and fees	Carrying value
Bonds loans series R	PLN	Wibor + 2.85%	2021	47,859	151	(81)	47,929
Bonds loans series T	PLN	Wibor + 3.50%	2022	50,000	277	(233)	50,045
Bonds loans series U(1)	PLN	Wibor + 3.50%	2023	32,317	512	(334)	32,495
Bonds loans series V(2)	PLN	Wibor + 4.30%	2024	100,000	1,124	(1,521)	99,604
Total				**230,176**	**2,065**	**(2,168)**	**230,072**

1) *The series U bonds are 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.*
2) *The series V bonds are subject to repayment in 2 tranches 40% (PLN 40 million) of the amount together with accumulated interest to be repaid by October 2023 and the remaining amount of 60% (PLN 60 million) together with accumulated interest to be paid by April 2024.*

Borrowings and bonds as at 31 December 2019:

In thousands of Polish Zlotys (PLN)	Currency	Nominal interest rate	Year of maturity	Capital	Accrued interest	Charges and fees	Carrying value
Bond loans series M	PLN	Wibor + 3.65%	2020	10,000	191	(7)	10,184
Bond loans series P	PLN	5.25%	2020	10,000	62	(30)	10,032
Bond loans series Q	PLN	Wibor + 3.50%	2020	15,000	337	(38)	15,299
Bond loans series R	PLN	Wibor + 2.85%	2021	50,000	235	(286)	49,949
Bond loans series S	PLN	Wibor + 3.40%	2021	20,000	34	(54)	19,980
Bond loans series T	PLN	Wibor + 3.50%	2022	50,000	391	(405)	49,986
Bond loans series U(1)	PLN	Wibor + 3.50%	2023	32,317	717	(495)	32,539
Subtotal (Bond loans)				**187,317**	**1,967**	**(1,315)**	**187,969**
Bank loans	PLN	Wibor + 2.54%	2021	5,802	-	(205)	5,597
Bank loans	PLN	Wibor + 2.7%	2021	7,431	10	(163)	7,278
Subtotal (Bank loans) (2)				**13,233**	**10**	**(368)**	**12,875**
Total				**200,550**	**1,977**	**(1,683)**	**200,844**

1) *The series U bonds will be 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.*
2) *According to the projected cash flow, the Group is planning to repay outstanding Bank loans during the year 2020, therefore Bank loans are presented under the Current liabilities in the Consolidated Statement of Financial Positions.*

Notes to the Consolidated Financial Statements

25. Loans and borrowings and bonds

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

As at 31 December *In thousands of Polish Zlotys (PLN)*	**2020**	**2019**
Inventory and Land designated for development	106,028	229,492
Investment property	8,411	10,098
Property and equipment	9,727	5,402
Balance sheet value of pledged assets	**124,166**	**244,992**
Amount of bonds secured	**80,424**	**95,363**
Ratio of securities*	**154.4%**	**256.9%**

**The required security ratio for series R bonds in accordance with the Bonds Issue Terms must be higher than 125%.*
** The required security ratio for Series U bonds in accordance with the Bonds Issue Terms must be not lower than 150%.*

26. Bond Loans

The table below presents the movement in bond loans:

In thousands of Polish Zloty (PLN)	**For the year ended 31 December 2020**	**For the year ended 31 December 2019**
Opening balance	**187,969**	**205,547**
Repayment of bond loans	(57,141)	(50,000)
Proceeds from bond loans	100,000	32,317
Issue cost	(1,636)	(757)
Issue cost amortization	783	854
Accrued interest	8,429	10,351
Interest repayment	(8,331)	(10,343)
Total closing balance	**230,072**	**187,969**
Closing balance includes:		
Current liabilities	54,690	36,891
Non-current liabilities	175,382	151,078
Total Closing balance	**230,072**	**187,969**

During the year ended 31 December 2020, the Company issued 100,000 series V bonds (total nominal value of PLN 100,000 thousand).

As at 31 December 2020 and as at 31 December 2019 all covenants on bond loans are met.

The series R bonds are secured with a joint mortgage established by the subsidiaries of the Company up to PLN 75,000 thousand. In order to secure series U bonds a joint mortgage was established up to the amount of 150% of total nominal value of series U bonds (as at the date of issuance of these bonds up to PLN 48,476 thousand). The plots on which abovementioned mortgage was established and that are the subject of this mortgage as at 31 December 2020 were valued at PLN 124,544 thousand (according to valuations prepared in May 2020). The series T and V bonds are not secured.

Notes to the Consolidated Financial Statements

26. Bond Loans

Series V

On 2 October 2020, the Company issued 100,000 series V bonds with a total nominal value of PLN 100,000 thousand. The nominal value of one bond amounts to PLN 1,000 and is equal to its issue price.

The Bonds shall be redeemed by the Issuer through the payment of an amount equal to the nominal value of each Bond in 2 installments: the first at the end of the 6th interest period, on 2 October 2023, by redeeming 40% of the nominal value of the originally issued Bonds and the second on 2 April 2024 by redeeming the remaining part of the nominal value. The Bonds bear an interest at a variable rate based on the WIBOR rate for six-month deposits, increased by a margin of 4,3%. Interest is payable semi-annually.

Together with issuance of series V bonds the Company purchased for redemption series R bonds with a value of PLN 2,141 thousand from the bondholder who purchased the Bonds for the same amount. These transactions were settled without cash (by set-off), except for accrued interest on series R bonds, which were paid by the Company.

On 5 October 2020, the Company signed the final agreement for the purchase for early redemption of all series S bonds of the Company issued on 14 June 2017, i.e. 20,000 bonds, each with a nominal value of PLN 1,000 and with a total nominal value of PLN 20.0 million. Above mentioned bonds have been acquired by the Company at the price lower than nominal value i.e. PLN 990 for each bond (in total for PLN 19.8 million). Moreover, the company has paid the interest at the date of early repayment amounting to PLN 10.92 per bond.

Bond loans repaid during the year ended 31 December 2020:

On 25 February 2020, the Company repaid all outstanding 10,000 series M bonds with total nominal value of PLN 10,000 thousand. After this repayment, the total number of outstanding bonds series M amounted to nil.

On 29 July 2020, the Company repaid all outstanding 15,000 series Q bonds with total nominal value of PLN 15,000 thousand. After this repayment, the total number of outstanding bonds series Q amounted to nil.

On 18 August 2020, the Company repaid all outstanding 10,000 series P bonds with total nominal value of PLN 10,000 thousand. After this repayment, the total number of outstanding bonds series P amounted to nil.

Together with issuance of series V bonds the Company purchased for redemption series R bonds with a value of PLN 2,141 thousand from the bondholder who purchased the Bonds for the same amount. After this repayment the total amount of outstanding series R bonds amounted to 47,859 thousand.

In October 2020, the Company signed the final agreement for the purchase for early redemption of all outstanding 20,000 series S bonds with total nominal value of PLN 20 million. After this repayment, the total number of outstanding bonds series S amounted to nil.

Financial ratio covenants:

Series R:

Based on the conditions of bonds R 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 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).

Notes to the Consolidated Financial Statements

26. Bond loans

Financial ratio covenants:

Series R:

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 *In thousands of Polish Zlotys (PLN)*	**As at 31 December 2020**
Net Debt	89,216
Equity	379,817
Ratio	**23.5%**

Series T, U and V:

Based on the conditions of bonds T, U and V 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 *In thousands of Polish Zlotys (PLN)*	**As at 31 December 2020**
Net Debt	89,216
Equity	379,817
Ratio	**23.5%**

Notes to the Consolidated Financial Statements

26. Bond loans

Financial ratio covenants:

Impact of IFRS 16 on financial ratios in bond covenants:

Terms and conditions of issuance of Bonds of the Company ("T&C's") provide that only certain, specified types of financial indebtedness should be taken into account when determining the level of financial indebtedness for the purpose of calculating financial ratios in accordance with T&C's. In particular, certain T&C's require that financial indebtedness resulting from finance lease agreements (*in Polish: umowy leasingu finansowego*) should be included in calculation of the financial indebtedness. Those T&C's do not provide that the indebtedness resulting from finance lease agreements shall also include other financial indebtedness which is recognized as lease liability in accordance with IFRS 16.

Given the above, and taking into account the type of activities carried out by the Group, despite changes in the IFRS in this respect, the Company concluded that inclusion of other type of financial indebtedness, in particular liabilities from annual fees for perpetual usufruct, for the purposes of calculations of financial ratios would not be in line with T&C's and therefore the Company does not include such finance lease alike items in such calculations.

Other covenants:

Series R, T, U and V:

Based on the conditions of bonds R, T, U and V 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 2020, the consulting fees related to A. Luzon Group amounted to PLN 864 thousand. For additionally information see Note 35.

27. Secured bank loans

The table below presents the movement in Secured bank loans:

As at 31 December *In thousands of Polish Zlotys (PLN)*	**2020**	**2019**
Opening balance	**12,875**	**37,687**
New bank loan drawdown	26,096	71,940
Bank loans repayments	(39,217)	(96,754)
Bank charges paid	(67)	(740)
Bank charges amortization	323	786
Accrued interest/(interest repayment) on bank loans, net	(10)	(44)
Total closing balance	**-**	**12,875**
Closing balance includes:		
Current liabilities	-	12,875
Non-current liabilities	-	-
Total Closing balance	**-**	**12,875**

For information related to unutilized bank loan facilities see Note 34.

Notes to the Consolidated Financial Statements

27. Secured bank loans

Covenants on secured bank loans:

As at 31 December 2020 and 2019, 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 19.
- Pledge over bank accounts which are presented in the Consolidated Statement of Financial Position as Cash and cash equivalents (Restricted cash), see Note 22.
- Assignment of receivables arising from insurance agreements and from 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.

28. IFRS 16

The movement on the right of use assets and lease liabilities during the period ended 31 December 2020 and 31 December 2019 is presented below:

In thousands of Polish Zlotys (PLN)	**1 January 2020**	**Depreciation charge**	**Fair value adjustment**	**Racalculation adjustment**	**Transfer to trade receivables**	**31 December 2020**
Right of use assets related to inventory	23,120	(268)	-	-	(9,177)	13,675
Right of use assets related to investment property	553	n.a	-	-	n.a	553

In thousands of Polish Zlotys (PLN)	**1 January 2020**	**Finance expense**	**Payments**	**Racalculation adjustment**	**Transfer to trade payables**	**31 December 2020**
Lease liabilities related to inventory	23,549	912	(1,268)	-	(9,291)	13,902
Lease liabilities related to investment property	552	37	-	-	n.a	590

In thousands of Polish Zlotys (PLN)	**1 January 2019**	**Depreciation charge**	**Fair value adjustment**	**Recalculation adjustment**[(1)]	**Transfer to trade receivables**	**31 December 2019**
Right of use assets related to inventory	32,977	(440)	-	(7,105)	(2,312)	23,120
Right of use assets related to investment property	553	n.a	-	-	n.a	553

In thousands of Polish Zlotys (PLN)	**1 January 2019**	**Finance expense**	**Payments**	**Recalculation adjustment**[(1)]	**Transfer to trade payables**	**31 December 2019**
Lease liabilities related to inventory	32,977	2,105	(2,173)	(7,058)	(2,302)	23,549
Lease liabilities related to investment property	553	36	(37)	-	n.a	552

Notes to the Consolidated Financial Statements

29. Trade and other payables and accrued expenses

As at 31 December *In thousands of Polish Zlotys (PLN)*	2020	2019
Trade payables	26,994	32,032
Payables for NK project [(1)]	-	37,022
Accrued expenses	22,215	20,400
Guarantees for construction work	5,310	1,589
Value added tax (VAT) and other tax payables	1,087	4,122
Non-trade payables	1,343	853
Other trade payables - IFRS 16	1,398	1,697
Total trade and other payables and accrued expenses	**58,347**	**97,715**

(1) Payables related to Acquisition of the Nova Królikarnia project. For more information see Note 5.

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

30. Advances received

Advances received (as defined in IFRS 15 "contract liabilities") consist of customer advances for construction work in progress (deferred revenue) and comprise customer advances for the following projects:

In thousands of Polish Zlotys (PLN)	As at 31 December 2019	Advances recognized as revenue during the 12 months ended 31 December 2020	Advances received during the year 2020	As at 31 December 2020
City Link III	120,796	(149,448)	32,150	3,497
Nova Królikarnia 1a-1e	333	(4,208)	3,875	-
Nova Królikarnia 2a & 2b	1,620	(5,236)	5,546	1,930
Nova Królikarnia 2c	8,440	(18,584)	19,567	9,423
Nova Królikarnia 3b	3,236	-	14,003	17,239
Nova Królikarnia 3a	-	-	17,922	17,922
Nova Królikarnia 3c	-	-	9,592	9,592
Vitalia III	4,878	-	22,886	27,764
Miasto Moje I & II	256	(1,446)	1,190	-
Miasto Moje III	14,271	(33,388)	45,231	26,114
Miasto Moje IV	639	-	14,694	15,333
Miasto Moje V	-	-	1,661	1,661
Miasto Marina	36,498	(46,485)	10,238	251
Panoramika IV	20,412	(28,888)	8,850	374
Panoramika V	4,165	(27,757)	24,182	590
Panoramika VI	-	-	2,466	2,466
Grunwald2	32,235	(80,916)	50,929	2,248
Ursus Centralny Ia	6,338	-	35,424	41,762
Ursus Centralny IIa	-	-	28,158	28,158
Ursus Centralny Ib	-		1,704	1,704
Viva Jagodno I	167	-	7,778	7,945
Nowe Warzymice I	-	-	2,332	2,332
Other	686	(3,901)	4,554	1,339
Total	**254,970**	**(400,256)**	**364,932**	**219,645**

The rest of the balance consists of deferred income due to issued invoices for sold apartments but not paid as at 31 December 2020 in the amount of PLN 4,621 thousand.

Notes to the Consolidated Financial Statements

30. Advances received

For information about contingent receivables from signed contracts with clients, see Note 34. 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.

31. Provisions

For the year ended 31 December	**2020**	**2019**
In thousands of Polish Zlotys (PLN)		
Balance as at 1 January	**2,016**	**2,565**
Increase	-	919
Decrease	(1,022)	(1,468)
Closing Balance	**994**	**2,016**

As at 31 December 2020, the provision included expected necessary costs of guarantees for construction works amounting to PLN 993 thousand, whereas as at 31 December 2019, the provision included expected necessary costs of guarantees for construction works amounting to PLN 2,016 thousand.

32. 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:

In thousands of Polish Zlotys (PLN)	*Category*	*Note*	**As at 31 December 2020**	
			Carrying amount	**Fair value**
Assets:				
Trade and other receivables	*Assets measured at amortized costs*	*20*	8,649	8,649
Other current financial assets	*Assets measured at amortized costs*	*21*	14,239	14,239
Cash and cash equivalents	*Assets measured at amortized costs*	*22*	135,099	135,099
Loans granted to joint ventures	*Assets measured at amortized costs*	*17*	11,634	12,028
Liabilities:				
Bond loans	*Liabilities measured at amortized costs*	*25, 26*	230,072	229,412
Secured bank loans	*Liabilities measured at amortized costs*	*27*	-	-
Interest bearing deferred trade payables	*Liabilities measured at amortized costs*		8,482	8,575
Lease liabilities related to perpetual usufruct of land and investment property	*Liabilities measured at amortized costs*	*28*	14,492	14,492
Trade and other payables and accrued expenses	*Liabilities measured at amortized costs*	*29*	49,209	49,209
Unrecognized profit/(loss)				**961**

In thousands of Polish Zlotys (PLN)	*Category*	*Note*	**As at 31 December 2019**	
			Carrying amount	**Fair value**
Assets:				
Trade and other receivables	*Assets measured at amortized costs*	*20*	3,696	3,696
Other current financial assets	*Assets measured at amortized costs*	*21*	22,157	22,157
Cash and cash equivalents	*Assets measured at amortized costs*	*22*	95,591	95,591
Loans granted to joint ventures	*Assets measured at amortized costs*	*17*	13,166	13,295
Liabilities:				
Bond loans	*Liabilities measured at amortized costs*	*25, 26*	187,969	186,785
Secured bank loans	*Liabilities measured at amortized costs*	*27*	12,875	12,868
Interest bearing deferred trade payables	*Liabilities measured at amortized costs*		2,338	2,318
Lease liabilities related to perpetual usufruct of land and investment property	*Liabilities measured at amortized costs*	*28*	24,101	24,101
Trade and other payables and accrued expenses	*Liabilities measured at amortized costs*	*29*	89,454	89,454
Unrecognized profit/(loss)				**1,340**

Notes to the Consolidated Financial Statements

32. Fair value estimation of financial assets and liabilities

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 2020 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 2020 and 31 December 2019 and are as follows:

As at 31 December	2020	2019
Loans and borrowings	2.9-4.3%	4.4-5.8%
Lease liabilities related to perpetual usufruct of land and investment property	6.9%	6.9%

33. 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 and liabilities as at 31 December 2019 and 31 December 2020:

		Fair value measurement using:		
In thousands of Polish Zlotys (PLN)	***Date of valuation***	**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-20	-	-	8,411
Loans granted to joint ventures	31-Dec-20	-	12,028	-
Liabilities for which fair values are disclosed:				
Bond loans	31-Dec-20	-	229,412	-
Interest bearing deferred trade payables	31-Dec-20	-	8,575	-
Secured bank loans	31-Dec-20	-	-	-

Notes to the Consolidated Financial Statements

33. Fair value measurement hierarchy

Quantitative disclosures fair value hierarchy for assets and liabilities as at 31 December 2019 and 31 December 2020:

In thousands of Polish Zlotys (PLN)	*Date of valuation*	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-19	-	-	10,098
Loans granted to joint ventures	31-Dec-19	-	13,295	-
Liabilities for which fair values are disclosed:				
Bond loans	31-Dec-19	-	186,785	-
Interest bearing deferred trade payables	31-Dec-19	-	2,318	-
Secured bank loans	31-Dec-19	-	12,868	-

34. 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 *In thousands of Polish Zlotys (PLN)*	**2020**	**2019**
Ursus Centralny Ia	3,936	25,589
Ursus Centralny IIa	39,298	-
Ursus Centralny Ib	21,897	-
Viva Jagodno I	7,097	26,590
Panoramika V	58	8,472
Panoramika VI	11,420	-
Vitalia III	1,902	20,598
Miasto Moje III	-	22,477
Nove Warzymice I	1,945	12,157
Miasto Moje IV	18,854	37,243
Miasto Moje V	32,567	-
Nova Królikarnia 3a	1,657	15,639
Nova Królikarnia 3b	1,643	6,887
Nova Królikarnia 3c	1,643	11,419
Nova Królikarnia 2c	-	7,048
Grunwald2	37	12,379
Total	**143,954**	**206,498**

Notes to the Consolidated Financial Statements

34. Commitments and contingencies

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 *In thousands of Polish Zlotys (PLN)*	**2020**	**2019**
Grunwald2	-	24,119
Panoramika V	-	19,070
Nova Królikarnia 2c (Wrocław 2016)	20,725	-
Total (excluding JV)	**20,725**	**43,189**
Wilanów Tulip	28,324	-
Total (including JV)	**49,049**	**43,189**

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 2020 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 *In thousands of Polish Zlotys (PLN)*	**2020**	**2019**
Panoramika IV	-	2,065
Panoramika V	874	9,276
Panoramika VI	10,814	-
Vitalia III	9,809	11,961
Grunwald2	5,979	30,751
Miasto Moje I & II	27	117
Miasto Moje III	3,230	23,488
Miasto Moje IV	22,694	8,565
Miasto Moje V	13,870	-
Ursus Centralny Ia	14,509	31,583
Ursus Centralny IIa	50,569	-
Ursus Centralny Ib	13,059	-
Miasto Marina	620	1,068
City Link III	6,371	22,257
Nowe Warzymice I	6,787	-
Nova Królikarnia 1a - 1e	-	2,998
Nova Królikarnia 2a & 2b	142	5,033
Nova Królikarnia 2c	9,577	4,181
Nova Królikarnia 3b	5,992	11,001
Nova Królikarnia 3a	8,097	-
Nova Królikarnia 3c	10,426	-
Viva Jagodno I	14,786	1,530
Other (old) projects	3,126	2,352
Total	**211,357**	**168,226**

Notes to the Consolidated Financial Statements

34. Commitments and contingencies

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 m^2.

In respect of purchase of land agreement concluded with Global City Holding in 2018 (more information in Note 5) the Company could have been charged with certain fees in the maximum amount of PLN 11.9 million if the Company would not exercise all three call options within deadlines. As at 31 December 2020 all call options were realized by the Group and all of the payables were reduced to nil.

35. Related parties

Parent company

The Company enters into various transactions with its subsidiaries and with its directors and executive officers. 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 Management Board and Supervisory Board member;
- transactions with key management personnel;
- loans granted to related parties;
- other.

Outstanding balances with related parties as at 31 December 2020 and as at 31 December 2019 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 subsidiary of the Company entered into a consulting agreement with its major (indirect) shareholder, A. Luzon Group for total monthly amount of PLN 70 thousand and covering travels and out of pocket expenses incurred in connection with rendering services. In the year 2019 and 2020 the agreement was continued.

Notes to the Consolidated Financial Statements

35. Related parties

Transactions with key management personnel

During the year ended 31 December 2020 and the year ended 31 December 2019, key management personnel of the Company included the following members of the Management Board:

Nir Netzer *(until 30 November 2019)*	- President, Chief Executive Officer
Boaz Haim *(from 1 December 2019)*	- President, Chief Executive Officer
Rami Geris *(until 31 January 2020)*	- Member, Chief Financial Officer
Yaron Shama *(from 1 February 2020)*	- Member, Chief Financial Officer
Andrzej Gutowski	**-** Member, Sales & Marketing Director
Alon Haver	- Member of the Management Board

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 *In thousands of Polish Zlotys (PLN)*	**2020**	**2019**
Salary and other short time benefit	-	1,000
Termination fee	-	155
Other	-	272
Subtotal - Mr Nir Netzer	**-**	**1,427**
Salary and other short time benefit	292	-
Management bonus	83	-
Other (2)	204	-
Subtotal - Mr Yaron Shama	**579**	**-**
Salary and other short time benefit (2)	66	512
Management bonus	-	75
Termination fee (2)	241	104
Other	-	35
Subtotal - Mr Rami Geris	**307**	**726**
Salary and other short time benefit	429	420
Incentive plan linked to financial results	445	331
Other (1)	21	35
Subtotal - Mr Andrzej Gutowski	**895**	**786**
Salary and other short time benefit	1,549	117
Management bonus	736	57
Signing bonus	-	237
Other (1)	728	501
Subtotal - Mr Boaz Haim	**3,013**	**912**
Total	**4,793**	**3,851**

(1) Mainly related to car expenses, flights and accommodation and an American school.
(2) Transactions with related parties.

Notes to the Consolidated Financial Statements

35. Related parties

Key Management Board personnel compensation

Mr Alon Haver did not receive any direct remuneration from the Company nor from any of the Company's subsidiaries.

Loans to directors

As at 31 December 2020 and 31 December 2019, there were no loans granted to directors.

Other transactions with directors and management personnel

During the year ended 31 December 2020, the Group sold three residential units and one parking place to Mr Andrzej Gutowski for a total net amount (excluding VAT) of PLN 764 thousand. This transaction was executed at arm's length and was in adherence to the Group's policy in respect of related-party transactions.
During the year ended 31 December 2019, the Group sold one commercial unit including two parking places to Mr Andrzej Gutowski for a total net amount (excluding VAT) of PLN 696 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 2020 and 2019 amounted to PLN 397 thousand (EUR 88 thousand) and PLN 357 thousand (EUR 83 thousand), respectively. In additional the Company paid social security contributions at the amount of PLN 60 thousand in the year ended 31 December 2020.

Mr Amos Luzon did not receive any direct remuneration from the Company nor from any of the Company's subsidiaries.

Loans granted to related parties

All loans granted to the joint venture (Coralchief Sp. z o.o. – Projekt 1 Sp.k.). For additional information see Note 17.

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 is listed on the Warsaw Stock Exchange, only the semi-annual report is subject to required 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

36. 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 2020 and 2019, 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:

In thousands of Polish Zloty (PLN)	**As at 31 December 2020**	**As at 31 December 2019**
Trade and other receivables	16,484	10,631
Loans granted to joint ventures	11,634	13,166
Cash and cash equivalents	135,099	95,591
Other current financial assets	14,239	22,157
	177,456	**141,545**

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:

In thousands of Polish Zloty (PLN)	**As at 31 December 2020**	**As at 31 December 2019**
Rating		
AAA	-	1
A	69,008	51,011
BBB	5,937	5,599
BB	60,155	38,980
Total cash at banks and short-term bank deposits	**135,099**	**95,591**

Notes to the Consolidated Financial Statements

36. Financial risk management, objectives and policies

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 2020 and 2019, 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 exists because the Group has not invested in securities as at 31 December 2020 and as at 31 December 2019.

(iii) Interest rate risk

Except for bonds series P amounting to PLN 10.0 million (all bonds series P were repaid during 2020) and Interest bearing deferred trade payables, the Group did not 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

36. Financial risk management, objectives and policies

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 2020					
In thousands of Polish Zlotys (PLN)	**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	*22*	0.0%-0.1%	**129,733**	129,733	-	-	-	-
Interest bearing deferred trade payables		4.90%	**(8,482)**	-	(8,482)	-	-	-
Variable rate instruments								
Cash and cash equivalents	*22*	0.35%-1.20%	**5,366**	5,366	-	-	-	-
Floating rate bonds	*25,26*	Wibor 6M + 2.85%-4.3%	**(230,072)**	(54,640)	-	(116,345)	(59,087)	-
Loans granted to joint ventures	*17*	Wibor 3M + 4%	**11,634**	-	-	11,634	-	-

			As at 31 December 2019					
In thousands of Polish Zlotys (PLN)	**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	*22*	0.0%	**13,669**	13,669	-	-	-	-
Bond loans	*25, 26*	5.25%	**(10,032)**	(62)	(9,970)	-	-	-
Interest bearing deferred trade payables		4.90%	**(2,338)**	-	(2,338)	-	-	-
Variable rate instruments								
Cash and cash equivalents	*22*	0.35%-1.20%	**81,922**	81,922	-	-	-	-
Secured bank loans	*27*	Wibor + 2.54% - 2.7%	**(12,875)**	(5,607)	(7,268)	-	-	-
Floating rate bonds	*25, 26*	Wibor 6M + 2.85%-4.0%	**(177,937)**	(11,897)	(14,962)	(74,434)	(76,644)	-
Loans granted to joint ventures	*17*	Wibor 6M + 4.0%	**13,166**	-	1,977	-	11,189	-

Notes to the Consolidated Financial Statements

36. Financial risk management, objectives and policies

Interest rate risk and liquidity risk analyzed

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 prepared for 12-month periods assumes that all other variables remain unchanged.

	31 December 2020		31 December 2019	
In thousands of Polish Zlotys (PLN)	Increase by 1%	decrease by 1%	Increase by 1%	decrease by 1%
Income statement				
Variable interest rate assets	18	(18)	273	(273)
Variable interest rate liabilities*	(767)	767	(636)	636
Total	**(749)**	**749**	**(363)**	**363**
Net assets				
Variable interest rate assets	18	(18)	273	(273)
Variable interest rate liabilities*	(767)	767	(636)	636
Total	**(749)**	**749**	**(363)**	**363**

* 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.

	Year ended 31 December 2020			
In thousands of Polish Zlotys (PLN)	Less than 1 year	Between 1 and 2 years	Between 3 and 5 years	Over 5 years
Bond loans	61,059	128,908	61,372	-
Secured bank loans	-	-	-	-
Interest bearing deferred trade payables	8,482	-	-	-
Lease liabilities related to perpetual usufruct of land and investment property	958	838	2,201	10,495
Trade and other payables	56,949	-	-	-
Total	**127,448**	**129,746**	**63,573**	**10,495**

	As at 31 December 2019			
In thousands of Polish Zlotys (PLN)	Less than 1 year	Between 1 and 2 years	Between 3 and 5 years	Over 5 years
Lease liabilities related to perpetual usufruct of land and investment property	1,001	875	2,300	19,925
Bond loans	45,575	80,366	79,724	-
Secured bank loans	13,609	-	-	-
Interest bearing deferred trade payables	2,452	-	-	-
Trade and other payables	96,018	-	-	-
Total	**158,655**	**81,241**	**82,024**	**19,925**

Notes to the Consolidated Financial Statements

36. Financial risk management, objectives and policies

Real-estate risk

COVID-19 pandemic hit hard the world economy and Poland was not an exception, most of the real estate sectors suffered from the lockdown imposed by the government, the less effected sector was the residential sector in which the company operate. Year 2020 was exceptional year in all aspects for the company, the company performed well under this changing conditions and achieved impressive results although operating within pandemic period and government restrictions. The overall economic situation and geopolitical situation in Europe and in Poland and the ongoing uncertainties in the real estate market is still vulnerable due to the COVID-19 effect. This situation make it very difficult to predict with precision the results for 2021. The level of development of the Polish economy, the performance of the banking industry and consumers' interest in new housing projects, changes 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 and on top of all operating in global pandemic situation are considered to be the most significant uncertainties for the financial year ending 31 December 2021.

Construction cost risk

Construction costs increased significantly over the last 2 years and stabilized during 2020, there is a risk that construction costs might continue to increase also during 2021. The potential 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 the year 2020 there were many changes in the constructions law, which might impact the cost of constructions. The biggest change refers to the increase in fire safety in case of a change in the use of the building or its part. The notification should be accompanied by an expert's opinion on fire safety, which by the end might be reflected in the construction costs offered by the general contractor. In order to mitigate the risk of the increase in construction costs, the Company and the Group are signing a lump-sum contact with the general contractor, which will allow the Group to complete the project based on the estimated budget.

Risk of non-performance by General 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 of the agreement by the general contractor 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, in the increase of salaries and cost of construction materials. Non-performance may result in claims against general contractor with the risk that general contractor may also fail to fully satisfy possible claims of the Company and the Group. The company and the Group Implement selection criteria when hiring a general contractor, which include, experience, professionalism, financial strength of the general contractor (with the obligation to provide bank or insurance guarantee) as well as the quality of the insurance policy covering all risks associated with the construction process.

Changes in legislation

Potential future changes in the legislation (contemplated deletion of open escrow accounts as well as the possible introduction of compulsory contributions to the developer guarantee fund) 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 changes might 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 enjoy 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 by individuals. Possible increase in interest rates, deterioration of the economic situation in Poland, the new pandemic situation and the increase in unemployment in Poland as well as possible 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.

Notes to the Consolidated Financial Statements

36. Financial risk management, objectives and policies

Real-estate risk

Availability of mortgages

In 2020, access to mortgages was selective due to pandemic outbreak restrictions imposed by banks interest rates on a mortgage loans remain low and stable, at levels around their historic minimum. The restrictive approach of the banks post pandemic outbreak in the beginning of 2020 is seems to be unwinding which may contribute to a better access to Mortgage Loans, hens effecting positively on potential demand for the Housing market.

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. In addition there is always the risk of protests made against permits decisions which have already been issued (also due to appeals with no consequences for the appellants) or in the worse scenario failing to obtain the relevant permits. Additional risk might rise with respect to properties under perpetual usufruct. All the above factors may affect the ability of the Group to conduct and complete its executed and planned projects.

37. 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 75%. 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 26).

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 and less Other current financial assets. 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 2020 and 31 December 2019 were as follows:

As at 31 December	**2020**	**2019**
In thousands of Polish Zlotys (PLN)		
Loan and borrowings, including current portion	230,072	200,844
Interest bearing deferred trade payables	8,482	2,338
Less: cash and cash equivalents	(135,099)	(95,591)
Less: other current financial assets	(14,239)	(22,157)
Net debt	**89,216**	**85,434**
Total equity	379,817	350,494
Total capital employed	**469,033**	**435,928**
Gearing ratio	**23.5%**	**24.4%**
Leverage	**19.0%**	**19.6%**

Notes to the Consolidated Financial Statements

37. Capital management

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.

38. Cash flow reconciliation

Inventory and Residential land bank

For the year ended 31 December *In thousands of Polish Zlotys (PLN)*	**2020**	**2019**
Balance sheet change in inventory	**52,134**	**(112,922)**
Finance expense, net capitalized into inventory	6,875	9,059
Impact of IFRS 16	(8,266)	25,665
Acquisition of the Nova Królikarnia project	-	70,108
Aquisition of Studzienna	628	-
Write-down of inventory	(1,326)	594
Other	(3,783)	-
Change in inventory in the consolidated statement of cash flows	**46,262**	**(7,496)**

Trade and other receivables and prepayments

For the year ended 31 December *In thousands of Polish Zlotys (PLN)*	**2020**	**2019**
Balance sheet change in trade and other receivables and prepayments	(12,629)	(10,052)
Impact of IFRS 16	960	1,753
Acquisition of the Nova Królikarnia project	-	152
Change in Trade and other receivables and prepayments in the consolidated statement of cash flows	**(11,669)**	**(8,147)**

Trade and other accounts payable

For the year ended 31 December *In thousands of Polish Zlotys (PLN)*	**2020**	**2019**
Balance sheet change in Trade and other accounts payable	**(29,917)**	**45,466**
Impact of IFRS 16	409	(1,697)
Other	174	(12)
Acquisition of the Nova Królikarnia project	46,914	(24,191)
Change in Trade and other payables and accrued expenses in the consolidated statement of cash flows	**17,580**	**19,566**

Notes to the Consolidated Financial Statements

39. Information about agreed-upon engagements of the Company's auditor

Information about audit agreements and the values from those agreements is disclosed below:

For the year ended 31 December	**2020**	**2019**
In thousands of Polish Zlotys (PLN)		
Audit and review remuneration	460	461
Other services	46	-
Audit remuneration for prior periods	-	56
Reimbursed audit review costs (1)	(127)	(73)
Total remuneration for the expense of the Company	**379**	**444**

(1) Costs in respect of the audit review of the Company's first and third quarter reports have been reimbursed in 50% to Main Company's shareholder. For an explanation reference is made to Note 35 (under 'Other').

40. Events during the financial year

Bonds loans

More information about Bond loans and repayments of Bond loans during 2020 was included in Note 25 and Note 26.

Bank loans

In February 2019, the Company executed a loan agreement with Santander Bank Polska S.A. related to the Grunwald2 project in Poznań up to a total amount of PLN 57.7 million. Final repayment of loan was made in May 2020.

In September 2019, the Company executed a loan agreement with PKO Bank Polski S.A. relating to the fifth 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 26.5 million. Under the loan agreement, the final repayment date of the loan facility is December 2021. Final repayment of loan was made in August 2020.

In March 2020, the Company executed a loan agreement with Alior Bank S.A. related to the Nova Królikarnia 2c project in Warsaw. Under this loan agreement Alior Bank S.A. is to provide financing and re-financing to cover the costs of construction up to a total amount of PLN 20.7 million. Under the loan agreement, the final repayment date is December 2021. As at 31 December 2020 the bank loan is not used.

In May 2020, the Company executed a loan agreement with Alior Bank S.A. related to Joint Venture project – Wilanów Tulip in Warsaw. Under the loan agreement Alior Bank is to provide financing and re-financing to cover the costs of construction up to total amount of PLN 51.3 million. Under the loan agreement, the final repayment date is December 2021.

Commencements of new projects

In January 2020, the Company commenced the sales of the Ursus Centralny IIa project comprising of 243 apartments and 8 commercial units with an aggregate floor space of 13,500 m^2.

In July 2020, the Company commenced the sales of Panoramika VI project comprising of 76 apartments with an aggregate floor space of 3,600 m^2.

In September 2020, the Company commenced the sales of Miasto Moje V project comprising of 170 apartments with an aggregate floor space of 8,500 m^2.

In September 2020, the Company commenced the sales of the Ursus Centralny Ib project comprising of 90 apartments and 7 commercial units with an aggregate floor space of 5,700 m^2.

In December 2020, the Company commenced construction of the Nowe Warzymice II project comprising of 66 apartments with an aggregate floor space of 3,500 m^2.

Notes to the Consolidated Financial Statements

40. Events during the financial year

Completions of projects

In April 2020, the Company completed the construction of Grunwald2 project comprising 267 apartments and 1 commercial unit with an aggregate floor space of 14,500 m^2.

In August 2020, the Company completed the construction of the Panoramika V project comprising 115 units with an aggregate floor space of 6,000 m^2.

In September 2020, the Company completed the construction of the Nova Królikarnia 2c project comprising 18 houses with a total area of 3,600 m^2.

In November 2020, the Company completed the construction of the Miasto Moje III project comprising 196 units with a total area of 10,200 m^2.

Purchase of land

On 28 April 2020 Company (via its subsidiary) executed a final agreement, based on which it purchased the ownership right of an undeveloped property located in Poznań, Grunwald district. According to the valid zoning conditions, the plot is designated for development of residential multifamily project. The purchase price was agreed at PLN 3.0 million and paid. The project will comprise 72 units with an aggregate floor space of 3,300 m^2.

On 14 August 2020 Company (via its subsidiary) entered into a conditional preliminary agreement concerning the purchase of the perpetual usufruct right of a plot of land located in Warsaw, Wola district, with an area of c.a. 1.6 thousand m^2. The final price of the Property will depend on the usable area of units to be built on the Property and will be calculated based on the valid building permit obtained by the selling entity. The final price for the Property shall be not higher than PLN 22 million. On 14 August 2020 the Company paid an advance for the transaction in an amount of PLN 2.7 million.

On 27 October 2020 the Company (via its subsidiary) executed an agreement concerning the purchase of plots of land located in Warsaw, Mokotów district, at Gąsocińska street. The purchase price was agreed at PLN 13.9 million, but it may be reduced in the event of failure to obtain specific permits for demolition of buildings and road investments related to the Property within the prescribed period. Part of the price in the amount of PLN 13.0 million was paid. The project will comprise 80 units with an aggregate floor space of 4,800 m^2.

On 6 November 2020 the Company (via its subsidiary) entered into a conditional preliminary agreement concerning the purchase of the perpetual usufruct right of a plot of land located in Poznań, at Swierzawskiego street, with an area of c.a. 2,900 m^2. The final price for the Property shall be not higher than PLN 5.0 million. On 15th of February 2021 the company announce of withdrawal from the transaction due to failure to fulfill condition precedents for conclusion of the final deal.

On 23 November 2020 the Company (via its subsidiary) entered into a preliminary agreement concerning the purchase of the ownership rights of a plot of land located in Warsaw, Białołęka district, at Epopei street, with an area of c.a. 27,500 m^2. The price for the property was established at PLN 20.0 million. As at 31 December 2020 the Company paid PLN 1.0 million advance and 6.67 million notary deposit.

On 3 December 2020 the Company (via its subsidiary) entered into a conditional preliminary agreement concerning the purchase of the ownership rights of a plot of land located in Poznań, Grunwald district, at Smardzewska street, with an area of c.a. 20,000 m^2. The final price for the property was established at PLN 26.0 million. Final purchase agreement was signed on 11th of February 2021.

Notes to the Consolidated Financial Statements

40. Events during the financial year

Purchase of land

On 18 December 2020 the Company (via its subsidiary) concluded (through the special purpose vehicle, immediately after its acquisition) the final agreement and became (through the acquisition of shares in the same special purpose vehicle) a party to the preliminary agreement, which agreements jointly concern the acquisition of the ownership title to the land property located in Warsaw, Wola district, at Studzienna street, with a total area of 2,715 m^2. The total price of the property net amounts to PLN 13.5 million, wherein the net amount of PLN 4 million will be paid upon signing the final contract for the part of the Property with an area of 1,042 m^2, which is to be signed until 9 August 2021.

Share buyback program

The total number of own shares held by the Company as at 31 December 2020 was equal to 1,489,235 shares, which constitute 0.91% of the share capital of the Company and votes at the General Meeting, out of which 814,335 were acquired during 2020. More information about Buyback Program was presented in note 23.

Changes in the Management Board and Supervisory Board

On 20 December 2019, Mr Rami Geris submitted his resignation as Finance Vice President and as member of the Management Board of the Company with effective date as of 31 January 2020.

On 16 January 2020, the Supervisory Board of the Company appointed Mr Yaron Shama to the position of member of the Management Board of the Company and Finance Vice President as of 1 February 2020 for a five-year joint term of office of the Management Board, which commenced on 1 April 2020.

There were no changes in Supervisory Board during the year ended 31 December 2020.

Dividend

The dividend in the total amount of PLN 9,787 thousand was paid on 24 August 2020. More information about dividend was presented in note 23.

COVID-19

During the period of 12 months ended on 31 December 2020, like the rest of Poland and the world, the Company was facing a challenging period in which the COVID-19 pandemic outbreak was a risk in terms of operations of the Company as well as its effect on the business environment in which the Company is operating.

The Company identifies few areas of business risks which could significantly influence the Company's short- and long-term operational activity. The following aspects have been recognized and have been the focus of the Management Board efforts to minimize their effect on the Company's operations:

- potential decrease in Company's sales due to lower demand, as a result of tightening the accessibility to mortgages from banks or increase of unemployment;
- potential risk of delay in completing the Company's projects (on time or on budget), which could be caused by shortage of construction personal, shortage of raw materials or prolongation of administrative procedures and delays with obtaining building permits and occupancy permits;
- potential problems with obtaining bank financing for the Company or issuance of bonds for further development of the Company projects and land bank;
- all of the above could potentially affect the company cash standing and liquidity;
- potential effect on the covenants requirements to our bond's holders.

The above points were monitored on a daily basis by the Management Board of the Company, together with the hard work of the Company's employees. During this period the Management Board adopted and implemented counter measuring precautions in order to address each of the above potential risk.

Notes to the Consolidated Financial Statements

40. Events during the financial year

COVID-19

As a result, the current cash position of the company and its financial standing was stable and unaffected by the impact of Covid-19 pandemic. The Company maintain very good net debts to equity ratios which are very important factors to our investors and bond's holders.

The sale results of the Company during the pandemic period reached to 918 units (which is a new record in the company history), outperform the Company expectations and projections for this year and significantly better than the results in year 2019. The Company delivered a record high number of units during 2020 reaching to 966 units comparing to 658 units in 2019.

The Company managed also to issue bond in the amount of PLN 100 million which was exceeding the Company initial requirements and show the trust of our investors and bondholders in the Company and in its activity.

The Company did not have any problem with obtaining bank financing to its on-going projects if such would be needed.

During 2020, the Company signed number of final purchase agreements and entered into numbers of preliminary purchase agreements securing a purchase of plots in order to secure its midterm and long term operations.

The Company managed to obtain on time, in most of its project, all the administrative permits including building permits and occupancy permits which are vital for its daily operations.

The Management Board is aware of the fact that although the good results presented by the Company in the year 2020, there is still uncertainty prevailing in Poland due to the COVID-19 pandemic. The Management Board will continue monitoring the situation on an on-going basis, and adopt further actions, if necessary, in order to reduce as much as it is possible the effect of the COVID-19 on the company operations and strategy.

41. Subsequent events

Buy-back of own shares

From 31 December 2020 until 9 March 2021, the Company acquired 78,719 own shares for a total price of PLN 118.2 thousand. As at 9 March 2021, the Company held 1,567,954 own shares representing 0.96% of total shares issued by the Company.

Bond loans

On 1 February 2021, the Company repaid 15% of outstanding series U bonds with value of PLN 4,848 thousand. After this repayment, the nominal value was set as PLN 850 per bond and the total amount of outstanding series U bonds amounted to PLN 27,469 thousand.

Purchase of land

On 27 January 2021 the Company (via its subsidiary) entered into preliminary agreement concerning the purchase of the perpetual usufruct right of a plot of land located in Warsaw, Ursus district. The price of the Property was established at PLN 1,500 net per PUM however not higher than PLN 150 million. According to initial evaluation it shall be feasible to construct on the Property a complex of multi-family residential buildings with underground car parks, commercial areas on the ground floors and the necessary infrastructure with a total area of 100 thousand m^2. The conclusion of the final agreement will take place only upon fulfillment of conditions precedent, including conducting by the Company satisfactory due diligence process of the Property and after such a change in the purpose and permitted use of the Property to enable the development project to be carried out on it, as described above. The parties also reserved the right to withdraw from the Agreement by either party if the PUM is lower than 90 thousand m^2. The conclusion of the final agreement shall take place not later than 31 December 2027. The Company paid PLN 10.0 million deposit to the notary.

Notes to the Consolidated Financial Statements

41. Subsequent events

Purchase of land

On 11 February 2021 entered into final agreements concerning the purchase of the ownership rights of a plot of land located in Poznań, at Smardzewska street, with an area of c.a. 20,000 m2, which was announced on 3 December 2020. The final price was PLN 26 million and is fully paid.

On 3 March 2021 the Company (via its subsidiary) entered into preliminary agreement concerning the purchase of the perpetual usufruct right of a plot of land located in Warsaw, Ursynów district, with an area of c.a. 2.4 thousand m^2. The price of the property was established at PLN 15.9 million net. According to the Company's initial evaluation it shall be feasible to construct on the property a multifamily residential building with underground car parks, commercial areas and the necessary infrastructure with a total usable area of approx. 5.7 thousand m^2.

Conclusion of a material agreement for General contractors

On the 11 February 2020 the Company (via its subsidiary) executed an option to mandate Karmar S.A. (the General contractor) with the execution of stage IIa and IIb of Viva Jagodno investment, construction works will commence no later than 31 March 2021. Completion of substage IIa is envisaged within 18.5 months as of commencement and of substage IIb within 26.5 months. Viva Jagodno II consists of residential building (226 units) with three above-ground parts connected by a common underground part. The fee for the General contractor under this agreement will amount to PLN 52.0 million.

Nova Królikarnia 3b and Vitalia III - occupancy permit

On 16 February 2021 the Company has obtained a legally valid occupancy permit for Nova Królikarnia 3b property developed in Warsaw.

On 2 March 2021 the Company has obtained a legally valid occupancy permit for Vitalia III property developed in Wrocław.

Commencements of new projects

On 1 March 2021, the Company has obtained a legally valid building permit for Grunwaldzka project in Poznan comprising of 72 units with an aggregated floor space of 3,300 m^2.

On 2 March 2021, the Company has obtained a legally valid building permit for Ursus Centralny IIb project comprising of 206 units with an aggregated floor space of 11,800 m^2 and for Ursus Centralny IIc project comprising of 195 units with an aggregated floor space of 11,100 m^2.

Boaz Haim
President of the Management Board

Yaron Shama
Vicepresident of the Management Board, CFO

Andrzej Gutowski
Vicepresident of the Management Board,
Sales and Marketing Director

Alon Haver
Member of the Management Board

Anna Rzeczkowska
Person responsible for the accounting records

Warsaw, 10 March 2021