Ronson Development SE

Consolidated Financial Statements for the year ended 31 December 2022

Management Board

Boaz Haim, *President of the Management Board*
Yaron Shama, *Finance Vice-President of the Management Board*
Andrzej Gutowski, *Sales Vice-President of the Management Board*
Karolina Bronszewska, *Member of the Management Board for Marketing and Innovation*

Supervisory Board

Amos Luzon, *Chairman*
Alon Kadouri
Ofer Kadouri

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		**2022**	**2021**
In thousands of Polish Zlotys (PLN)	***Note***		
Revenue from sales of residential projects	*5*	300,259	457,677
Revenue from the sale of land	*5*	-	22,500
Revenue from sale of services	*5*	-	722
Revenue		**300,259**	**480,899**
Cost of sales of residential projects	*5*	(220,832)	(371,223)
Cost of sales of land		-	(24,976)
Cost of sales		**(220,832)**	**(396,199)**
Gross profit		**79,427**	**84,700**
Changes in the fair value of investment property	*13*	303	(297)
Selling and marketing expenses	*6*	(4,565)	(4,760)
Administrative expenses	*7*	(25,505)	(23,676)
Share of the profit from joint ventures accounted for using the equity method	*14*	1,278	5,763
Other expenses	*8*	(5,200)	(4,857)
Other income	*9*	2,714	2,363
Result from operating activities		**48,452**	**59,236**
Finance income	*10*	3,520	600
Finance costs	*10*	(8,414)	(4,412)
Gain/loss in fair value of financial instrument at fair value through profit and loss	*25*	4,121	-
Net finance income/(cost)		**(773)**	**(3,812)**
Profit before taxation		**47,679**	**55,424**
Income tax expense	*11*	(16,328)	(15,077)
Profit for the year		**31,351**	**40,347**
Other comprehensive income		-	-
Total comprehensive income for the year, net of tax		**31,351**	**40,347**
Total profit for the year attributable to:			
Equity holders of the parent	*22*	31,351	40,347
Non-controlling interests		-	-
Total profit for the year		**31,351**	**40,347**
Total comprehensive income attributable to:			
Equity holders of the parent	*22*	31,351	40,347
Non-controlling interests		-	-
Total comprehensive income for the year, net of tax		**31,351**	**40,347**
Weighted average number of ordinary shares (basic and diluted)	*22*	162,442,859	162,445,075
In Polish Zlotys (PLN)			
Net earnings per share attributable to the equity holders of the parent (basic)	*22*	**0.193**	**0.248**
Net earnings per share attributable to the equity holders of the parent (diluted)	*22*	**0.193**	**0.248**

The notes on pages 5 to 73 are an integral part of these consolidated financial statements

Consolidated Statement of Financial Position

As at 31 December		2022	2021
In thousands of Polish Zlotys (PLN)	***Note***		
Assets			
Non-current assets			
Property and equipment	*12*	7,556	7,558
Investment property	*13*	63,139	28,595
Intangible fixed assets		686	1,016
Investment in joint ventures	*14*	2,331	3,846
Deferred tax assets	*15*	8,830	8,195
Land designated for development	*16*	21,094	10,041
Total non-current assets		**103,636**	**59,251**
Current assets			
Inventory	*16*	747,254	655,542
Trade and other receivables and prepayments	*17*	65,620	58,180
Advances for Land	*18*	20,650	48,453
Income tax receivable		691	1,002
Loans granted		1,717	1,621
Loans granted to joint ventures	*14*	133	319
Other current financial assets	*19*	11,217	8,794
Cash and cash equivalents	*20*	51,185	133,434
Total current assets		**898,467**	**907,345**
Total assets		**1,002,103**	**966,597**
Equity and liabilities			
Equity			
Shareholders' equity	*21*		
Share capital		12,503	12,503
Share premium		150,278	150,278
Treasury shares		(1,732)	(1,732)
Retained earnings		290,347	258,996
Total equity/Equity attributable to equity holders of the parent		**451,396**	**420,045**
Liabilities			
Non-current liabilities			
Floating rate bond loans	*23*	158,110	196,991
Deferred tax liability	*15*	23,809	13,513
Lease liabilities related to perpetual usufruct of investment property	*24*	663	553
Total non-current liabilities		**182,583**	**211,057**
Current liabilities			
Trade and other payables and accrued expenses	*26*	75,055	61,086
Floating rate bond loans	*23*	40,000	49,770
Other payables - accrued interests on bonds	*23*	5,260	2,477
Secured bank loans	*23*	16,297	1,568
Advances received	*27*	139,911	198,227
Income tax payable		70	2,716
Provisions		3,704	2,128
Lease liabilities related to perpetual usufruct of land	*24*	17,322	17,523
Financial liability measured at FVPL	*25*	70,506	-
Total current liabilities		**368,124**	**335,495**
Total liabilities		**550,707**	**546,552**
Total equity and liabilities		**1,002,103**	**966,597**

The notes on pages 5 to 73 are an integral part of these consolidated financial statements

Consolidated Statement of Changes in Equity

	Attributable to the Equity holders of the parent				
In thousands of Polish Zlotys (PLN)	Share capital	Share premium	Treasury shares	Retained earnings	Total Equity attributable to the Equity holders of the parent
Balance at 1 January 2022	**12,503**	**150,278**	**(1,732)**	**258,996**	**420,045**
Comprehensive income:					
Profit for the year ended 31 December 2022	-	-	-	31,351	31,351
Other comprehensive income	-	-	-	-	-
Total comprehensive income	**-**	**-**	**-**	**31,351**	**31,351**
Balance at 31 December 2022	**12,503**	**150,278**	**(1,732)**	**290,347**	**451,396**

	Attributable to the Equity holders of the parent				
In thousands of Polish Zlotys (PLN)	Share capital	Share premium	Treasury shares	Retained earnings	Total Equity attributable to the Equity holders of the parent
Balance at 1 January 2021	**12,503**	**157,905**	**(1,613)**	**211,022**	**379,817**
Comprehensive income:					
Profit for the year ended 31 December 2021	-	-	-	40,347	40,347
Other comprehensive income	-	-	-	-	-
Total comprehensive income	**-**	**-**	**-**	**40,347**	**40,347**
Own shares acquired	-	-	(119)	-	(119)
Reclassification of 2019 net result from Share premium to retained earnings (1)	-	(7,627)	-	7,627	-
Balance at 31 December 2021	**12,503**	**150,278**	**(1,732)**	**258,996**	**420,045**

(1) change of presentation of allocation of net result for the year 2019 from Share premium to Retained earnings

The notes on pages 5 to 73 are an integral part of these consolidated financial statements

Consolidated Statement of Cash Flows

For the year ended 31 December			
In thousands of Polish Zlotys (PLN)	***Note***	**2022**	**2021**
Cash flows used in operating activities			
Profit for the period		31,351	40,347
Adjustments to reconcile profit for the period to net cash used in operating activities			
Depreciation and amortization		871	731
(Increase)/decrease in fair value of investment property		(359)	297
Write-down of inventory		482	4,351
Finance expense		8,330	4,412
Finance income		(1,929)	(843)
Foreign exchange gain		(1,507)	-
Gain in fair value of financial instrument at fair value through profit or loss		(4,121)	-
Share of profit from joint ventures		(1,327)	(5,763)
Income tax expense	*11*	16,327	15,077
Subtotal		**48,118**	**58,608**
Decrease/(increase) in inventory and land designated for development	*34*	(996)	167,376
Purchases of land		(55,246)	(113,784)
Decrease/(increase) in advances for land		-	(36,553)
Decrease/(increase) in trade and other receivables and prepayments	*34*	(11,347)	(28,937)
Decrease/(increase) in other current financial assets		(2,423)	5,445
Increase/(decrease) in trade and other payables and accrued expenses	*34*	(9,777)	1,502
Increase/(decrease) in provisions		1,576	1,133
Increase/(decrease) in advances received		(58,316)	(26,040)
Subtotal		**(88,412)**	**28,750**
Interest paid		(16,072)	(10,729)
Interest received		1,708	2
Income tax paid	*11*	(8,998)	(19,971)
Net cash used in operating activities		**(111,774)**	**(1,948)**
Cash flows from/(used in) investing activities			
Acquisition of property and equipment		(360)	(173)
Proceeds from investment property		(10,468)	(19,936)
Repayments of loans granted to joint ventures		197	11,808
Loans granted		-	(1,621)
Dividend received from joint ventures		2,831	-
Net cash from/(used in) investing activities		**(7,800)**	**(9,922)**
Cash flows from financing activities			
Proceeds from bank loans, net of bank charges	*23*	95,788	19,223
Repayment of bank loans	*23*	(83,209)	(18,497)
Proceeds from bond loans, net of charges	*23*	-	95,105
Repayment of bond loans	*23*	(50,000)	(77,929)
Repayment of loans from other		-	(6,674)
Payment of perpetual usufruct rights	*24*	(1,206)	(904)
SAFE Agreement	*25*	74,626	-
Buy-back of shares	*21*	-	(119)
Net cash from financing activities		**35,999**	**10,205**
Net change in cash and cash equivalents		**(83,575)**	**(1,665)**
Cash and cash equivalents at beginning of period		133,434	135,099
Effects of exchange rate changes on cash and cash equivalents		1,326	-
Cash and cash equivalents at end of period		**51,185**	**133,434**

** Including restricted cash that amounted to PLN 9,353 thousand and PLN 58,526 thousand as 31 December 2022 and as 31 December 2021, respectively.*

The notes on pages 5 to 73 are an integral part of these consolidated financial statements

Notes to the Consolidated Financial Statements

1. Background and business of the Company

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 in Warsaw. 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.

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. In 2021 the Management Board of the Company decided to start developing new activity, so-called Private Rent Sector (PRS). PRS is sector of Poland's residential market in which buildings are designed and built specifically for renting. The Company prepared Consolidated Financial Statements for the year ended 31 December 2022, which was authorized for issue on 15 March 2023.

The shares of the Company were traded on the Warsaw Stock Exchange until 28 April 2022. As at 31 December 2022 and until the date of publication, 100% of the shares are controlled by Amos Luzon Development and Energy Group Ltd. ('A. Luzon Group'), (the ultimate parent company), whereas 66.06% of the shares are controlled indirectly (via I.T.R. Dori B.V., a fully owned subsidiary of A. Luzon Group), and 32.98% of the shares are controlled directly owned.by A. Luzon Group, 66.06% of the shares are controlled via I.T.R. Dori B.V., a fully owned subsidiary of A. Luzon Group. In addition 0.96% of the shares are held by the Company. The real beneficiary of the Company is Mr. Amos Luzon, Chairman of the Supervisory Board.

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 2022 and as at 31 December 2021, are presented below and on the following page. The projects managed by the entities are in various stages of development ranging from being in the process of acquiring land for development to projects which are completed or near completion.

	Entity name	Year of incorporation	Share of ownership & voting rights at the end of	
			31 December 2022	31 December 2021
a.	**held directly by the Company:**			
1	Ronson Development Management Sp. z o.o.	1999	100%	100%
2	Ronson Development Warsaw Sp. z o.o. (3)	2000	-	100%
3	Ronson Development Investment Sp. z o.o. (3)	2011	-	100%
4	Ronson Development Metropol Sp. z o.o. (3)	2011	-	100%
5	Ronson Development Creations Sp. z o.o. (3)	2005	-	100%
6	Ronson Development Sp. z o.o.	2006	100%	100%
7	Ronson Development Construction Sp. z o.o.	2006	100%	100%
8	City 2015 Sp. z o.o.	2006	100%	100%
9	Ronson Development Village Sp. z o.o. (1)	2007	100%	100%
10	Ronson Development Skyline Sp. z o.o.	2007	100%	100%
11	Ronson Development Universal Sp. z o.o. (1)	2007	100%	100%
12	Ronson Development South Sp. z o.o.	2007	100%	100%
13	Ronson Development Partner 5 Sp. z o.o.	2007	100%	100%
14	Ronson Development Partner 4 Sp. z o.o.	2007	100%	100%
15	Ronson Development North Sp. z o.o. (3)	2007	-	100%
16	Ronson Development Providence Sp. z o.o.	2007	100%	100%
17	Ronson Development Finco Sp. z o.o.	2009	100%	100%
18	Ronson Development Partner 2 Sp. z o.o.	2009	100%	100%
19	Ronson Development Partner 3 Sp. z o.o.	2012	100%	100%
20	Ronson Development Studzienna Sp. z o.o.	2019	100%	100%
21	Ronson Development SPV1 Sp. z o.o.	2021	100%	100%
22	Ronson Development SPV2 Sp. z o.o.	2021	100%	100%
23	Ronson Development SPV3 Sp. z o.o.	2021	100%	100%
24	Ronson Development SPV4 Sp. z o.o.	2021	100%	100%
25	Ronson Development SPV5 Sp. z o.o.	2021	100%	100%
26	Ronson Development SPV6 Sp. z o.o.	2021	100%	100%
27	Ronson Development SPV7 Sp. z o.o.	2021	100%	100%
28	Ronson Development SPV8 Sp. z o.o.	2021	100%	100%
29	Ronson Development SPV9 Sp. z o.o.	2021	100%	100%
30	Ronson Development SPV10 Sp. z o.o.	2021	100%	100%
31	Ronson Development SPV11 Sp. z o.o.	2021	100%	100%
32	Ronson Development SPV12 Sp. z o.o. (2)	2022	100%	-
33	Ronson Development SPV13 Sp. z o.o. (2)	2022	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	
			31 December 2022	31 December 2021
b.	**held indirectly by the Company :**			
34	AGRT Sp. z o.o. [(5)]	2007	-	100%
35	Ronson Development Partner 4 Sp. z o.o. – Panoramika Sp.k.	2007	100%	100%
36	Ronson Development Sp. z o.o. - Estate Sp.k.	2007	100%	100%
37	Ronson Development Sp. z o.o. - Home Sp.k.	2007	100%	100%
38	Ronson Development Sp. z o.o. - Horizon Sp.k.	2007	100%	100%
39	Ronson Development Partner 3 Sp. z o.o. - Sakura Sp.k.	2007	100%	100%
40	Ronson Development Partner 3 sp. z o.o. – Viva Jagodno sp. k.	2009	100%	100%
41	Ronson Development Sp. z o.o. - Apartments 2011 Sp.k.	2009	100%	100%
42	Ronson Development Sp. z o.o. - Idea Sp.k.	2009	100%	100%
43	Ronson Development Partner 2 Sp. z o.o. – Destiny 2011 Sp.k.	2009	100%	100%
44	Ronson Development Partner 2 Sp. z o.o. - Enterprise 2011 Sp.k.	2009	100%	100%
45	Ronson Development Partner 2 Sp. z o.o. - Retreat 2011 Sp.k.	2009	100%	100%
46	Ronson Development Partner 5 Sp. z o.o. - Vitalia Sp.k.	2009	100%	100%
47	Ronson Development Sp. z o.o. - 2011 Sp.k.	2009	100%	100%
48	Ronson Development Sp. z o.o. - Gemini 2 Sp.k.	2009	100%	100%
49	Ronson Development Sp. z o.o. - Verdis Sp.k.	2009	100%	100%
50	Ronson Espresso Sp. z o.o.[(5)]	2006	-	100%
51	Ronson Development Sp. z o.o. - Naturalis Sp.k.	2011	100%	100%
52	Ronson Development Sp. z o.o. - Impressio Sp.k.	2011	100%	100%
53	Ronson Development Partner 3 Sp. z o.o.- Nowe Warzymice Sp. k	2011	100%	100%
54	Ronson Development Sp. z o.o. - Providence 2011 Sp.k.	2011	100%	100%
55	Ronson Development Partner 2 Sp. z o.o. - Capital 2011 Sp. k.	2011	100%	100%
56	Ronson Development Partner 5 Sp. z o.o. - Miasto Marina Sp.k.	2011	100%	100%
57	Ronson Development Partner 5 Sp. z o.o. - City 1 Sp.k.	2012	100%	100%
58	Ronson Development Partner 2 Sp. z o.o. - Miasto Moje Sp. k.	2012	100%	100%
59	Ronson Development sp. z o.o. – Ursus Centralny Sp. k.	2012	100%	100%
60	Ronson Development Sp. z o.o. - City 4 Sp.k.	2016	100%	100%
61	Ronson Development Partner 2 Sp. z o.o. – Grunwald Sp.k.	2016	100%	100%
62	Ronson Development Sp. z o.o. Grunwaldzka" Sp.k.	2016	100%	100%
63	Ronson Development Sp. z o.o. - Projekt 3 Sp.k.	2016	100%	100%
64	Ronson Development Sp. z o.o. - Projekt 4 Sp.k.	2017	100%	100%
65	Ronson Development Sp. z o.o. - Projekt 5 Sp.k.	2017	100%	100%
66	Ronson Development Sp. z o.o. - Projekt 6 Sp.k.	2017	100%	100%
67	Ronson Development Sp. z o.o. - Projekt 7 Sp.k.	2017	100%	100%
68	Ronson Development Sp. z o.o. - Projekt 8 Sp.k.	2017	100%	100%
69	Bolzanus Limited *(Company with the registered office in Cyprus)*	2013	100%	100%
70	Park Development Properties Sp. z o.o. - Town Sp.k.	2007	100%	100%
71	Tras 2016 Sp. z o.o.	2011	100%	100%
72	Park Development Properties Sp. z o.o.	2011	100%	100%
73	Jasminova 2016 Sp. z o.o.[(6)]	2016	-	100%
74	Town 2016 Sp. z o.o. [(6)]	2016	-	100%
75	Enterprise 2016 Sp. z o.o. [(6)]	2016	-	100%
76	Wrocław 2016 Sp. z o.o.	2016	100%	100%
77	Darwen Sp. z o.o.	2016	100%	100%
78	Truro Sp. z o.o.	2017	100%	100%
79	Tregaron Sp. z o.o.	2017	100%	100%
80	Totton Sp. z o.o.	2017	100%	100%
81	Tring Sp. z o.o.	2017	100%	100%
82	Thame Sp. z o.o.	2017	100%	100%
83	Troon Sp. z o.o.	2017	100%	100%
84	Tywyn Sp. z o.o.	2018	100%	100%
85	Semela Sp. z o.o.[(4)]	2021	-	100%
c.	**other entities (accounted for using the equity method):**			
86	Coralchief sp. z o.o.	2018	50%	50%
87	Coralchief sp. z o.o. - Projekt 1 sp. k.	2016	50%	50%
88	Ronson IS sp. z o.o.	2009	50%	50%
89	Ronson IS sp. z o.o. sp. k.	2012	50%	50%

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) Companies created and registered in KRS in first quarter of 2022

3) Companies merged with Ronson Development South Sp. z o.o. on 9 March 2022

4) Companies merged with Ronson Development SPV7 Sp. z o.o. on 18 August 2022

5) Companies merged with Ronson Development South Sp. z o.o. on 22 August 2022

6) Companies merged with Tras 2016 Sp. z o.o. on 13 October 2022

Notes to the Consolidated Financial Statements

2. Basis of preparation of Financial Statements 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 2022. Information about standards and interpretations were presented below.

The Consolidated Financial Statements were authorized by the Management Board of Ronson Development SE on 15 March 2023. 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 2022 in both English and Polish languages, while the Polish version is binding.

New and amended standards adopted by the Group

The following standards and amendments became effective as of 1 January 2022:

• Amendments to IAS 16 - Property, Plant and Equipment - prohibition of adjusting the cost of production of property, plant and equipment by the amounts obtained from the sale of components produced during the period of preparation of property, plant and equipment to start operating in accordance with the management's intentions.

• Amendments to IFRS 3 – "Business combinations" - update of the Conceptual Framework in IFRS;

• Amendments to IAS 37 – "Provisions, contingent liabilities and contingent assets" - explanations on whether the contract is an Onerous Contracts;

• Annual Improvements to IFRS Standards 2018-2020 (IFRS 1 "First-time Adoption of International Financial Reporting Standards", IFRS 9 "Financial Instruments", IAS 41 "Agriculture" and to the illustrative examples of IFRS 16 "Leasing").

The impact of the above amendments and improvements to IFRSs has been analyzed by the Management Board. Based on the assessment the amendments do not impact the Consolidated Financial Statements of the Company.

New standards and interpretations not yet adopted

Certain new accounting standards and interpretations have been published that are not mandatory for 2022 reporting periods and have not been early adopted earlier by the Group. The Management Board do not expect that these standards have a material impact on the entity or the Group 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 and SAFE Agreement (financial liability) which was measured at fair value. The methods used to measure fair values for the purpose of preparing the Consolidated Financial Statements are discussed further in Note 3(r), Note 13, Note 25 and Note 28.

(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 of Financial Statements 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 5 – Sales Revenue
- Note 13 – Investment property
- Note 15 – Deferred tax asset recognition
- Note 16 – Inventory and residential land bank
- Note 25 – Investors agreement (“SAFE Agreement”)
- Note 27 – Advances received
- Note 30 – Commitments and contingencies

The Group conducts residential units projects and developing activities in dedicated operating subsidiaries. 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 recognized at the moment when control over the real estate is transferred to the customer of mentioned 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. More information is presented in the Note 5 to the Consolidated Financial Statements.

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 (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 properties, less estimated costs to complete construction and less an estimate of the time value of money to the date of completion. More information is presented in the Note 16 to the Consolidated Financial Statements.

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 or comparison approach (pairwise comparison method). The determination of the fair value of the investment property using discounted cash flow approach 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. Comparison approach involves an analysis of similar properties which are being sold on the market and for which the characteristics that determine the cost and the terms of the transactions are known. More information is presented in the Note 13 to the Consolidated Financial Statements.

Notes to the Consolidated Financial Statements

2. Basis of preparation of Financial Statements and measurement

(d) Use of estimates and judgments

Valuation of lease liability

According to the IFRS 16 standard 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. More information is presented is the Note 24 to the Consolidated Financial Statements.

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. More information is presented in the Note 15 to the Consolidated Financial Statements.

Valuation of financial liability at fair value through profit or loss

The fair value of the financial liability at fair value through profit or loss is determined by independent valuator based on the Monte Carlo simulation model and the Black & Scholes model. The determination of the fair value of the liability requires the use of estimates such as share price, exercise price, loan maturity, risk free interest, credit risk, expected volatility and expected dividend yield. More information is presented in the Note 25 to the Consolidated Financial Statements.

Significant financing component within customer advances

The Group enters into sale agreements with clients, which require advance payments in accordance with the agreed schedule. Based on the analysis of the agreements, it was found that they do not contain a significant element of financing due to the fact that advance payments from clients are intended to secure the performance of the agreement (i.e. they guarantee that the customer will not withdraw from the purchase and from the customer's point of view constitute security that the given premises will be sold to him at the agreed price), so they are made for reasons other than providing financing to the developer (IFRS 15 par. 62c). In addition, if the flat finds a buyer quite late, i.e. shortly before signing the acceptance report, the difference between the cash price paid once by such a customer and the price paid by the customer in the event of signing the contract significantly earlier does not result from interest in this period, but from changes in market prices housing.

Financial assets – write-off

Financial assets are written-off, in whole or in part, when the Group exhausted all practical recovery efforts and has concluded that there is no reasonable expectation of recovery. The write-off represents a derecognition event. The Group may write-off financial assets that are still subject to enforcement activity when the Group seeks to recover amounts that are contractually due, however, there is no reasonable expectation of recovery.

Policy on default

For purposes of measuring probability of default, the Group defines default as a situation when the debtor meets the unlikeliness-to-pay criteria listed below:

- the debtor is deceased;
- the debtor is insolvent;
- it is becoming likely that the debtor will enter bankruptcy.

Notes to the Consolidated Financial Statements

2. Basis of preparation of Financial Statements and measurement

(e) Basis of consolidation

These Consolidated Financial Statements comprise the financial statements of the Company and its subsidiaries as at 31 December 2022. 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.

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, 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 (unit) to a customer, i.e. the revenues are recognized at point in time. A residential unit is transferred when (or as) the customer obtains control of the residential unit (i.e. upon signing protocol of technical acceptance and transfer of key to the unit and payment of the entire amount, resulting from the sale agreement), after receiving valid occupancy permit for the building 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.

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

The Group recognizes the provision for the warranties separately. Warranty is treated as a separate performance obligation.

(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, transaction costs that are directly attributable to the acquisition or issue of the financial asset or the financial liability. 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.

The classification and subsequent measurement of debt financial assets also depends on the Group’s business model for managing the related assets portfolio.

Notes to the Consolidated Financial Statements

3. Significant accounting policies

(c) Financial instruments

The business model reflects how the Group manages the assets in order to generate cash flows – whether the Group's objective is: (i) solely to collect the contractual cash flows from the assets ("hold to collect contractual cash flows",) or (ii) to collect both the contractual cash flows and the cash flows arising from the sale of assets ("hold to collect contractual cash flows and sell") or, if neither of (i) and (ii) is applicable, the financial assets are classified as part of "other" business model and measured at FVTPL.

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.

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 recognized in profit or loss when the asset is derecognized, modified or impaired. Assets to which above policy applies:

- Cash and cash equivalents,
- Cash on escrow classified as "other current financial asset",
- Loan receivables,
- Trade receivables.

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 recognized in two steps. 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, the Group applies a simplified approach in calculating ECLs. Therefore, the Group does not track changes in credit risk, but instead recognizes 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.

Notes to the Consolidated Financial Statements

3. Significant accounting policies

(c) Financial instruments

Financial liabilities

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

After initial recognition, interest-bearing loans and borrowings are subsequently measured at Amortized cost using the EIR method. Gains and losses are recognized in profit or loss when the liabilities are derecognized as well as through the EIR amortization process. Amortized 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 amortization is included as finance costs in the statement of profit or loss.

Financial liability at fair value through profit or loss are subsequently measured at fair value. A gain or loss on a financial liability that is designated as at fair value through profit or loss is presented as follows:

- the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income;
- the remaining amount of change in the fair value of the liability is presented in profit or loss in line: "Gain/loss in fair value of financial instrument at fair value through profit and loss",

unless the treatment of the effects of changes in the liability's credit risk described in (a) would create or enlarge an accounting mismatch in profit or loss, then all changes in fair value (including the effects of changes in the credit risk of the liability) are presented in profit and loss.

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	Loans granted	Amortized cost method
	Cash and cash equivalent	Amortized cost method
	Trade and other receivables	Amortized cost method
	Other current financial assets	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
Liabilities measured at fair value through profit and loss	Financial liability measured at FVPL	Fair value

(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 labour, 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.

Notes to the Consolidated Financial Statements

3. Significant accounting policies

(d) Property and equipment and intangible assets

(ii) Depreciation and amortization

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 as below:

- Buildings: from 5 to 40 years
- Equipment: from 2,5 to 10 years
- Cars: approximately up to 5 years
- Other tangible assets: from 2 to 5 years
- Intangible assets: from 2 to 5 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.

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 signing the lease contract. 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 commencement date. 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.

Notes to the Consolidated Financial Statements

3. Significant accounting policies

(e) Leases

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

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 statement of financial position under "Investment properties".

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

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.

Other leases

Assets – the right of use assets (cars) was recognized in the statement of financial position under "Property and equipment" less accrued depreciation.

Liabilities - was presented in the statement of financial position as a long term under "Lease liabilities related to perpetual usufruct of investment property" less repayment of capital part of the lease.

Costs - the Group depreciates the right of use asset on straight-line basis for the full duration of the lease at each balance sheet date and recognizes finance expense to reflect interest expense on lease liability.

Notes to the Consolidated Financial Statements

3. Significant accounting policies

(f) Investment properties, investment properties under construction

Investment properties and investment properties under construction are measured initially at cost, including transaction costs. After initial recognition, as at each reporting date, investment property under construction that meets the premises for their valuation, and investment property are measured at fair value. The fair value measurement is updated at least quarterly. Profits or losses resulting from changes in the fair value of investment properties are recognized in the statement of comprehensive income in the period in which they arise. The result on the valuation of investment properties is presented in the profit / loss on changes in the fair value of investment property line.

For investment properties under construction, the premises for valuation are met in the case of projects where a significant part of the risks related to the construction process has been eliminated and it is possible to measure reliably at fair value. In other cases, when it is not possible to reliably determine the fair value, the value of real estate under construction is valued according to the cost method.

The Group has specified the conditions under which it begins the process of analyzing whether significant risks relating to investment properties under construction have been eliminated. There are specific conditions analyzed by the Group if the risks are minimalized which are basis for the fair value valuation, like for example, but not limited to, obtaining building permit, contracting construction work.

The presented conditions constitute the boundary criteria of the analysis. Each investment property under construction is analyzed individually in terms of the possibility of obtaining a reliable valuation to fair value, taking into account, in addition to the conditions described above, also the general economic and market situation, the availability of data for similar properties and expectations regarding the volatility of factors underlying the valuation and the method of financing investment project.

Land and buildings measured at fair value are updated in such a way as to reflect the market conditions prevailing at the end of each reporting period. The fair value of investment property is the price that would have been received for the sale of an asset or paid for the transfer of a liability in a transaction between market participants carried out on normal conditions at the valuation date. Fair values are subject to verification by external valuations prepared by experts in cooperation with the Management Board. To determine the fair value of the property, independent appraisers use valuation methods most appropriate for the valuation of the property depending on the individual asset.

(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 is presented as short-term assets under inventory, in other cases the project is presented as long-term under Residential land bank.

Inventories are valued at the purchase price plus capitalized costs (incurred during preparation for project implementation), however, not higher than the net realizable value from the sale. The purchase price includes costs incurred in connection with construction of the project.

Inventories consists of real estate projects related to realization of multi-family block of flats or detached houses for individual clients.

(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.

Notes to the Consolidated Financial Statements

3. Significant accounting policies

(g) Residential land bank and Inventories

(i) Inventory

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.

(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 total 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) 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.

(j) 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.

Notes to the Consolidated Financial Statements

3. Significant accounting policies

(j) Impairment of non-financial assets

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.

(k) 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.

(l) 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.

(m) 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.

(n) Other current financial assets

Other current financial assets in the statement of financial positions comprise only funds deposited on escrow accounts. The separate line was created due to new legal regulations "Act on the Protection of Rights of a Dwelling Unit or House Buyer" which resulted in the need to open individual escrow accounts for advances paid by the customers of the Group for the purchases of apartments. Amounts collected on individual escrow accounts are measured at amortised cost less expected credit losses.

Notes to the Consolidated Financial Statements

3. Significant accounting policies

(o) Cash and cash equivalents

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

For the purpose of the consolidated statement cash flows, cash and cash equivalents consist of cash and short-term deposits as defined above, net of outstanding bank overdrafts. Cash and cash equivalents are measured at amortized costs less expected credit losses.

(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.

(q) 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 is 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. Dividends declared by the joint venture decrease the carrying amount of the investment in the joint venture. 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.

Notes to the Consolidated Financial Statements

3. Significant accounting policies

(r) Fair Value

The Group measures investment properties and financial liability ("SAFE" Agreement) at fair value at each balance sheet date. The financial liability is measured at Fair value through profit and loss in its entirety. The movements in fair value are recorded in profit and loss, except for the fair value changes arising from changes in the Company's own credit risk, which should be accounted for through other comprehensive income with no subsequent recycling. In addition, fair values of financial instruments measured at amortized cost are disclosed in Note 28 and Note 29.

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.

4. Segment reporting

The Group's operating segments are defined as separate entities developing particular residential projects, which for 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, development of houses). Moreover, for particular assets the reporting was based on type of income: rental income from investment property or from so-called Private Rent Sector. The segment reporting method requires also the Company to present separately joint venture within Warsaw segment. There has been no changes in the basis of segmentation or in the basis of measurement of segment profit or loss from the last annual financial statements. There is no concentration of the services to one client, the revenue is allocated to many clients, mostly individual clients.

Notes to the Consolidated Financial Statements

4. Segment reporting

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 construction 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. Unallocated assets comprise mainly unallocated cash and cash equivalents and income tax assets. Unallocated liabilities comprise mainly income tax liabilities and bond loans. The unallocated result (loss) comprises mainly head office expenses. IFRS adjustments represents the elimination of the Joint venture segment for reconciliation of the profit (loss), assets and liabilities to the consolidated numbers. Joint ventures are accounted using the equity method.

The results of activities in the individual segments are assessed mainly on the basis of sale revenues, cost of sales of residential projects, assigned marketing costs and others operating costs/income assigned to each segment. Additionally the Group analyses the profit and gross margin on sales as well as result before tax (including financial costs and income assigned to the segment) generated by the individual markets.

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 2022**

	Warsaw				**Poznań**		**Wrocław**		**Szczecin**		**Unallocated**	**IFRS adjustments**	**Total**
	Apartments	**Houses**	**Joint venture**	**Rental**	**Apartments**	**Houses**	**Apartments**	**Houses**	**Apartments**	**Houses**			
Segment assets	530,898	100,278	5,570	70,605	122,968	8,953	58,431	-	86,801	-	-	(3,123)	981,382
Unallocated assets	-	-	-	-	-	-	-	-	-	-	20,721	-	20,721
Total assets	**530,898**	**100,278**	**5,570**	**70,605**	**122,968**	**8,953**	**58,431**	**-**	**86,801**	**-**	**20,721**	**(3,123)**	**1,002,103**
Segment liabilities	160,174	5,216	955	24,376	24,320	-	17,278	-	17,050	-	-	(955)	248,414
Unallocated liabilities	-	-	-	-	-	-	-	-	-	-	302,293	-	302,293
Total liabilities	**160,174**	**5,216**	**955**	**24,376**	**24,320**	**-**	**17,278**	**-**	**17,050**	**-**	**302,293**	**(955)**	**550,707**

In thousands of Polish Zlotys (PLN) — **As at 31 December 2021**

	Warsaw				**Poznań**		**Wrocław**		**Szczecin**		**Unallocated**	**IFRS adjustments**	**Total**
	Apartments	**Houses**	**Joint venture**	**Rental**	**Apartments**	**Houses**	**Apartments**	**Houses**	**Apartments**	**Houses**			
Segment assets	546,714	85,181	19,914	30,449	116,951	-	45,403	-	97,797	-	-	(15,749)	926,660
Unallocated assets	-	-	-	-	-	-	-	-	-	-	39,937	-	39,937
Total assets	**546,714**	**85,181**	**19,914**	**30,449**	**116,951**	**-**	**45,403**	**-**	**97,797**	**-**	**39,937**	**(15,749)**	**966,597**
Segment liabilities	218,314	952	547	1,329	6,064	-	11,413	-	28,594	-	-	(547)	266,666
Unallocated liabilities	-	-	-	-	-	-	-	-	-	-	279,886	-	279,886
Total liabilities	**218,314**	**952**	**547**	**1,329**	**6,064**	**-**	**11,413**	**-**	**28,594**	**-**	**279,886**	**(547)**	**546,552**

Notes to the Consolidated Financial Statements

4. Segment reporting

In thousands of Polish Zlotys (PLN) — **For the year ended 31 December 2022**

	Warsaw				**Poznań**		**Wrocław**		**Szczecin**		**Unallocated**	**IFRS adjustments**	**Total**
	Apartments	**Houses**	**Joint venture**	**Rental**	**Apartments**	**Houses**	**Apartments**	**Houses**	**Apartments**	**Houses**			
Revenue/Revenue from Clients(1)	217,797	-	16,896	841	2,325	-	23,139	-	56,157	-	-	(16,896)	300,259
Segment result	56,782	720	3,285	881	(4,892)	1,376	4,522	-	14,372	-	-	(3,285)	73,756
Unallocated result	-	-	-	-	-	-	-	-	-	-	(25,308)	-	(25,308)
Result from operating activities	**56,782**	**720**	**3,285**	**881**	**(4,892)**	**1,376**	**4,522**	**-**	**14,372**	**-**	**(25,308)**	**(3,285)**	**48,452**
Net finance income/ (expenses)	244	(88)	75	177	(52)	(2)	84	-	115	-	(1,252)	(75)	(773)
Profit/(loss) before tax	**57,024**	**632**	**3,360**	**1,059**	**(4,944)**	**1,374**	**4,607**	**-**	**14,486**	**-**	**(26,557)**	**(3,361)**	**47,679**
Income tax expenses													(16,328)
Profit for the year													**31,351**

(1) Revenues are recognized at the moment when control over the real estate is transferred to the buyer, which is based on a signed technical acceptance protocol, handover the keys to the buyer and reception of full payment.

In thousands of Polish Zlotys (PLN) — **For the year ended 31 December 2021**

	Warsaw				**Poznań**		**Wrocław**		**Szczecin**		**Unallocated**	**IFRS adjustments**	**Total**
	Apartments	**Houses**	**Joint venture**	**Rental**	**Apartments**	**Houses**	**Apartments**	**Houses**	**Apartments**	**Houses**			
Revenue/Revenue from Clients(1)/(2)	275,389	29,166	67,639	697	19,322	-	92,739	-	63,586	-	-	(67,639)	480,899
Segment result	50,088	5,540	14,600	(82)	(244)	-	18,751	-	2,547	-	-	(14,600)	76,600
Unallocated result	-	-	-	-	-	-	-	-	-	-	(17,365)	-	(17,365)
Result from operating activities	**50,088**	**5,540**	**14,600**	**(82)**	**(244)**	**-**	**18,751**	**-**	**2,547**	**-**	**(17,365)**	**(14,600)**	**59,235**
Net finance income/ (expenses)	(145)	(85)	(151)	25	(33)	-	(52)	-	(118)	-	(3,403)	151	(3,812)
Profit/(loss) before tax	**49,943**	**5,455**	**14,449**	**(57)**	**(277)**	**-**	**18,699**	**-**	**2,429**	**-**	**(20,768)**	**(14,449)**	**55,424**
Income tax expenses													(15,077)
Profit for the year													**40,347**

(1) Revenues are recognized at the moment when control over the real estate is transferred to the buyer, which is based on a signed technical acceptance protocol, handover the keys to the buyer and reception of full payment.

(2) Revenues from the sale of land and from the sale of services are appropriately allocated to a given segment, i.e. the sale of the Naturalis project was allocated to the Warsaw segment - apartments in accordance with the land development conditions, revenues from services were allocated to the Warsaw - Apartments segment as they relate to the re-invoicing of services provided for JV Wilanów Tulip, which investment concerns apartments in Warsaw

Notes to the Consolidated Financial Statements

5. Sales revenue and cost of sales

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. It occurs only after construction process is finalized meaning occupancy permit received and the full amount is paid by client. 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 27.

For the year ended 31 December *In thousands of Polish Zlotys (PLN)*	**2022**	**2021**
Sales revenue		
Revenue from residential projects	300,259	457,677
Revenue from the sale of land	-	22,500
Revenue from sale of services	-	722
Total sales revenue	**300,259**	**480,899**
Cost of sales		
Cost of sales residential projects	(220,347)	(369,299)
Cost of sales of land	-	(24,976)
Inventory reversals/(write down) to the net realisable value	(485)	(1,924)
Total cost of sales	**(220,832)**	**(396,199)**
Gross profit on sales	**79,427**	**84,700**
Gross profit on sales, in % to revenue	**26%**	**18%**

The table below presents the breakdown of revenues from the sale of residential investments by project:

For the year ended 31 December *In thousands of Polish Zlotys (PLN)*	**Location**	**2022**	**2021**
Ursus Centralny Ia	Warsaw	686	56,951
Ursus Centralny Ib	Warsaw	47,356	-
Ursus Centralny IIa	Warsaw	81,620	24,114
Miasto Moje I-III	Warsaw	1,438	36,597
Miasto Moje IV	Warsaw	20,046	46,863
Miasto Moje V	Warsaw	59,705	-
Nowe Warzymice I	Szczecin	2,372	16,537
Nowe Warzymice II	Szczecin	21,530	-
Nowe Warzymice III	Szczecin	23,632	-
Viva Jagodno I	Wrocław	95	43,887
Viva Jagodno IIa	Wrocław	22,958	-
Panoramika V	Szczecin	1,159	8,064
Panaromika VI	Szczecin	7,464	15,675
Vitalia III	Wrocław	34	45,816
City Link III	Warsaw	-	15,467
Grunwald2	Poznań	624	15,923
Nova Królikarnia 2c	Warsaw	-	27,095
Nova Królikarnia 2b	Warsaw	-	2,071
Nova Królikarnia 3a	Warsaw	3,325	35,691
Nova Królikarnia 3b	Warsaw	-	26,435
Nova Królikarnia 3c	Warsaw	1,401	26,712
Other		4,814	13,778
Total revenue		**300,259**	**457,677**

Notes to the Consolidated Financial Statements

5. Sales revenue and cost of sales

The table below presents breakdown of costs of sales allocated to projects:

For the year ended 31 December *In thousands of Polish Zlotys (PLN)*	**Location**	**2022**	**2021**
Ursus Centralny Ia	Warsaw	565	47,106
Ursus Centralny Ib	Warsaw	34,611	-
Ursus Centralny IIa	Warsaw	61,861	18,245
Miasto Moje I-III	Warsaw	1,051	30,295
Miasto Moje IV	Warsaw	14,997	32,301
Miasto Moje V	Warsaw	40,385	-
Nowe Warzymice I	Szczecin	1,847	13,507
Nowe Warzymice II	Szczecin	15,685	-
Nowe Warzymice III	Szczecin	15,485	-
Viva Jagodno I	Wrocław	73	32,857
Viva Jagodno IIa	Wrocław	17,697	-
Panoramika V	Szczecin	1,022	7,386
Panaromika VI	Szczecin	6,943	14,573
Vitalia III	Wrocław	33	37,533
City Link III	Warsaw	-	9,204
Grunwald2	Poznań	464	12,088
Nova Królikarnia 2c	Warsaw	-	23,945
Nova Królikarnia 2b	Warsaw	-	1,862
Nova Królikarnia 3a	Warsaw	2,854	30,255
Nova Królikarnia 3b	Warsaw	-	23,432
Nova Królikarnia 3c	Warsaw	1,166	22,661
Other		3,609	12,048
Total cost of sales		**220,347**	**369,299**

6. Selling and marketing expenses

For the year ended 31 December *In thousands of Polish Zlotys (PLN)*	**2022**	**2021**
Advertising	4,388	3,403
Depreciation	88	464
Other	89	892
Total selling and marketing expenses	**4,565**	**4,760**

7. Administrative expenses

For the year ended 31 December *In thousands of Polish Zlotys (PLN)*	**2022**	**2021**
Personnel expenses	17,287	17,035
- Wages	*15,089*	*14,974*
- Social security and other employee benefits	*2,198*	*2,061*
External services	3,615	3,085
Consulting fees to main shareholder	867	862
Materials and energy	514	735
Depreciation	786	436
Taxes and charges	1,462	1,036
Other	974	487
Total administrative expenses	**25,505**	**23,676**

Average number of employees during the year	**73**	**78**

Notes to the Consolidated Financial Statements

8. Other expenses

For the year ended 31 December *In thousands of Polish Zlotys (PLN)*	2022	2021
Maintenance expense of unsold units	893	1,430
Cost of repairs and defects	57	1,704
Expense for contractual penalties and compensation	2,316	435
Write-down of trade receivables	-	344
Charity activities	172	-
Cost of research and due diligence of new projects	378	624
Costs related to obtaining financing (broker fee)	802	-
Other expenses	582	321
Total other expenses	**5,200**	**4,857**

9. Other income

For the year ended 31 December *In thousands of Polish Zlotys (PLN)*	2022	2021
Revenues from contractual penalties and compensation	374	184
Rental income from inventory	240	518
Net profit on sale of property and equipment	-	39
Reversal of accruals	611	606
Sharing of costs of road construction, network reconstruction according to agreements	842	722
Write-off of liabilities/Reversal of allowance for doubtful accounts	464	-
Other income	183	294
Total other income	**2,714**	**2,363**

Notes to the Consolidated Financial Statements

10. Finance income and costs

For the year ended 31 December 2022

In thousands of Polish Zlotys (PLN)	Total amount	Amount capitalized	Amount capitalized (under IFRS 16)	Recognized in the statement of comprehensive income
Interest income on bank deposits	1,710	-	-	1,710
Foreign exchange gain	1,591	-	-	1,591
Other finance income	219	-	-	219
Finance income	**3,520**	**-**	**-**	**3,520**
Interest expense on financial liabilities	(18,854)	12,118	-	(6,736)
Commissions and fees	(4,766)	3,213	-	(1,553)
Other finance costs	(125)	-	-	(125)
Finance costs	**(23,745)**	**15,331**	**-**	**(8,414)**
Finance costs - on lease liabilities	**(1,049)**	**-**	**1,049**	**-**
Net finance income	**(21,274)**	**15,331**	**1,049**	**(4,894)**

For the year ended 31 December 2021

In thousands of Polish Zlotys (PLN)	Total amount	Amount capitalized	Amount capitalized (under IFRS 16)	Recognized in the statement of comprehensive income
Interest income on bank deposits	1	-	-	1
Other finance income	599	-	-	599
Finance income	**600**	**-**	**-**	**600**
Interest expense on financial liabilities	(10,908)	8,227	-	(2,681)
Commissions and fees	(3,496)	2,026	-	(1,470)
Other finance costs	(316)	55	-	(261)
Finance costs	**(14,720)**	**10,308**	**-**	**(4,412)**
Finance costs - on lease liabilities	**(746)**	**746**	**-**	**-**
Net finance income	**(14,866)**	**11,054**	**-**	**(3,812)**

Notes to the Consolidated Financial Statements

11. Income tax charges

For the year ended 31 December *In thousands of Polish Zlotys (PLN)*	2022	2021
Current tax expense		
Current period	7,203	10,475
Taxes in respect of previous periods	(535)	(192)
Total current tax expense	**6,669**	**10,283**
Deferred tax expense		
Origination and reversal of temporary differences	11,078	5,589
Tax losses utilized/(recognized)	(1,419)	(795)
Total deferred tax expense	**9,659**	**4,794**
Total income tax expense	**16,328**	**15,077**

Reconciliation of effective tax rate

For the year ended 31 December *In thousands of Polish Zlotys (PLN)*	2022	2021
Profit for the year	31,351	40,347
Total income tax benefit	16,328	15,077
Profit before income tax	**47,679**	**55,424**
Expected income tax using the Polish tax rate (19%)	**9,059**	**10,531**
Tax effect on:		
Taxes in respect of previous periods	659	(192)
Non-deductible expenses, net	3,336	1,818
Movement in unrecognized deferred tax assets on loss carry forward in Poland	-	119
Movement in unrecognized deferred tax in previous years	-	127
Tax charge in connection with the organizational restructuring of the Group (write off)	1,322	2,603
Impact of JV result	(243)	(1,095)
Deferred tax asset write-off on tax losses	2,500	947
Other differences	(305)	219
Tax expense for the period	**16,328**	**15,077**
Effective tax rate	**34.25%**	**27.20%**

The effective income tax rate for the year ended 31 December 2022 amounted to 34.25% (27.20% in comparative period). Higher effective tax rate was due to higher non-deductable costs for tax purposes. Which is the result of the polish tax regulation limiting certain type of costs recognition and amounts per year as well as higher tax losses written off which is mainly due to restructuring process in the Group (mergers) done in 2022 and planned for 2023.

Notes to the Consolidated Financial Statements

12. Property and equipment

For the year ended 31 December 2022	Vehicles	Equipment	Building	Total
In thousands of Polish Zlotys (PLN)				
Cost or deemed cost				
Balance at 1 January	1,277	3,444	9,161	13,882
Additions	154	422	-	577
Sales and disposals	-	(679)	-	(679)
Closing balance	**1,431**	**3,188**	**9,161**	**13,780**
Depreciation and impairment losses				
Balance at 1 January	631	3,390	2,303	6,324
Depreciation for the period	249	65	267	580
Sales and disposals	-	(679)	-	(679)
Closing balance	**880**	**2,776**	**2,570**	**6,225**
Carrying amounts				
At 1 January	646	54	6,858	7,558
Closing balance	**552**	**412**	**6,591**	**7,556**

For the year ended 31 December 2021

In thousands of Polish Zlotys (PLN)	Vehicles	Equipment	Building	Total
Cost or deemed cost				
Balance at 1 January	1,030	3,444	10,105	14,579
Rights of use of assets (cars)	353	-	-	353
Transfer to Inventory	-	-	(944)	(944)
Sales and disposals	(106)	-	-	(106)
Closing balance	**1,277**	**3,444**	**9,161**	**13,882**
Depreciation and impairment losses				
Balance at 1 January	608	2,960	2,214	5,782
Depreciation for the period	129	430	285	844
Transfer to Inventory	-	-	(196)	(196)
Sales and disposals	(106)	-	-	(106)
Closing balance	**631**	**3,390**	**2,303**	**6,324**
Carrying amounts				
At 1 January	422	484	7,891	8,797
Closing balance	**646**	**54**	**6,858**	**7,558**

As at 31 December 2022 and 31 December 2021 none of the Property and equipment was secured for bonds issued nor secured bank loans.

Impairment loss

In the years ended 31 December 2022 and 31 December 2021, the Group did not recognize any impairment loss with respect to property and equipment.

Notes to the Consolidated Financial Statements

13. Investment property

For the year ended 31 December	2022	2021
In thousands of Polish Zlotys (PLN)		
Balance at 1 January	28,595	8,956
Perpetual usufruct (IFRS16) movements	128	(8)
Purchase of investment property land	34,113	19,944
Change in fair value during the year	303	(297)
Balance as at 31 December, including:	**63,139**	**28,595**
Cost	***57,695***	***23,590***
Perpetual usufruct (IFRS16)	***673***	***537***
Fair value adjustments	***4,771***	***4,468***

As at 31 December 2022, the investment property included:

- property held for long-term rental yields and capital appreciation, and were not occupied by the Group;
- investment land purchased to build investment property for long-term so-called institutional rental and capital appreciation.

During the period ended 31 December 2022 the Company purchased a land dedicated for PRS business located in Warsaw, Marynin and Wola for the total amount of PLN 33 million.

Investment property at Gwiaździsta street (Office building Horizon)

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 a definite as well as an indefinite term subject to a three-month notice period for termination (“Bielany IP”).

Investment property – land

The investment property - land comprise of several plots of land located in Warsaw:

1) land located at Marynin street in Warsaw. The potential PUM is 4,183m^2 and the potential number of units for rent amounts 101. Land was purchased on 15 June 2022 for PLN 9.2 million. Land designated for PRS activity.
2) Land located at Wolska street in Warsaw. The land designated for PRS activity. The potential number of units for sale 292 and the potential PUM is 13,947 m^2. Land was purchased on 19 September 2022 for PLN 23.7 million (EUR 5.0 million). Land designated for PRS activity.
3) land located at Poleczki street in Warsaw. Approximate number of units for rent 85 and the potential PUM is 3,500 m^2. Land designated for PRS activity.
4) Land located at Galopu street in Warsaw. The potential PUM is 3,919 m^2 and the potential number of units 100. Land designated for PRS activity.

Measurement of the fair value

At the end of each reporting period, the Management Board conducts an assessment of the fair value of each property, taking into account the most up-to-date appraisals. The Management Board determines the value of the property within the range of reasonable estimates of the fair value. The best evidence to determine the fair value is the current prices of similar properties in an active market.

In the absence of such information, management analyzes information from various sources, including:

- current prices from an active market for other types of real estate or recent prices of similar properties from a less active market, adjusted to take account of these differences (comparison method),
- discounted cash flow forecasts based on reliable estimates of future cash flows (income approach),
- capitalized income forecasts based on net market income and capitalization rate estimates derived from market data analysis.

Notes to the Consolidated Financial Statements

13. Investment property

Measurement of the fair value

All fair value estimates of real estate determined in this way, except for investment land, are included in level 3. In this method, the key input data are prices per square meter of comparable (in terms of location and size) plots in the same region obtained in sales transactions in the current year (Level 2 of the fair value hierarchy). The unobservable input data on the Level 3 was average period of comparable transactions. For the comparison approach the external appraiser used the transactions from the period 2021-2022 to perform the valuation.

The below table presents the impact of the valuation on the profit and loss for the year ended 31 December 2022.

Investment	Cost as at 31 December 2022	Fair value as at 31 December 2022	Gain/(loss) on investment property valuation
Galopu	8,842	12,121	3,281
Poleczki	12,077	8,903	(3,174)
Auchan/Marynin	9,257	9,325	68
Wolska	23,836	23,836	-
Horizon/Gwiaździsta	8,114	8,242	128
Total	**62,126**	**62,427**	**303**

Income approach

Investment property at Gwiaździsta street (Office building) is valued at fair value determined as at 31 December 2022 by an independent appraiser, having an appropriate recognized professional qualification using the method of discounted cash flows. As at 31 December 2021, the fair value of Investment property was determined by an independent appraiser as well. Below table presents assumptions used for the valuation.

Location	Name of project	Segment	Valuation technique	Total area m^2	Annual rental revenue *(PLN thousands)**	Discount rate	Capitalization rate	Fair value *(PLN thousands)*
Warsaw	Horizon	Office building	income approach	1,423	864.32	7.50%	13.33%	8,242
Total								**8,242**

**rental value consists of monthly rate of PLN 50,63 per m2 (based on the valuation report) multiplied by total area.*

During the year ended 31 December 2022 and 2021 the rental income from investment property amounted to PLN 618 thousand and PLN 559 thousand, respectively. The investment property is currently occupied. In 2022, direct operating expenses (including repairs and maintenance) arising from investment property that generated rental income during the period amounted to PLN 255 thousands and direct operating expenses (including repairs and maintenance) arising from investment property that did not generate rental income during the period amounted to PLN 131 thousand.

If the yields used for the appraisals of investment property on 31 December 2022, had been 100 basis points higher, the fair value of the investments would have been 11.8% lower. In this situation, the Group's equity would have been PLN 973 thousand lower.

Lease agreements

Receivables for minimum lease payments for the rental of investment property are as follows:

	2022 *(PLN thousands)*	2021 *(PLN thousands)*
Less than 1 year	592	405
Between 1 and 2 years	471	239
Between 2 and 3 years	452	160
Between 3 and 5 years	370	83
Over 5 years	287	4
Total	**2,170**	**890**

Notes to the Consolidated Financial Statements

13. Investment property

Income approach

Input data and the inter-relationship between them and fair value

There are inter-relationships between unobservable inputs. Expected rental fees may impact the net operating income and fair value as well as different time period as well as wages applied to the comparative prices may result in different average price.

The table below summarizes the quantitative information on significant unobservable inputs used in Level 3 of the fair value hierarchy:

Description	Fair value at 31 December 2022 [PLN thousands]	Fair value at 31 December 2021 [PLN thousands]	Unobservable Inputs*	Range of inputs (probability-weighted average) 2022	Range of inputs (probability-weighted average) 2021	Relationship of unobservable inputs to fair value
Rented building offices	8,242	8,114	Discount rate	7.5%	7%	The higher the discount rate, the lower the fair value
			Capitalization rate	13.33%	14.29%	The higher the capitalization rate and the expected vacancy rate, the lower the fair value
			Expected vacancy rate	10%	10%	

** There were no significant inter-relationships between unobservable inputs that materially affect fair values*

Comparison approach (pairwise comparison method)

This approach is used to value investment property for which data on comparable property sale transactions on a given market is available as well as land and residential property.Valuation of these types of property involves an analysis of similar properties which are being sold on the market and for which the characteristics that determine the purchase price and the terms of the transactions are known. Since very few comparable transactions are executed on the market and the prices of such transactions differ widely, the valuation was performed using the pairwise comparison method. The Group uses this approach mainly to value undeveloped properties or developed properties with unspecified use or zoning on which no capital expenditure has been made.

The table below represents the fair value of the investment property land value based on the comparison approach as at 31 December 2022:

Location	Name of project	Segment	Valuation technique	Total area m^2	Avarage price *(PLN thousands)**	Fair value *(PLN thousands)*
Warsaw	Poleczki	Land	Comparison approach	1,820	4.89	8,903
Warsaw	Galopu	Land	Comparison approach	3,718	3.26	12,122
Warsaw	Marynin	Land	Comparison approach	5,447	1.71	9,325
Total						**30,351**

** avarage price for 1m2 of usable area of land*

The Wolska land was purchased at close to year end, under market conditions. The Group made an independent assessment and concluded that the transaction price reflects the market value as at 31 December 2022.

Notes to the Consolidated Financial Statements

14. Investments in joint ventures

As at 31 December

In thousands of Polish Zlotys (PLN)	**2022**	**2021**
Loans granted	133	319
Share in net equity value of joint ventures	2,331	3,846
The Company's carrying amount of the investment	**2,464**	**4,165**
Presented as Loans granted to joint ventures (current assets)	(133)	(319)
Investment in joint ventures	**2,331**	**3,846**

Share of profit/(loss) from joint ventures comprise the Group's shares in four entities where the Group is holding 50% shares and voting rights in each of those entities: Ronson IS Sp. z o.o. and Ronson IS Sp. z o.o. Sp.k. which are running the first two stages of the City Link project, as well as Coralchief Sp. z o.o. and Coralchief Sp. z o.o. – Projekt 1 Sp.k. which are running the Wilanów Tulip project. Both projects are residential sector which is the same as the Group.

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)	**2022**	**2021**
Opening balance	**3,846**	**(1,693)**
Net result of joint venture during the period	1,278	5,579
Offsetting net results of the joint venture with intercompany interest during the period	33	184
Share of profit of joint ventures	**1,311**	**5,763**
Dividend paid	**(2,792)**	**-**
Closing balance before offsets	**2,364**	**4,070**
Cancelling the offset of intercompany interest accrued during the period	(33)	(224)
Total closing balance of the share in joint ventures' net assets	**2,331**	**3,846**
Total closing balance of carrying amount of investment in joint venture	**2,331**	**3,846**

Share of profit/(loss) from joint ventures

Summarised financial information of the joint ventures is presented below:

As at 31 December	**2022**	**2021**
In thousands of Polish Zlotys (PLN)		
Current Assets		
Inventory	1,171	14,239
Cash and cash equivalents	4,372	4,441
Other current financial assets	27	1,262
Current Liabilities		
Loans from shareholders	(133)	(631)
Advances received	(96)	(5,116)
Other liabilities	(679)	(6,504)
Equity	**4,663**	**7,691**
Company share 50%	**2,331**	**3,846**

Notes to the Consolidated Financial Statements

14. Investments in joint ventures

Share of profit/(loss) from joint ventures

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

For the year ended 31 December *In thousands of Polish Zlotys (PLN)*	**2022**	**2021**
Revenue	16,896	67,639
Cost of sales	(13,081)	(52,315)
Gross profit	**3,815**	**15,324**
Administrative expenses[1]	(310)	(775)
Selling and marketing expenses	(184)	(434)
Other income/(cost)	(185)	114
Finance income	152	5
Finance costs	(75)	(454)
Profit before taxation	**3,213**	**13,780**
Income tax expense	(657)	(2,622)
Profit for the year (continuing operations)	**2,556**	**11,158**
Total comprehensive income for the year (continuing operations)	**2,556**	**11,158**
The Company's share of profit for the year	**1,278**	**5,579**

(1) Including management fee to the Group amounting to PLN 720 thousand during the year ended 31 December 2021.

Loans granted to the joint ventures

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

As at 31 December *In thousands of Polish Zlotys (PLN)*	**2022**	**2021**
Opening balance	**319**	**11,634**
Loans granted	-	117
Loans repaid	(195)	(10,564)
Accrued interest	12	377
Interest paid	(4)	(1,244)
Total closing balance	**133**	**319**

As at 31 December 2022 loans granted to joint ventures were presented as short-term assets. The loans granted to joint venture bore fixed interests at the level of 5%.

Notes to the Consolidated Financial Statements

15. 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 2022**	**Recognized in the statement of comprehensive income**	**Closing balance 31 December 2022**
Deferred tax assets			
Tax loss carry forward	4,285	1,419	5,704
Difference between tax and accounting basis of inventory	20,420	13,543	33,963
Accrued interest	1,885	(785)	1,100
Accrued expense	760	307	1,067
Write-down on work in progress	2,610	25	2,635
Fair value loss on investment property	-	871	871
Other	1,953	(1,203)	750
Total deferred tax assets	**31,913**	**14,177**	**46,090**
Deferred tax liabilities			
Difference between tax and accounting revenue recognition	27,553	21,088	48,641
Difference between tax base and carrying value of capitalized finance costs on inventory	7,608	1,521	9,129
Accrued interest	635	(68)	567
Fair value gain on investment property	975	636	1,611
Fair value gain on valuation of "SAFE" Agreement	-	783	783
Other	461	(123)	338
Total deferred tax liabilities	**37,232**	**23,836**	**61,068**
Total deferred tax benefit (see Note 11)		**9,659**	
Deferred tax assets	31,913		46,090
Deferred tax liabilities	37,230		61,068
Offset of deferred tax assets and liabilities for individual companies	(23,718)		(37,260)
Deferred tax assets reported in the Consolidated Statement of Financial Position	**8,195**		**8,830**
Deferred tax liabilities reported in the Consolidated Statement of Financial Position	**13,512**		**23,809**

Notes to the Consolidated Financial Statements

15. Deferred tax assets and liabilities

In thousands of Polish Zlotys (PLN)	Opening balance 1 January 2021	Recognized in the statement of comprehensive income	Closing balance 31 December 2021
Deferred tax assets			
Tax loss carry forward	3,491	795	4,285
Difference between tax and accounting basis of inventory	16,454	3,965	20,420
Accrued interest	3,126	(1,240)	1,885
Accrued expense	719	41	760
Write-down of inventory and residential land bank	2,041	569	2,610
Other	4,663	(2,710)	1,953
Total deferred tax assets	**30,494**	**1,419**	**31,913**
Deferred tax liabilities			
Difference between tax and accounting revenue recognition	20,666	6,887	27,553
Difference between tax base and carrying value of capitalized finance costs on inventory	8,573	(965)	7,608
Accrued interest	166	469	635
Fair value gain on investment property	1,031	(56)	975
Other	582	(121)	461
Total deferred tax liabilities	**31,018**	**6,213**	**37,231**
Total deferred tax benefit (see Note 11)		**4,794**	
Deferred tax assets	30,494		31,913
Deferred tax liabilities	31,018		37,231
Offset of deferred tax assets and liabilities for individual companies	(21,457)		(23,718)
Deferred tax assets reported in the Consolidated Statement of Financial Position	**9,037**		**8,195**
Deferred tax liabilities reported in the Consolidated Statement of Financial Position	**9,562**		**13,513**

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 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 242,579 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. Since 2019 there is allowance of one time up to PLN 5.0 million tax loss utilization in a year and the surplus from this amount is utilized according to the 50% of the tax loss in one year as described above.

Notes to the Consolidated Financial Statements

15. Deferred tax assets and liabilities

Tax losses carry forward where deferred tax has or has not been recognized

As at 31 December	2022			2021		
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 2017 carried forward	-	-	-	1,596	4,817	6,413
Tax loss 2018 carried forward	39	2,881	2,920	2,865	414	3,278
Tax loss 2019 carried forward	190	643	833	1,642	1,375	3,017
Tax loss 2020 carried forward	4,203	198	4,401	3,634	2,386	6,020
Tax loss 2021 carried forward	9,474	172	9,645	12,813	477	13,290
Tax loss 2022 carried forward	16,115	27	16,142	-	-	-
Total tax losses carried forward	**30,021**	**3,921**	**33,942**	**22,550**	**9,469**	**32,019**

The deferred tax assets on tax losses carried forward expire in the following years as at 31 December 2022:

	2022		2021	
In thousands of Polish Zlotys (PLN)	Recognized tax losses	Unrecognized tax losses	Recognized tax losses	Unrecognized tax losses
2022	-	-	303	915
2023	7	547	544	79
2024	36	122	312	261
2025	799	38	691	453
2026	1,800	33	2,434	91
2027	3,062	5	-	-
Total tax losses carried forward	**5,704**	**745**	**4,284**	**1799**

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 2021	Tax losses expired	Additions/ (Realizations)	Balance 31 December 2021	Tax losses expired	Additions/ (Realizations)	Balance 31 December 2022
Tax losses	746	(24)	1,077	1,799	(915)	(138)	745
Total	**746**	**(24)**	**1,077**	**1,799**	**(915)**	**(138)**	**745**

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 2022 are estimated to be PLN 50 thousand (31 December 2021: PLN 50 thousand).

Notes to the Consolidated Financial Statements

16. Inventory and Residential land bank

For the year ended 31 December 2022:

Inventory

In thousands of Polish Zlotys (PLN)	**As at 1 January 2022**		**Transferred to finished goods**	**Additions**	**As at 31 December 2022**
Land and related expense	358,975		(17,261)	79,610	421,324
Construction costs	115,557		(111,696)	201,734	205,595
Planning and permits	17,131		(3,412)	8,604	22,322
Borrowing costs (2)	38,432		(5,310)	15,331	48,453
Borrowing costs on lease and depreciation perpetual usufruct right (1)	3,039		(350)	1,234	3,923
Other	3,647		(2,263)	2,371	3,755
Work in progress	**536,780**		**(140,293)**	**308,884**	**705,372**

In thousands of Polish Zlotys (PLN)	**As at 1 January 2022**		**Transferred from work in progress**	**Recognized in the statement of comprehensive income**	**As at 31 December 2022**
Finished goods	**105,681**		140,293	(217,915)	**28,059**

In thousands of Polish Zlotys (PLN)	**As at 1 January 2022**		**Revaluation write-down recognized in statement of comprehensive income**		**As at 31 December 2022**
			Increase	**Utilization/Reversal**	
Write-down	**(4,118)**		-	1,148	**(2,970)**

In thousands of Polish Zlotys (PLN)	**As at 1 January 2022**	**Recalculation adjustment (3)**	**Depreciation**	**Transfer to Other receivables**	**As at 31 December 2022**
Perpetual usufruct right (2)	**17,199**	1,447	(215)	(1,638)	**16,793**

Inventory, valued at lower of cost and net realisable value	**655,542**				**747,254**

(1) For additional information see Note 24.
(2) Borrowing costs are capitalized to the value of inventory with 9.912% average effective capitalization interest rate.
(3) Relates to change in the perpetual usufruct payments from 2022

Notes to the Consolidated Financial Statements

16. Inventory and Residential land bank

For the year ended 31 December 2021:

Inventory

In thousands of Polish Zlotys (PLN)	As at 1 January 2021	Transferred from/to land designated for development	Transferred to finished goods	Additions	As at 31 December 2021
Land and related expense	294,430	7,240	(64,281)	121,585	358,975
Construction costs	194,539	-	(277,942)	198,959	115,557
Planning and permits	16,760	-	(7,403)	7,774	17,131
Borrowing costs (2)	34,844	496	(7,215)	10,307	38,432
Borrowing costs on lease and deprecation perpetual usefruct right (1)	2,758	-	(632)	913	3,039
Other	3,839	30	(3,618)	3,396	3,647
Work in progress	**547,170**	**7,766**	**(361,090)**	**342,933**	**536,780**

In thousands of Polish Zlotys (PLN)	As at 1 January 2021	Transferred from fixed assets	Transferred from work in progress	Recognized in the statement of comprehensive income	As at 31 December 2021
Finished goods	**109,419**	**747**	**361,090**	**(365,575)**	**105,681**

In thousands of Polish Zlotys (PLN)	As at 1 January 2021		Revaluation write-down recognized in statement of comprehensive income		As at 31 December 2021
			Increase	Utilization/Reversal	
Write-down	**(5,503)**	**-**	**-**	**1,385**	**(4,118)**

In thousands of Polish Zlotys (PLN)	As at 1 January 2021	Recalculation adjustment(3)	Depreciation	Transfer to Other receivables	As at 31 December 2021
Perpetual usefruct right	**13,675**	**6,379**	**(167)**	**(2,688)**	**17,199**

Inventory, valued at lower of cost and net realisable value	**664,761**				**655,542**

(1) For additional information see Note 24.

(2) Borrowing costs are capitalized to the value of inventory with 4.4241% average effective capitalization interest rate.

(3) Relates to change in the perpetual usufruct payments from 2022

Notes to the Consolidated Financial Statements

16. Inventory and Residential land bank

Residential land bank

Plots of land purchased for development purposes on which construction or planning activities are not planned within a period of three years has been reclassified as Residential landbank presented within Non-current assets. The table below presents the movement in the Residential landbank:

In thousands of Polish Zloty (PLN)	**For the 12 months ended 31 December 2022**	**For the year ended 31 December 2021**
Opening balance	**10,041**	**45,486**
Sold land	-	(24,976)
Moved to inventory	-	(7,766)
Purchases during the period	12.335	-
Write-down adjustment	(1,282)	(2,703)
Total closing balance	**21,094**	**10,041**
Closing balance includes:		
Costs	29,681	17,301
Write-down	(8,587)	(7,260)
Total Closing balance	**21,094**	**10,041**

In the period ended 31 December 2022 the Company decided to allocate purchased on 29 March 2022 project KEN to the land designated for development in the total amount of PLN 12,187 thousand. The allocation was due to the fact that based on the purchase agreement the current user of the building has the right to evacuate not earlier than the end of 2024, according to the management assessment the process of evacuation is complex and might take even more then 2 years.

In the period ended 31 December 2021 the Company decided to move to Inventory project Vivaldi in the total amount of PLN 7,766 thousand and sold the land from Naturalis project in amount of PLN 24,976 thousand.

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 2022 and 31 December 2021 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.

For the year ended 31 December 2022, as a result of Net Realizable Value (NRV) analysis and reviews, a write-down adjustment for some of the Group's inventory was reversed in the amount of PLN 2,525 thousand (PLN 1,148 thousand reversal of the impairment recognized in line Inventory, PLN 1,377 thousand reversal of impairment recognized in line Residential land bank), while for some other Company's residential landbank the impairment was made in the amount of PLN 2,659 thousand. The reversal of the impairment was made due to sale realization of the projects with showed in the past negative margin, positive margin on projects, which development started in Q1 2022, as well as increase in selling prices on the projects designated for development where the impairment was recognized in the past. On the other hand the creation of an impairment is a result of higher General Constructor's costs assumed on selected projects. During the year ended 31 December 2021, as a result of Net Realizable Value (NRV) analysis and reviews, the Group reversed a write-down adjustment made during previous periods of PLN 1,685 thousand (PLN 1,385 thousand reversal of the impairment recognized in line Inventory, PLN 300 thousand reversal of impairment recognized in line Residential land bank). On the other hand the Company created a write-down adjustment of PLN 3,052 thousand was made, which is included as part of cost of sales in the Consolidated Statement of Comprehensive Income.

Notes to the Consolidated Financial Statements

16. Inventory and Residential land bank

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

As at 31 December *In thousands of Polish Zlotys (PLN)*	**2022**	**2021**
Valued at cost	712,284	619,197
Valued at net realizable value	56,063	46,386
Total Inventory and residential land bank	**768,348**	**665,583**

17. Trade and other receivables and prepayments

As at 31 December *In thousands of Polish Zlotys (PLN)*	**2022**	**2021**
Value added tax (VAT) receivables	39,204	31,800
Trade receivables	1.565	1,529
Other receivables	13,689	1,294
Trade and other receivables - IFRS 16 (impact of perpetual usufruct)	980	809
Bid bond	-	1,437
Notary's deposit	1,100	14,742
Prepayments and contract costs(1)	9,082	6,569
Total trade and other receivables and prepayments	**65,620**	**58,180**

(1) The capitalized costs relating to obtaining the contracts have been presented in this line and amounted to PLN 1.6 milion for the year ended 31 December 2022 year and PLN 2.4 milion for the year ended 31 December 2021.

During the year ended 31 December 2022 and the year ended 31 December 2021, the Group recognized ECL provision in the amount of PLN 518 thousand and PLN 1,043 thousand respectively as irrecoverable debts included in trade and other receivables.

Notary’s deposits represents paid amount for the preliminary purchase agreements of lands. The decrease in balance compared to year-end is a result of final land purchase in Warsaw, Białołęka (PLN 14.7 million) compensated by paid notary deposits for land in Warsaw, Bielany district (PLN 1.1 million). Bid bond balance related to the tender for a potential purchase of land which was cancelled by the court and repaid in Q1 2022.

VAT receivables balance increased by PLN 7.4 million due to continued purchase of lands in the period ended 31 December 2022 (signed preliminary and final purchase agreements), partially compensated by VAT return in the total amount of PLN 19.8 million. The VAT return process takes up to 180 days.

The increase of other receivables due to the movement from advances of land to other receivables (the purchase was not finalized) in the amount of PLN 4.9 million (including VAT) in subsidiary Ronson Development sp. z o.o. - Project 4 sp. k.. Additionally, Ronson Development sp. z o.o.- Project 3 sp.k. submitted a demand for payment of PLN 6.4 million (including VAT) as a refund of part of the deposits paid towards the purchase price of the property at Epopei Street in Warsaw. More information is included in the Note 36 and 37.

As at 31 December 2022 and at the time of preparing the financial statements there are two ongoing tax controls in the companies: Ronson Development Sp. z o.o. - Projekt 3 Sp. k. (“Projekt 3”) and Ronson Development Sp. z o.o. - Projekt 6 Sp. k. (“Projekt 6”).

On 17 January 2022 Projekt 6 received an authorization to carry out a tax inspection in terms of the accuracy of the declared tax as well as for the correctness of calculating and paying the tax on goods and services for the month August 2021. The amount of VAT audited by the tax authorities amounts to PLN 2.6 mio.

On 3 February 2022, Projekt 3 received an authorization to carry out a tax inspection in terms of the accuracy and correctness of the declared VAT return for the months from February to April 2021. The amount of VAT audited by the tax authority amounts to PLN 2.6 m.

Notes to the Consolidated Financial Statements

17. Trade and other receivables and prepayments

Since 2021, the above mentioned companies have completed purchases of land in Warsaw. The purchase agreements were concluded with group IŁ Capital. As a result the Companies have applied for a VAT refund on the above transactions. Due to the complex purchase transaction the tax control in Projekt 3 has been extended until 8 May 2023 and in Projekt 6 until 17 April 2023.

18. Advances for land

The table below presents the lists of advances for land paid as at 31 December 2022 and 31 December 2021:

Investment location *In thousands of Polish Zlotys (PLN)*	**As at 31 December 2022**	**As at 31 December 2021**
Warsaw, Białołęka	1,450	7,500
Warsaw, Ursynów	-	9,000
Warsaw, Ursus	10,000	10,000
Warsaw, Ursynów	2,100	2,100
Warsaw, Ochota	7,100	7,100
Warsaw, Białołęka	-	3,753
Warsaw, Targówek	-	4,000
Warsaw, Bemowo	-	5,000
Total	**20,650**	**48,453**

For more information about purchase of plots for the year ended 31 December 2022 please refer to Note 36.

19. 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. This is 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 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.

20. 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)*	**2022**	**2021**
Cash at bank and on hand	38,199	72,597
Short-term deposit	3,633	2,312
Restricted cash	9,353	58,525
Total cash and cash equivalents	**51,185**	**133,434**

Cash at bank earns interest at floating rates based on daily bank deposit rates. 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 2022 and 31 December 20201 the Group held in saving accounts cash amounting to PLN 3,633 thousand and PLN 2,312 thousand, respectively. As at 31 December 2022 and 31 December 2021 the saving accounts that earn interest rates varying between 2% - 5.75% and 0.35% - 0.40% 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 28.

Notes to the Consolidated Financial Statements

21. Shareholders' equity

Share capital

The share capital of the Company amounts to three million two hundred and eighty thousand two hundred and sixteen euros and twenty-six cents (€3,280,216.26) and is divided into one hundred and sixty-four million ten thousand eight hundred and thirteen (164,010,813) shares with a par value of two eurocents (0. €02) each. The share capital of the Company was fully covered. The number of issued ordinary shares as at December 31, 2022 and as at December 31, 2021 amounted to 164,010,813. All shares are bearer shares. The number of outstanding shares equals the number of votes, as there are no privileged shares issued by the Company. As at 31 December 2022 and 2021, the Company held 1,567,954 own shares (0.96%) 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.

Distribution of the net profit for year 2021

The entire net profit for 2021 in the amount of PLN 40,346 thousand was allocated to the Company's retained earnings.

Proposed profit distribution

Until the date of approval of the financial statements for publication, the Management Board of Ronson Development SE has not adopted a resolution on the proposed distribution of net profit for 2022.

Treasury shares

During the Extraordinary General Meeting of Shareholders held on 24 January 2019, the shareholders of the Company decided 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.

Then, on June 30, 2020, the Ordinary General Meeting of the Company adopted a resolution on the adoption of another share buyback program, under which the Management Board of the Company, on July 1, 2020, defined the detailed conditions for the purchase of the Company's own shares, which were also approved by the Supervisory Board of the Company. The maximum amount for the purchase of all shares under the second program was set at PLN 1,369,761.99 (one million three hundred and sixty-nine thousand seven hundred and sixty-one zlotys 99/100).

Currently, due to the fact that the Company is no longer a public company, and all the Company's shares are held directly or indirectly by A. Luzon Group, continuation of the above-mentioned program became irrelevant.

The table below presents the Treasury shares owned by the Company as at 31 December 2022 and 31 December 2021:

	For the 12 months ended 31 December 2022	For the 12 months ended 31 December 2021
Number of shares	164,010,813	164,010,813
Share Capital	12,503,000	12,503,000
Treasury shares	1,567,954	1,567,954
Value of treasury shares	(1,731,716)	(1,731,716)
% of total shares	**0.96%**	**0.96%**

Notes to the Consolidated Financial Statements

22. Net 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 2022 and 2021.

Weighted average number of ordinary shares (basic and diluted):

For the year ended 31 December *(in thousands of Polish Zlotys)*	**2022**	**2021**
Net income attributable to the equity holders of the parent company	31,351	40,347
Balance at beginning of the period	162,442,859	162,521,578
Weighted average per share during the year	-	(76,503)
Weighted average number of ordinary shares (basic and diluted)	**162,442,859**	**162,445,075**
Basic and diluted earnings per share	**0.193**	**0.248**

23. Financial liabilities

The Group's financial liabilities as at 31 December 2022 and 31 December 2021 included bonds and secured bank loans:

As at 31 December *In thousands of Polish Zlotys (PLN)*	**2022**	**2021**
Floating rate bonds	203,370	249,238
Secured bank loans	16,297	1,568
Total loans and borrowings	**219,667**	**250,806**

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 32.

Notes to the Consolidated Financial Statements

23. Financial liabilities

Bond loans

The table below presents the movements in bond loans during the year ended 31 December 2022 and during the year ended 31 December 2021 as well as the Current and Non-currents balances as at the end of respective periods:

As at 31 December *In thousands of Polish Zlotys (PLN)*	**2022**	**2021**
Opening balance	**249,238**	**230,072**
Repayment of bond loans	(50,000)	(77,929)
Remission of bonds	-	(2,247)
Proceeds from bond loans (nominal value)	-	100,000
Issue cost paid	-	(2,648)
Issue cost amortization	1,349	1,576
Accrued interest	18,086	10,775
Interest repayment	(15,303)	(10,362)
Total closing balance	**203,370**	**249,238**
Closing balance includes:		
Current liabilities	45,260	52,247
Non-current liabilities	158,110	196,991
Total Closing balance	**203,370**	**249,238**

On 9 May 2022 the Company fully repaid series T bonds including accrued interest in a total amount of PLN 51.1 million. After these repayments series T bonds amounted to nil.

Bond loans as at 31 December 2022:

In thousands of Polish Zlotys (PLN)	**Currency**	**Nominal interest rate**	**Year of maturity**	**Capital**	**Accrued interest**	**Charges and fees**	**Carrying value**
Bonds loans series V(1)	PLN	6 month Wibor + 4.30%	2024	100,000	2,865	(817)	102,049
Bonds loans series W(2)	PLN	6 month Wibor + 4.00%	2025	100,000	2,394	(1,073)	101,321
Total				**200,000**	**5,260**	**(1,890)**	**203,370**

1)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.
2)The series W bonds are subject to repayment in 2 tranches 40% (PLN 40 million) of the amount together with accumulated interest to be repaid by October 2024 and the remaining amount of 60% (PLN 60 million) together with accumulated interest to be paid by April 2025.

Bond loans as at 31 December 2021:

In thousands of Polish Zlotys (PLN)	**Currency**	**Nominal interest rate**	**Year of maturity**	**Capital**	**Accrued interest**	**Charges and fees**	**Carrying value**
Bonds loans series T	PLN	6 month Wibor + 3.50%	2022	50,000	332	(230)	50,102
Bonds loans series V(1)	PLN	6 month Wibor + 4.30%	2024	100,000	1,136	(1,467)	99,669
Bonds loans series W(2)	PLN	6 month Wibor + 4.00%	2025	100,000	1,009	(1,542)	99,466
Total				**250,000**	**2,477**	**(3,239)**	**249,238**

1) *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.*
2) *The series W bonds are subject to repayment in 2 tranches 40% (PLN 40 million) of the amount together with accumulated interest to be repaid by October 2024 and the remaining amount of 60% (PLN 60 million) together with accumulated interest to be paid by April 2025.*

Notes to the Consolidated Financial Statements

23. Financial liabilities

Financial ratio covenants:

Based on the conditions of bonds V and W 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.

Until the publication date, as at 31 December 2022 and as at 31 December 2021 the Company did not breach any bonds loan covenants, which would expose the Company or the Group for risk of obligatory and immediate repayment of any loan.

The table presenting the Net Indebtedness Ratio as at 31 December 2022 and 31 December 2021:

In thousands of Polish Zlotys (PLN)	**As at 31 December 2022**	**As at 31 December 2021**
Loans and borrowings	203,370	249,238
Secured bank loans	16,297	1,568
Financial liability measured at FVPL	70,506	-
IFRS 16 – Lease liabilities related to cars	363	292
Less: cash on individual escrow accounts (other current financial assets)	(11,217)	(8,794)
Less: Cash and cash equivalents	(51,185)	(133,434)
Net Debt	**228,134**	**108,870**
Equity	451,396	420,045
Ratio	**50.50%**	**25.90%**
Max Ratio	**80.00%**	**80.00%**

Other covenants

Based on the conditions of bonds V and W transactions with related-parties (shareholders holding more than 25% of the shares in the Group "within the meaning of IAS 24 or with related parties "including with entities controlling the Group 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 2022 and year ended 31 December 2021, the consulting fees related to A. Luzon Group amounted to PLN 900 thousand and PLN 862 thousand respectively.

Impact of IFRS 16 on financial ratios in bond covenants:

Terms and conditions of issuance of Bonds of the Group ("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 the account the type of activities carried out by the Group, despite changes in the IFRS in this respect, the Group 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 Group does not include such finance lease alike items in such calculations.

For additional information about IFRS 16 see Note 24.

Notes to the Consolidated Financial Statements

23. Financial liabilities

Secured bank loans

The table below presents the movement in Secured bank loans:

As at 31 December *In thousands of Polish Zlotys (PLN)*	**2022**	**2021**
Opening balance	**1,568**	**-**
New bank loan drawdown	97,934	20,032
Bank loans repayments	(83,205)	(18,497)
Bank charges paid	(2,150)	(809)
Bank charges presented as prepayments	1,273	571
Bank charges amortization (capitalized on Inventory)	876	238
Accrued interest/(interest repayment) on bank loans, net	-	33
Total closing balance	**16,297**	**1,568**
Closing balance includes:		
Current liabilities	16,297	1,568
Non-current liabilities	-	-
Total Closing balance	**16,297**	**1,568**

Bank loans as at 31 December 2022:

Investment	**Currency**	**Nominal interest rate**	**Year of maturity**	**Credit line amount in** *(PLN thousand)*	**Unpaid amount as at 31 December 2022** *(PLN thousand)*	**Balance as at 31 December 2022** *(PLN thousand)*
Grunwaldzka	PLN	Wibor 3M + 2.90%	2025	20,880	11	11
Miasto Moje VI	PLN	Wibor 3M + 2.50%	2023	59,600	11,755	11,755
Ursus IIC	PLN	Wibor 3M + 2.50%	2023	61,900	-	-
Nowe Warzymice IV	PLN	Wibor 3M + 2.20%	2023	20,000	2,604	2,604
Viva Jagodno IIB	PLN	Wibor 3M + 2.20%	2023	38,850	1,928	1,928
Total				**201,230**	**16,297**	**16,297**

As at 31 December 2022 there were no accrued interest.

Bank loans as at 31 December 2021:

Investment	**Currency**	**Nominal interest rate**	**Year of maturity**	**Credit line amount in (PLN thousand)**	**Unpaid amount as at 31 December 2021** *(PLN thousand)*	**Accrued interest** *(PLN thousand)*	**Balance as at 31 December 2021** *(PLN thousand)*
Ursus IB	PLN	Wibor 3M + 3.00%	2023	26,700	639	10	649
Miasto Moje V	PLN	Wibor 3M + 3.00%	2023	35,300	449	12	461
Nowe Warzymice II	PLN	Wibor 3M + 2.70%	2022	15,300	446	12	458
Grunwaldzka	PLN	Wibor 3M + 2.90%	2025	20,880	-	-	-
Total				**98,180**	**1,534**	**34**	**1,568**

On 28 January 2022 the Group signed agreement for bank loan for Miasto Moje VI in amount up to PLN 59.6 million. On 11 April 2022 the Group signed agreement for bank loan for Ursus Centralny IIc up to PLN 61.9 million. On 15 July 2022 Group signed two bank loan agreements for Nowe Warzymice IV (up to PLN 20 million) and for Viva Jagodno IIB (up to PLN 38.9 million). For additional information about unutilized credit loans see Note 30.

Notes to the Consolidated Financial Statements

23. Financial liabilities

Secured bank loans

The bank loans are presented as short-term due to the fact that those are the credit lines used by the Group and repaid during normal course of business (up to 12 months).

All credit bank loans are secured.

Covenants on secured bank loans:

As at 31 December 2022 and 2021, the Group has not breached any loan covenant, which would expose the Group for risk of obligatory and immediate repayment of any loan.

For the bank loans the following collateral was given:

- Pledge over bank accounts which are presented in the Consolidated Statement of Financial Position as Cash and cash equivalents (Restricted cash), see Note 20.
- 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.

24. Lease liabilities and right of use asset

The movement on the right of use assets and lease liabilities during the period ended 31 December 2022 and 31 December 2021 is presented below:

In thousands of Polish Zlotys (PLN)	1 January 2022	Acquisitions	Depreciation charge	Fair value adjustment	Recalculation adjustment (1)	Transfer to trade receivables	31 December 2022
Right of use assets related to inventory	17,199	1,674	(215)	-	(227)	(1,638)	16,793
Right of use assets related to investment property	545	-	(10)	-	138	-	673
Right of use assets related to fixed assets	296	154	(86)	-	-	-	364

In thousands of Polish Zlotys (PLN)	1 January 2022	Acquisitions	Finance expense	Payments	Recalculation adjustment (1)	Transfer to trade payables	31 December 2022
Lease liabilities related to inventory	17,231	1,674	1,049	(1,162)	(265)	(1,639)	16,888
Lease liabilities related to fixed assets	292	142	-	-	-	-	434
Lease liabilities related to investment property	553	-	34	(45)	121	-	663

(1) Relates to change in the perpetual usufruct payments from 2022

Notes to the Consolidated Financial Statements

24. Lease liabilities and right of use asset

In thousands of Polish Zlotys (PLN)	1 January 2021	Additions	Depreciation charge	Fair value adjustment	Recalculation adjustment (1)	Transfer to trade receivables	31 December 2021
Right of use assets related to inventory	13,675	-	(167)	-	6,379	(2,688)	17,199
Right of use assets related to investment property	553	-	(8)	-	-	-	545
Right of use assets related to fixed assets	-	353	(57)	-	-	-	296

In thousands of Polish Zlotys (PLN)	1 January 2021	Additions	Finance expense	Payments	Recalculation adjustment (1)	Transfer to trade payables	31 December 2021
Lease liabilities related to inventory	13,902	-	746	(903)	6,204	(2,718)	17,231
Lease liabilities related to fixed assets	-	292	-	-	-	-	292
Lease liabilities related to investment property	590	-	-	(37)	-	-	553

25. Investors agreement ("SAFE Agreement")

On 30 January 2022 and 22 February 2022, the Group and Amos Luzon Development and Energy Group Ltd., the Group's controlling shareholder, concluded SAFE agreements ("SAFE") with Sphera Master Fund L.P, More Provident Funds Ltd., Sphera Small Cap Fund L.P, EJS Galatee Holdings and Klirmark Opportunity Fund III L.P (the "Investors") raising a total of ILS 60 million (the "SAFE Amount") which for the date of transaction amounted to PLN 74.6 million. All the needed conditions have been completed and the full agreement amount has been transferred to Ronson until 31 December 2022.

The above agreements grant the Investors certain rights applicable after the Group is delisted from the regulated market of the Warsaw Stock Exchange, including the right to subscribe for instruments convertible into shares in the Group, as well as the right to convert their respective investments into shares or bonds in A. Luzon Group.

The above agreements do not impose any restrictive covenants or onerous undertakings on the part of the Group as well as it does not bear any interest. The respective instrument should be classified as a financial liability because it includes the obligation to deliver cash to investors in the event of change of control and it includes a conversion option that does not meet the fixed-for-fixed criteria. The Group designated the financial liability as measured at FVPL entirely, on initial recognition. No amount was recognized through the other comprehensive income.

As at 31 December 2022 the fair value of the SAFE is ILS 56,418 thousand (PLN 70,506 thousand) based on the arm's-length transactions made as of the valuation date. The profit in fair value valuation in the amount of PLN 4,121 thousand has been recognized in profit and loss. The liability is due in August 2023, with the possibility for the investors to decide about the extension for the next 12 months.

Notes to the Consolidated Financial Statements

25. Investors agreement (“SAFE Agreement”)

The below table presents the payments made by the investors and the valuation of the liability as at the transaction date and as at 31 December 2022:

Investor	Paid to Ronson [in NIS]	Date of payment	Currency of payment	Paid to Ronson [in EUR]	Paid to Ronson [in PLN]	Value 31.12.2022	Gain/loss in fair value of financial instrument at fair value through profit and loss
EJS Galatee Holdings	1,500,000	23 February 2022	EUR	413,232	1,876,734	1,773,104	103,629
Sphera Master Fund L.P	26,500,000	18 February 2022	EUR	7,264,254	32,753,070	30,944,513	1,808,557
Sphera Small Cap L.P	2,000,000	18 February 2022	EUR	551,953	2,488,646	2,351,228	137,418
More Provident Funds Ltd	15,000,000	23 February 2022	PLN	-	18,656,716	17,626,531	1,030,185
Klirmark Opportunity Fund III L.P	15,000,000	24 February 2022	PLN	-	18,851,326	17,810,395	1,040,931
Total	**60,000,000**			**8,229,439**	**74,626,492**	**70,505,771**	**4,120,721**

Valuation process and valuation techniques

The valuations of the SAFE was performed by external advisors Prometheus Financial Advisory, which specilizes in financial accounting and complex financial instruments. The valuation of the instrument was determined in accordance with the guidelines outlined in the American Institute of Certified Public Accountants Practise Aid, Valuation of Privately-Held-Group Equity Securities Issued as Compensation, (the “AICPA Practice Aid”) and according to the principles of valuation of equity securities of private companies issued as part of compensation. The assumptions used in the valuation model are based on the future expectations combined with the Group’s management judgement. Numerous objective and subjective factors to determine the fair value of the ordinary shares as of the date of each option grant, including the factors:

a) the prices, rights, preferences and privileges of the preferred shares;
b) current business and market conditions and projections;
c) the Group’s stage of development;
d) the likelihood of a liquidity event for the ordinary shares underlying these options, such as an initial public offering or sale of the Group, given prevailing market conditions.

For valuation purposes, each SAFE agreement has two components: equity (assuming a public offering of the Company's shares in Israel and a listing of the Company's shares on the Tel Aviv Stock Exchange (collectively "IPO")) and debt. As of the valuation date, i.e. December 31, 2022, the Company's Management Board estimates that the probability of an IPO has decreased to 0%, due to significant formal complications, particularly (the obligation to pay taxes for capital gains; the obligation to pay taxes on dividend distribution; the registration for tax purposes in Poland and to have taxpayer number; the obligation to report on tax incomes on a yearly basis) tax complications for potential shareholders acquiring the Company's shares on the Tel Aviv Stock Exchange.

Based on the above, Group’s management does not anticipate an IPO on the Israeli Stock Exchange before finding possible solutions to these problems. Therefore, valuation was focused on the valuation of the debt component only.

In order to valuate the fair value of the SAFE, the loss of the investors was valuated resulting from the fact that they were promised bonds with a YTM of 3% (Yield to Maturity), while the YTM of Luzon bond (Series 10) in the market is 6.54%.

In order to estimate the fair value of the SAFE, the investors' loss was reduced from the original SAFE Amount.

Notes to the Consolidated Financial Statements

25. Investors agreement ("SAFE Agreement")

The following table summarizes the quantitative information about the significant unobservable inputs used in level 3 fair value measurements:

Description	Fair Value as at 31 December 2022 [PLN thousands]	Fair Value as at 31 December 2021 [PLN thousands]	Unobservable input	Range of input (probability weighted average) 2022	Range of input (probability weighted average) 2021	Relationship of unobservable inputs to fair value
Financial liability measured at FVPL (SAFE agreements)	70,506	-	YTM(Yield to Maturity) discount rate	3%-6.54%	-	A shift of the YMT rate by +1% results in a lower value of 1,168 thousands PLN A shift of the YMT rate by -1% results in a higher in value of 1,217 thousands PLN (2021: change in default rate by +/- 1% changed FV by PLN('000) 0)

26. Trade and other payables and accrued expenses

As at 31 December *In thousands of Polish Zlotys (PLN)*	**2022**	**2021**
Trade payables	22,681	22,909
Trade payable related to purchase of land(1)	23,450	-
Accrued expenses	24,020	25,121
Guarantees for construction work	1,472	8,007
Value added tax (VAT) and other tax payables	1,778	2,061
Non-trade payables	674	2,165
Other trade payables - IFRS 16	981	823
Total trade and other payables and accrued expenses	**75,055**	**61,086**

(1) the balance relates to land purchase transaction held on 19 September 2022 in which the Group via it subsidiary signed final agreement for the purchase of the land on Wolska Street Warsaw, the payment is deffered to 31 March 2023.

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

27. Advances received

Payments from customers on account of the purchase of apartments and parking spaces are recorded as deferred income until the time that they are delivered to the buyer and are recognized in the income statement as "sales revenue". This balance sheet item is closely dependent over time on the relationship between the sales rate (which as it increases, increases this item) and the deliveries rate (which as it decreases, decreases this item).

In thousands of Polish Zlotys (PLN)	**As at 31 December 2022**	**As at 31 December 2021**
Deferred income related to the payments received from customers for the purchase of products, not yet included as income in the income statement		
Opening balance	198,047	219,645
- increase (advances received)	242,123	436,801
- decrease (revenue recognized)	(300,258)	(458,399)
Total advances received	**139,911**	**198,047**
Other (deferred income)*	-	180
Total	**139,911**	**198,227**

** deferred income due to issued invoices for delivered apartments but not fully paid as at 31 December 2021.*

Additional information regarding receivables which are a result of signed agreements with the clients, please see Note 30.

Notes to the Consolidated Financial Statements

27. Advances received

Revenues from contracts will be recognized at the time of handover the apartment to the client, completion of construction process and obtaining all necessary administrative decisions (occupancy permit), which usually takes from 1 to 6 months from the completion of construction stage.

28. 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 2022**	
			Carrying amount	**Fair value**
Assets:				
Trade and other receivables	*Assets measured at amortized costs*	*17*	15,254	15,254
Other current financial assets	*Assets measured at amortized costs*	*19*	11,217	11,217
Cash and cash equivalents	*Assets measured at amortized costs*	*20*	51,185	51,185
Loans granted to others	*Assets measured at amortized costs*		1,717	1,717
Loans granted to joint ventures	*Assets measured at amortized costs*	*14*	133	133
Liabilities:				
Bond loans	*Liabilities measured at amortized costs*	*23*	203,370	184,680
Secured bank loans	*Liabilities measured at amortized costs*	*23*	16,297	15,221
Trade and other payables and accrued expenses	*Liabilities measured at amortized costs*	*26*	70,150	70,150
Unrecognized profit/(loss)				**19,765**

In thousands of Polish Zlotys (PLN)	***Category***	***Note***	**As at 31 December 2021**	
			Carrying amount	**Fair value**
Assets:				
Trade and other receivables	*Assets measured at amortized costs*	*17*	2,824	2,824
Other current financial assets	*Assets measured at amortized costs*	*19*	8,794	8,794
Cash and cash equivalents	*Assets measured at amortized costs*	*20*	133,434	133,434
Loans granted to others	*Assets measured at amortized costs*		1,621	1,621
Loans granted to joint ventures	*Assets measured at amortized costs*	*14*	319	319
Liabilities:				
Bond loans	*Liabilities measured at amortized costs*	*23*	249,238	235,603
Secured bank loans	*Liabilities measured at amortized costs*	*23*	1,568	1,554
Trade and other payables and accrued expenses	*Liabilities measured at amortized costs*	*26*	48,030	48,030
Unrecognized profit/(loss)				**13,648**

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;
- secured bank loans 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 2022 was assessed as insignificant.
- bonds: the fair value is set based on the bond price on Catalyst as at 31 December 2022.

Notes to the Consolidated Financial Statements

28. Fair value estimation of financial assets and liabilities

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 2022 and 31 December 2021 and are as follows:

As at 31 December	2022	2021
Secured bank loans	9.22%-10.04%	5.4-6.8%
Loans granted	5-6%	4.23%-6%

29. 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 2022:

		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-22	-	54,897	8,242
Liabilities for which fair values are disclosed:				
Financial liability measured at FVPL	31-Dec-22	-	-	70,506

Quantitative disclosures fair value hierarchy for assets and liabilities as at 31 December 2021:

		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-21	-	19,944	8,114

Notes to the Consolidated Financial Statements

30. 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:

	Commitments			
In thousands of Polish Zlotys (PLN)	**Contracted amount as at 31 December 2022**	**As at 31 December 2022**	**Contracted amount as at 31 December 2021**	**As at 31 December 2021**
Karmar S.A.	142,891	41,143	167,567	129,300
Hochtief Polska S.A.	51,380	1,819	50,242	34,792
Danya Cebus Poland Sp. z o.o.	-	-	58,547	18,759
TechBau Budownictwo Sp. z o.o.	19,150	9,610	-	-
EBUD - Przemysłówka Sp. z o.o.	44,161	28,286	25,155	11,087
Leancon Sp. z o.o.	32,500	24,073	-	-
W.P.I.P. - Mardom Sp. z o.o.	36,600	35,357	-	-
Totalbud S.A.	-	-	27,305	27,305
Total	**326,683**	**140,288**	**328,816**	**221,243**

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 costs of the ongoing projects. The amounts presented in the table below include the unutilized part of the construction loans available to the Company/Group:

In thousands of Polish Zlotys (PLN)	**As at 31 December 2022**	**As at 31 December 2021**
Miasto Moje V	-	29,791
Miasto Moje VI	16,242	-
Ursus Centralny Ib	-	19,158
Ursus Centralny IIc	61,900	-
Nowe Warzymice II	-	8,370
Grunwaldzka	10,884	20,880
Viva Jagodno IIb	17,846	-
Nowe Warzymice IV	12,757	-
Total	**119,630**	**78,199**

Notes to the Consolidated Financial Statements

30. Commitments and contingencies

Receivables - contracted sales not yet recognized:

The table below presents whole consideration 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 2022 (including the payments received and unsatisfied obligation for payments at 31 December 2022 and 31 December 2021) and not yet delivered to clients:

		As at 31 December 2022			As at 31 December 2021		
In thousands of Polish Zlotys (PLN)	Date of project completion	Total value of preliminary sales agreements signed with clients	Advances received from Clients as of 31 December 2022	Contracted payments not received yet as at 31 December 2022	Total value of preliminary sales agreements signed with clients	Advances received from Clients until 31 December 2021	Contracted payments not received yet as at 31 December 2021
Ursus Centralny IIa	Q4 2021	-	-	-	80,911	75,349	5,562
Ursus Centralny IIb	Q2 2023	82,039	57,579	24,460	64,510	18,367	46,143
Ursus Centralny Ib	Q3 2022	-	38	(38)	41,720	23,438	18,282
Ursus Centralny IIc	Q2 2023	34,565	12,856	21,709	1,521	-	1,521
Ursus Centralny IIe	Q2 2025	1,550	126	1,423	-	-	-
Miasto Moje IV	Q4 2021	1,492	500	993	15,571	15,330	241
Miasto Moje V	Q3 2022	2,526	1,539	987	57,945	30,701	27,244
Miasto Moje VI	Q1 2023	50,367	28,080	22,286	16,803	2,280	14,523
Miasto Moje VII	Q4 2024	569	61	508	-	-	-
Viva Jagodno IIa	Q4 2022	2,087	1,706	381	18,302	3,257	15,045
Viva Jagodno IIb	Q3 2023	26,461	10,364	16,098	-	-	-
Viva Jagodno III	Q4 2024	923	92	831	-	-	-
Panoramika VI	Q4 2021	-	-	-	7,464	6,914	549
Panoramika V	Q3 2020	-	-	-	1,104	513	591
Nowe Warzymice II	Q2 2022	-	6	(6)	20,859	10,193	10,666
Nowe Warzymice III	Q3 2022	612	61	551	18,547	3,828	14,719
Nowe Warzymice IV	Q2 2023	12,072	3,906	8,167	-	-	-
Nowa Północ Ia	Q4 2023	4,022	694	3,328	-	-	-
Osiedle Vola	Q4 2023	10,366	2,511	7,854	-	-	-
Eko Falenty I	Q3 2023	3,833	798	3,034	-	-	-
Między Drzewami	Q3 2024	10,610	1,933	8,677	-	-	-
Totton 3c	Q2 2021	-	-	-	1,401	1,415	(15)
Truro 3a	Q2 2021	-	-	-	3,325	332	2,992
Grunwaldzka	Q2 2023	21,014	14,499	6,514	12,636	2,579	10,057
Other (old) projects		3,708	2,561	1,147	6,529	3,549	2,980
Total (excluding JV)		**268,814**	**139,911**	**128,903**	**369,148**	**198,047**	**171,101**
Wilanów Tulip	Q3 2021	759	101	658	8,833	5,023	3,810
TOTAL		**269,574**	**140,012**	**129,561**	**377,981**	**203,069**	**174,911**

**from the completion date the assumed recognition of the advances as revenue is between 3-6 months*

Litigations

Ursus Centralny

On 19 November 2021, the State Treasury (Skarb Państwa) – President of the Capital City of Warsaw notified Ronson Development Sp. z o.o. – Ursus Centralny Sp. k. (subsidiary, ”the Company”) on the termination of the annual fee for perpetual usufruct of land owned by the State Treasury, located in Warsaw at 6 and 6A Taylor st. The Company received a decision to pay the annual fee in the new amount from 1 January 2022, i.e .:

- for 2022 in the amount of PLN 476 thousands
- for 2023 in the amount of PLN 2,034 thousands
- for 2024 and subsequent years in the amount of PLN 3,591 thousands

The Management Board of the Company submitted an application to the Local Government Boards of Appeal in Warsaw for a determination that the increase in the fee for perpetual usufruct was unjustified. The Group treats it as the contingent liability.

Notes to the Consolidated Financial Statements

30. Commitments and contingencies

Litigations

Ursus Centralny

On 7 April 2022, the Local Government Boards of Appeal in Warsaw received a letter from the State Treasury – the President of the Capital City of Warsaw, which showed that there was no possibility of reaching a settlement in the above case.

On 1 July 2022 the Company received a judgment of 25 May 2022 from the Local Government Boards of Appeal dismissing the company's application. Therefore, on 13 July 2022, the Company submitted a letter to the District Court in Warsaw. In the opinion of the Company's Management the judgment of the Local Government Boards of Appeal is defective and cannot stand, and objection is justified and necessary.

The resolution of this case is not expected in 2022 nor in 2023 and as a result any assesment of the outcome of this case can not be reliable enough at this stage. In case of a loss in the court, the result would affect the value of the right of use assets related to inventory and the lease liabilities for perpetual usufruct right related to inventory.

Galileo

On 3 February 2023, in the case against Ronson Development Sp. z o. o. – Estate Sp. k., a subsidiary of the Company which ran the Galileo development project (the "Galileo Company"), a judgment was issued obliging the Galileo Company to pay the plaintiff (the buyer of the premises in this project) the amount of PLN 80,000 with statutory interest from the date of filing the lawsuit (May 28, 2013) as a reduction in the price of the premises due to its defects. The judgment was issued by the court of second instance and is final and enforceable. Galileo is a defendant in 10 similar cases that are being considered by the court of first instance. In connection with the above judgment, the Company decided to create a provision for other similar cases in the total amount of PLN 2.1 million.

At the same time, Galileo is the plaintiff in the case against Eiffage Polska Budownictwo S.A. the general contractor of the Galileo development project ("Eiffage"), its insurer and other entities involved in the implementation of the investment and their insurers, the subject of which is recognition of the liability of Eiffage and others for damage to the Galileo Company related to the improper implementation of this project and compensation. In addition, Galileo has already obtained partial compensation from the insurers of some entities involved in the implementation of the Galileo project.

31. 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.

The main related parties' transactions arise on:

- agreement with the major shareholder;
- transactions with key management personnel;
- loans granted to related parties;
- other.

Outstanding balances with related parties as at 31 December 2022 and as at 31 December 2021 are unsecured and settlement is made in the ordinary course of business 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.

Notes to the Consolidated Financial Statements

31. Related parties

Agreement with the major shareholder

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 2022 and 2021 the agreement was continued and the total amount of expenses incurred amounted PLN 900 thousand and PLN 862 thousand, respectively.

Transactions with key management personnel

During the year ended 31 December 2022 and the year ended 31 December 2021, key management personnel of the Company included the following members of the Management Board:

Boaz Haim	- President of the Management Board
Yaron Shama	- Finance Vice-President of the Management Board
Andrzej Gutowski	- Sales Vice-President of the Management Board
Karolina Bronszewska *(since 1 June 2021)*	- Member of the Management Board for Marketing and Innovation
Alon Haver *(until 31 December 2021)*	- 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	**2022**	**2021**
In thousands of Polish Zlotys (PLN)		
Salary and other short time benefit	337	175
Management bonus	25	50
Other	40	13
Subtotal - Mrs Karolina Bronszewska	**402**	**238**
Salary and other short time benefit	372	352
Management bonus	95	95
Other(2)	213	218
Subtotal - Mr Yaron Shama	**680**	**665**
Salary and other short time benefit	365	384
Incentive plan linked to financial results	171	425
Other(1)	104	41
Subtotal - Mr Andrzej Gutowski	**641**	**850**
Salary and other short time benefit	1,318	1,531
Management bonus	760	754
Other(1)	1,131	749
Subtotal - Mr Boaz Haim	**3,209**	**3,034**
Total	**4,931**	**4,787**

(1) Mainly related to car expenses, flights and accommodation and an American school.
(2) Transactions with related parties.
(3) Remuneration for 7 months of the year 2021 (from 1 June 2021 – appointment as member of Management Board)

Notes to the Consolidated Financial Statements

31. Related parties

Alon Haver

On 23 November 2021 Mr. Alon Haver submitted his resignation from the position of the Member of the Management Board of the Company, with effective date as of 31 December 2021. During 2021 Mr. Alon Haver was also a Management Board member of the indirect major shareholder of the Company (A. Luzon Group) and due to the above the fact he was not receiving any remuneration from the Company nor from any of the Company's subsidiaries. The Company was covering expenses related to his activity as a Company's Management Board member, such as travel and accommodation expenses.

Loans to directors

As at 31 December 2022 and 31 December 2021, there were no loans granted to members of the management board.

Other transactions with directors and management personnel

During the year ended 31 December 2022 the Group sold one Apartment and one parking place to Mr Boaz Haim for a total net amount (excluding VAT) of PLN 579.6 thousand. In addition, the Group sold three apartments to the company owned by Andrzej Gutowski for a total net amount (excluding VAT) of PLN 855 thousand. Those transactions were 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 2021 the Group sold one Apartment to Mr Boaz Haim for a total net amount (excluding VAT) of PLN 369.1 thousand and one Apartment to the Company 100% owned by Alon Haver for a total net amount (excluding VAT) of PLN 378.3 thousand. Those transactions were executed at arm's length and was in adherence to the Group's policy in respect of related-party transactions.

Supervisory Board remuneration

As at 31 December	**2022**	**2021**
In thousands of Polish Zlotys (PLN)		
Mr Ofer Kadouri *(first appointment: 1 March 2017)*	56	64
Mr Alon Kadouri *(first appointment: 1 March 2017)*	53	51
Mr Shmuel Rofe *(first appointment: 20 November 2017, end of term 7 July 2022)*	17	64
Mr Piotr Palenik *(first appointment: 30 June 2017, end of term 7 July 2022)*	14	51
Mr Przemysław Kowalczyk *(first appointment: 30 June 2011, end of term 7 July 2022)*	17	64
Total	**157**	**294**

The Supervisory Board Members are entitled to a quarterly fee of EUR 2,225 plus an amount of EUR 1,500 per personal attendance in the Supervisory Board meeting (EUR 750 if attendance is by using means of direct remote communication). The total amount due in respect of Supervisory Board fees during 2022 and 2021 amounted to PLN 157 thousand (EUR 33.5 thousand) and PLN 294 thousand (EUR 64.7 thousand), respectively. In addition, the Company paid social security contributions at the amount of PLN 26.3 thousand in the year ended 31 December 2022.

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. and Ronson IS sp. z o.o. Sp.k.). For additional information see Note 14.

Notes to the Consolidated Financial Statements

31. Related parties

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. 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.

The description regarding private issuance of options for shares of Luzon Group is described in the Note 36.

32. 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 and inflation risk), credit risk, liquidity risk and the overall security stability of the EU area due to the Ukraine War. 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 updates 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 has been throughout the year ended 31 December 2021 and continued in the period ended 31 December 2022, the Group's policy that no trading in (derivative) financial instruments shall be undertaken.

The Group's principal financial instruments comprise cash balances, other current financial assets, loans granted to JVs and third parties, bank loans, bonds, financial instruments measured through FVPL, 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.

In terms of risks specific for the sector, in which the Group operates, there is a potential increase in construction costs, a significant increase in interest rates, the challenge of securing lands for reasonable prices which can lead to the significant negative impact on the margins of new phases and projects, a prolongation of administrative procedures as well as an increasing competition in the market are considered to be the most significant uncertainties for the financial period ending 31 December 2022.

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, loans granted to JV and third parties, as well as other current financial asset.
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 (analysis of overdue receivables from Clients, monitoring of the financial institutions credit risk, control of the liquidity situation of the JV and third parties). The Group has no information that any counter parties will fail in meeting their obligations. The carrying amounts of the financial assets represent the maximum credit risk exposure.

Notes to the Consolidated Financial Statements

32. Financial risk management, objectives and policies

Credit risk

The maximum exposure to credit risk as at 31 December 2022 and as at 31 December 2021 was as follows:

As at 31 December *In thousands of Polish Zloty (PLN)*	**2022**	**2021**
Trade and other receivables	15,254	4,261
Loans granted to third parties	1,717	1,621
Loans granted to joint ventures	133	319
Cash and cash equivalents	51,185	133,434
Other current financial assets	11,217	8,794
Total	**69,386**	**148,429**

The Group places its cash and cash equivalents and other current financial assets in financial institutions with high credit ratings. Management has no information that any counterparty will 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. The Group uses the EuroRating Agency for the below analysis of credit risks of financial institutions.

Cash and cash equivalents

In thousands of Polish Zloty (PLN) **Rating**	**As at 31 December 2022**	**As at 31 December 2021**
A	21,446	84,263
BBB	7,343	6,080
BB	22,396	43,091
Total cash at banks and short-term bank deposits	**51,185**	**133,434**

Other current financial assets

In thousands of Polish Zloty (PLN) **Rating**	**As at 31 December 2022**	**As at 31 December 2021**
A	6,226	7,608
BBB	4,875	1,051
BB	116	135
Total other current financial assets	**11,217**	**8,794**

The Group keeps cash and cash equivalents and other financial assets in four financial institutions.

Cash and cash equivalents and escrow accounts presented in Other financial assets in SoFP are considered to have low credit risk. The company holds the accounts in financial institutions with investment grade credit rating published by at least one major rating agency. While Other financial assets and Cash and cash equivalents are also subject to the impairment requirements of IFRS 9, the identified impairment loss was immaterial.

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.

Notes to the Consolidated Financial Statements

32. Financial risk management, objectives and policies

Market risk

(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 2022 and 2021, 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 2022 and as at 31 December 2021.

(iii) Interest rate risk

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, bond loans and financing from external investors (SAFE agreement).

The Group entered into 5 separate SAFE agreements in which the Company obtained a total funding of ILS 60 million (PLN 70.5 million as at 31 December 2022) via israeli institutional investors (for further details see Note 25). Apart from that there was no material change in the contractual undiscounted cash outflows for financial liabilities, except for the assumption of new loans and redemption of existing loans during the year ended 31 December 2022 as described in Notes 23.

Investment property and financial liabilities resulting from the SAFE agreement are measured at fair value estimated by an independent appraiser (details in Note 25 and 13). During the period ended 31 December 2022 there were significant changes in the business or economic circumstances that affect the fair value of the group's financial assets and financial liabilities. The impact of this changes has been recognized in the Consolidated Statement of Comprehensive Income.

Interest rate risk

A vast majority of loans and borrowings obtained by the Group is against variable interest rates that are based on 6 months WIBOR rates plus a margin. As at 31 December 2022 the 6M WIBOR rate reached 7.14% (as at 31 December 2021 amounted to 2.84%) which reflects 12 month increase of 151.4%. The changes in the WIBOR rates will have material impact on the cash flow and the profitability of the Group. The Group did not use any hedging instruments to mitigate the interest risk as the interest rates in Poland were very low for a long time and the Group was benefiting from low floating rates. Due to the last year high inflation, the floating rates increased considerably exposing the Group for high interest rates. The Group considered hedging instruments but at this stage, there was no benefit for doing so as costs of hedging together with the caped interests were similar to the floating rates the Group will pay.

Notes to the Consolidated Financial Statements

32. Financial risk management, objectives and policies

Interest rate risk

The National Benchmark Reform Working Group (NGR), established by the Polish Financial Supervision Authority, is working on the implementation of a new RFR-type reference index - WIRON (Warsaw interest Rate Overnight), which will replace WIBOR and WIBID. The Roadmap published by NGR explains that the change is taking place under the BMR Regulation as part of the IBOR reform. Completion of the reform is planned by the end of 2024, while the implementation by market participants of a new offer of financial products using the WIRON index is planned for 2023 and 2024. The method of replacing the existing rates by WIRON will be regulated in the Ordinance of the Minister of Finance planned for 2023, which will specify the dates of replacement and adjustment spread. The assumptions of the Road Map also indicate that the WIBOR and WIBID reference indices will cease to be published from the beginning of 2025.

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 2022					
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	*20*	0.0%	**47,552**	47,552	-	-	-	-
Other current financial assets	*19*	0,0%	**11,217**	11,217	-	-	-	-
Loans granted to joint ventures	*14*	5%	**133**	-	133			
Loans granted to others		6.00%	**1,717**		1,717	-	-	-
Variable rate instruments								
Cash and cash equivalents	*20*	Wibor ON	**3,633**	3,633	-	-	-	-
Secured bank loans	*23*	Wibor 3M + 2.20% - 3.00%	**(16,297)**	-	(16,297)	-	-	-
Floating rate bonds	*23*	Wibor 6M + 4.00%-4.30%	**(203,370)**	(5,260)	(40,000)	(99,183)	(58,927)	-

			As at 31 December 2021					
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	*20*	0,0%	**131,121**	131,121	-	-	-	-
Other current financial assets	*19*	0,0%	**8,794**	8,794	-	-	-	-
Loans granted to others		6,00%	**1,621**	-	1,621	-	-	-
Variable rate instruments								
Cash and cash equivalents	*20*	Wibor ON	**2,312**	2,312	-	-	-	-
Secured bank loans	*23*	Wibor 3M+ 2,70% - 3,00%	**(1,568)**	(1,568)	-	-	-	-
Floating rate bonds	*23*	Wibor 6M + 3,5%-4,3%	**(249,238)**	(52,247)	-	(40,000)	(156,991)	-
Loans granted to joint ventures	*14*	Wibor 6M + 3,2%	**319**	-	319	-	-	-

Notes to the Consolidated Financial Statements

32. Financial risk management, objectives and policies

Interest rate risk and liquidity risk analyzed

The table below presents the sensitivity analysis and its impact on net assets and income statement assuming if the variable interets rate changes by 10% assuming that all other variables remain unchanged:

	31 December 2022		31 December 2021	
In thousands of Polish Zlotys (PLN)	**Increase by 10%**	**Decrease by 10%**	**Increase by 10%**	**Decrease by 10%**
Income statement				
Variable interest rate assets	377	(377)	263	(263)
Variable interest rate liabilities*	(21,967)	21,967	(25,081)	25,081
Total	**(21,590)**	**21,590**	**(24,818)**	**24,818**
Net assets				
Variable interest rate assets	377	(377)	263	(263)
Variable interest rate liabilities*	(21,967)	21,967	(25.081)	25.081
Total	**(21,590)**	**21,590**	**(24,818)**	**24,818**

Short-term receivables and payables are not exposed to interest rate risk.

Liquidity risk

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 2022				
In thousands of Polish Zlotys (PLN)	**Less than 1 year**	**Between 1 and 2 years**	**Between 3 and 5 years**	**Over 5 years**	**Total**
Bond loans	54,297	113,617	62,928	-	230,841
Secured bank loans	16,297	-	-	-	16,297
Lease liabilities related to perpetual usufruct of land and investment property	1,174	1,174	3,521	12,116	17,985
Trade and other payables	74,074	-	-	-	74,074
Liability SAFE	70,506	-	-	-	70,506
Total	**216.348**	**114,790**	**66,449**	**12,117**	**409,703**

	Year ended 31 December 2021				
In thousands of Polish Zlotys (PLN)	**Less than 1 year**	**Between 1 and 2 years**	**Between 3 and 5 years**	**Over 5 years**	**Total**
Liabilities					
Bond loans	62,847	54,025	211,019	-	**327,891**
Secured bank loans	1,568	-	-	-	**1,568**
Lease liabilities related to perpetual usufruct of land and investment property	1,131	2,398	3,389	11,158	**18,076**
Trade and other payables	60,263	-	-	-	**60,263**
Total	**125,809**	**56,423**	**214,408**	**11,158**	**407,798**

Notes to the Consolidated Financial Statements

32. Financial risk management, objectives and policies

Legislation and administrative risk

During the year 2022 several changes in the polish legislation in particularly: contemplated deletion of open escrow accounts as well as introduction of compulsory contributions to the developer guarantee fund starting from 1 July 2022, the new construction law and the new local regulations related to road and infrastructure participation costs, constitute a risk that could directly or indirectly affect the Company's and the Group's activities and results. The Management Board is in the opinion, that the introduction of such changes might have a negative impact on the Group's activities. In spite of that and taking under consideration the Company and the Group long-term experience in the market, its ability to adjust quickly to the new market conditions, its financial situation and its reputation in the market the Management Board is in the opinion that these changes are of a lesser extent than on other market operators.

The Polish legislation environment is characterised in frequent amendments, incoherence, lack of unified interpretation of legislation and tax legislations which are subject to frequent changes all which is contributing to the risks factors in which the Company and the Group operate. All the above changes and lack of unified judicial decision can have negative consequences on the Group's business, its performance, its financial standing and the development prospects.

The above changes demonstrates the dynamic environment in which the Group operates and as such requiring in some cases quick response in order to adjust its activity accordingly.

The Management Board will continue monitoring the above mentioned issues on an on-going basis, and adopt further actions, if necessary, in order to minimize as much as it is possible their impact on the Group operations.

Effect of the War Conflict on the Polish economy and real estate industry

In 2022, the global economy was weakened by trade disruptions in the areas of food and fuel prices as a result of the ongoing war in Ukraine. In the second half of 2022, activity in the euro area deteriorated due to disrupted supply chains, increased financial stress and a decline in consumer and business index confidence. The upward trend in global oil, gas and coal prices observed since the beginning of 2021 increased sharply after Russia's invasion of Ukraine due to sanctions imposed on Russia, pushing up inflation to levels not seen in Europe for decades.

According to a recent update of a World Bank publication, Poland's economic growth in 2023 is expected to slow more than initially thought, as the ongoing war in Ukraine has dimmed the prospects for a post-pandemic recovery in Europe.

In 2022, the war in Ukraine was a key factor affecting the Polish economy. It caused an increase in inflation particularly related to increases in energy and food prices. The level of Polish inflation is currently one of the highest in the European Union. The Polish government's decision to completely abandon imports of Russian energy resources by the end of 2022 has also influenced activities related to the acquisition of new sources of supply, particularly coal, and the intensification of investments aimed at energy diversification.

The Polish government has also taken measures to reduce the increase in energy prices for citizens and businesses in the form of subsidies for coal and other energy resources and a freeze on electricity prices for vulnerable consumers.

In order to curb rising inflation, the Monetary Policy Council of the National Bank of Poland (NBP) raised reference interest rates for the eleventh time in a row in September 2022, resulting in a huge increase in loan instalments for borrowers and consequently worsening the situation of many households. In order to counteract the deterioration in the financial situation of borrowers, the Polish parliament introduced a consumer support programme. It includes, among other things, four months of credit holidays in 2022 and four in 2023. The government has also increased the level of the Borrower Support Fund and made it easier to apply for assistance from it.

Notes to the Consolidated Financial Statements

32. Financial risk management, objectives and policies

Effect of the War Conflict on the Polish economy and real estate industry

The creditworthiness of Poles has also decreased and, consequently, the number of new loans taken out has fallen. This caused a significant slowdown in the real estate market. At the same time, in terms of the residential market, the Company noted a significant trend of cash buyers outnumbering those using mortgages, resulting in a significant decline in the number of units sold observed from the beginning of 2022.

In addition, as a consequence of the armed conflict in Ukraine, the supply chains of materials from eastern markets were disrupted and, due to the outflow of workers from Ukraine, the demand for workers on construction sites also increased.
On the other hand, however, according to the Management Board's observation, high interest rates will also force more people to enter the rental market as they will no longer be able to afford mortgages, putting even more pressure on the available rental stock. It is important to recognize that due to increasing geopolitical and economic risks, the war conflict in Ukraine will continue to intensify factors such as high inflation, increased construction costs and more restrictive financing policies for new developments and mortgages.

The Company is monitoring the situation on an ongoing basis to assess its impact on business operations. As part of its strategy, the Company will evaluate its currently planned projects and initiate projects that will be secured with bank financing and have the best chance of success in the near future, all with the aim of mitigating the impact of this crisis on the Company's business as much as possible.

Inflation risk

At the beginning of 2022, prices of energy and agricultural commodities were high, significantly exceeding their levels seen since last year. Inflation slightly decreased to 16.6% in December from November's 17.9%. December's result represented the highest inflation rate since March 1997.

According to the Statistical office of Poland (GUS), the main factors contributing to the high inflation rate are driven by cost of housing and utilities (22.6%), transport (13.3%) and food and non-alcoholic beverages (21.5%), as well as increase in USD/PLN and EUR/PLN exchange rates.The inflation growth and with it the interbank interest growth affects the polish economy in many aspects and the real estate residential sector in the following:

- the risk of average mortgage rates increases which might result in decline in volume of mortgages lending which will influence reduction of the demand from individual clients;
- risk of increase in construction costs, related to problems of manufacturing, energy and transportation;
- risk in delay or withholding of starting new projects due to high costs.

In the forth quarter of 2022, there was a increase in sales in the six largest cities by 28% comparing to previous quarter and as much as 49% decrease in sales comparing to the year 2021. The management Board will continue monitoring the situation, and adopt further actions, if necessary, in order to reduce as much as it possible the effect of the inflation and interest rates increase on the Group’s operations and strategy.

Construction cost risk

Construction costs increased significantly over the last 2 years, and high increase especially in the 4th quarter of the 2022. There is a high risk that building costs may still be rising during 2023. The increase was mainly related to increase of raw materials and energy costs influencing directly and indirectly the costs of production adding to that the pandemic situation and shortage of construction employees. The Company and the Group do not operate in 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 2021 there were many changes in the constructions law, which impacted the cost of constructions as well as sharp increase in inflation rate, costs of raw materials and energy costs.

Notes to the Consolidated Financial Statements

32. Financial risk management, objectives and policies

Construction cost risk

In terms of construction law, 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.

Ordinance No. 1715/2021 of the President of the Capital City of Warsaw dated October 19, 2021 on determining the principles of concluding agreements specifying the terms of construction or reconstruction of public roads by investors of non-road investments and appointing a team for cooperation with investors of non-road investments, which came into force on January 1, 2022, regulated the procedure for the City of Warsaw to conclude agreements with investors for the construction or reconstruction of roads caused by non-road investments (based on Article 16 of the Act on Public Roads dated March 21, 1985). Pursuant to Article 16 of the Law on Public Roads, the construction or reconstruction of public roads caused by a non-road investment is the responsibility of the investor in the project. The provision in question specifies that the detailed conditions for the construction or reconstruction of these public roads shall be determined by an ordinance concluded between the road manager and the investor of the non-road investment. The Ordinance regulates, among other things, the procedure for concluding the agreement and the rates at which the value of the road investment in which the investor in question will bear his share is calculated, according to the size of the planned investment. The new procedure will cover commercial service facilities with a floor area of more than 1,000 sqm and other investments with a floor area of more than 5,000 sqm.

In addition, a number of regulations forcing the introduction of green solutions in newly designed buildings came into force in 2022:

- on December 24, 2021, the Act of December 2, 2021, amending the Act on Electromobility and Alternative Fuels and certain other laws came into force - this act, among other things, implements EP Directive 2018/844 on the energy performance of buildings, and based on these regulations, residential buildings will be required to be designed to provide for each parking space inside and adjacent to the building electrical conduits and cables to enable the installation of charging points;
- on October 7, 2022, an amendment to the Act on the Energy Performance of Buildings and the Construction Law was adopted. The new solutions result, among other things, from the need to improve the effectiveness of the current system for assessing the energy efficiency of buildings in Poland. The planned solutions include changes to the requirements for the inspection of heating systems and air conditioning systems, expanding the scope of systems subject to inspection (this will apply to systems with a capacity of more than 70 kW.). In addition, it is planned to provide universal access to the basic information contained in energy performance certificates collected in the central register of energy performance of buildings. The substantive quality of the energy performance certificates drawn up is also to be raised (this will also apply to protocols drawn up from the inspection of the heating system or air conditioning system).

In order to mitigate the risk of rising construction costs, the Company and the Group are signing a lump-sum contract with a general contractor, which will allow the Group to complete the project based on the planned 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 Group. The Group 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 and the increase of energy costs. 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.

Notes to the Consolidated Financial Statements

32. Financial risk management, objectives and policies

Risk of non-performance by General Contractors

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.

Financing risk

The real estate development business, in which the Company and the Group operates, requires significant initial expenditures to purchase land and to cover construction, infrastructure, and design costs. As such, the Company and the Group, in order to continue and develop its business, require significant amounts of cash through external financing banks and issuance of bonds. The Company's and Group's ability to obtain such financing depend on many factors in particular, on market conditions which are beyond the Company's and the Group's control. In the event of difficulties to obtain the required financing, there is a risk that the scale of the Company's and Group's development and pace of achieving its strategic objectives may differ from what was originally planned. In such situation as described above, there is no certainty whether the Company and the Group will be able to obtain the required financing, nor whether financial resources will be obtained under conditions that are favourable to the Company and the Group. In order to mitigate the risk of insufficient financial resources, the Group is continuously exploring other possibilities of financial resources which will provide the necessary required financing and favourable conditions.

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 or administrative restrictions on lending activities of the banks may cause a drop in demand for apartments and houses, and therefore a decrease in interest from potential buyers in the Group's development projects, which in turn may have a significant adverse impact on activities, financial standing or performance of the Company and the Group.

In 2022, access to mortgages has decreased significantly mainly due to high interest rates and the KNF's tightening of rules for calculating creditworthiness. A sharp increase in interest rates, particularly, banks internal rates has impacted and will impact, significantly, big portion of mortgage users to be eligible for residential mortgage financing. As well as, in most cases, due to creditworthy of individuals led and will lead to the decrease of the availability of mortgages. The Group is continuously observing the situation and offering administrative help to its clients for obtaining required credits.

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 to conduct and complete its executed and planned projects.

Risk related to regulations. Risks related to the interpretation and application of regulations

Frequent amendments, incoherence and lack of unified interpretation of legislation entail risks related to the legal and environment in which the Company and the Group operate. In particular the regulations and interpretations of tax legislations are subject to frequent changes. The practice of tax authorities, issued tax interpretations as well as judicial decisions in this area is not unified. In cases that Tax Authorities will adopt different interpretation of tax regulations from that of the Group, negative consequences can be expected with negative impact on the Group's business, its performance, its financial standing and Company's and Group's development prospects.

Notes to the Consolidated Financial Statements

32. Financial risk management, objectives and policies

Risk related to regulations. Risks related to the interpretation and application of regulations

Below are main changes in law regulations which can affects the Group operations:

- Entry into force on 1 January 2022 of the new Polish Order which according to its assumptions, assumes resignation from the possibility of including depreciation charges on houses and flats in tax costs was especially important tax benefit to individuals and companies planning to purchase a property for rent. the outcome of this regulation will be a higher tax base profit to be paid by the companies or individuals;

- Regulations on developers' participation in the cost of road and infrastructure construction in Warsaw, effective January 1, 2022. The regulations are to apply to developments of more than 5,000 sqm PUM. As the Company understands it, the idea behind the Ordinance is to systematize the rules for concluding agreements under Article 16 of the Public Roads Act of March 21, 1985, by allowing a specific amount of participation (in accordance with a set price list of fees depending on the location of the investment) to be determined at the design stage of the investment in exchange for an expedited road agreement process;

- Act on the Protection of rights of buyers of residential premises and single family houses an implementation of the Developer Guarantee Fund, which will take hold starting on 1st July 2022, In which the Group will have to deposit 0.45% of the amounts received from client in the designated fund in case of open escrow account and 0.1% in case of closed escrow account.

33. 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 Group 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 Group is obliged to monitor its indebtedness according to the conditions of the bond issuance, which require, amongst others, that in each reporting period the Group shall test the ratio between Net debt to Equity. The Ratio shall not exceed 80% (for additional information see Note 23).

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.

Notes to the Consolidated Financial Statements

33. Capital management

The gearing ratios and leverage at 31 December 2022 and 31 December 2021 were as follows:

As at 31 December *In thousands of Polish Zlotys (PLN)*	**2022**	**2021**
Loan and borrowings, including current portion	203,370	249,238
Secured bank loans	16,297	1,568
Financial liability measured at FVPL	70,506	-
IFRS 16 - Lease liabilities related to cars	363	292
Less: cash and cash equivalents	(51,185)	(133,434)
Less: cash on individual escrow accounts (other current financial assets)	(11,217)	(8,794)
Net debt	**228,134**	**108,869**
Total equity	451,396	420,045
Total capital employed	**679,530**	**528,914**
Gearing ratio	**50.5%**	**25.9%**
Leverage	**33.6%**	**20.6%**

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.

34. Cash flow reconciliation

Inventory and Residential land bank

For the year ended 31 December *In thousands of Polish Zlotys (PLN)*	**2022**	**2021**
Balance sheet change in inventory	(102,765)	43,298
Finance expense, net capitalized into inventory	15,331	10,174
Impact of perpetual usefruct recognition	(358)	3,480
Purchase of land	88,538	113,784
Transfer fixed assets to Inventory	-	747
Write-down of inventory	(482)	(3,793)
Other	(1,260)	(314)
Change in inventory in the consolidated statement of cash flows	**(996)**	**167,376**

Trade and other receivables and prepayments

For the year ended 31 December *In thousands of Polish Zlotys (PLN)*	**2022**	**2021**
Balance sheet change in trade and other receivables and prepayments	(7,440)	(20,806)
Impact of transferred perpetual usufruct to trade receivables (delivered units)	174	(569)
Transfer to Intangible assets from prepayments	-	(1,458)
Notary deposits transferred to inventory	(14,503)	-
Notary deposit transferred (to)/from advances for land	9,253	(5,500)
Bank charges	1,168	(604)
Change in Trade and other receivables and prepayments in the consolidated statement of cash flows	**(11,348)**	**(28,937)**

Notes to the Consolidated Financial Statements

34. Cash flow reconciliation

Trade and other accounts payable

For the year ended 31 December *In thousands of Polish Zlotys (PLN)*	**2022**	**2021**
Balance sheet change in Trade and other accounts payable	13,969	2,739
Impact of transferred perpetual usufruct to trade payables (delivered units)	161	576
Transfer of interests bearing liabilities to trade accounts payables	-	(1,698)
Other	(319)	(115)
Purchases of land (not paid)	(23,588)	-
Change in Trade and other payables and accrued expenses in the consolidated statement of cash flows	**(9,777)**	**1,502**

35. Information about agreed-upon engagements of the Group's auditor

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

For the year ended 31 December *In thousands of Polish Zlotys (PLN)*	**2022**	**2021**
Audit and review remuneration for standalone and consolidated financial statements	509	464
Other services	-	77
Reimbursed audit review costs [(1)]	(86)	(117)
Total remuneration for the expense of the Group	**423**	**424**

(1) Costs in respect of the audit review of the Group's first and third quarter reports have been reimbursed in 50% to Main Group's shareholder.

36. Events during the financial year

Commencements of new projects

The table below presents projects which have been commenced in the year ended 31 December 2022:

Project name	**Location**	**Number of units**	**Area of units (m2)**
Nowe Warzymice IV	Szczecin	75	3,818
Eko Falenty I	Warsaw	42	4,304
Miasto Moje VII*	Warsaw	243	11,740
Ursus Centralny IIe*	Warsaw	280	16,246
Nowa Północ Ia	Szczecin	110	5,230
Osiedle Vola	Warsaw	84	4,851
Między Drzewami*	Poznań	117	5,803
Nova Królikarnia 4b1 (Thame)	Warsaw	11	2,566
Viva Jagodno III*	Wrocław	58	3,140
Total		**1,020**	**57,698**

**Commencement of sales, the construction process did not started yet*

Completions of projects

The table below presents projects which have been completed in the year ended 31 December 2022 and for which the occupancy permit was received and the delivery process of apartments has started:

Project name	**Location**	**Occupancy permit date**	**Number of units**	**Area of units (m^2)**
Nowe Warzymice II	Szczecin	5 April 2022	66	3,492
Ursus Centralny Ib	Warsaw	5 July 2022	97	5,740
Miasto Moje V	Warsaw	31 August 2022	170	8,559
Viva Jagodno IIa	Wrocław	10 October 2022	76	4,329
Nowe Warzymice III	Szczecin	25 October 2022	62	3,537
Total			**471**	**25,657**

Notes to the Consolidated Financial Statements

36. Events during the financial year

Purchase of land

The below table presents signed final agreements for purchase of plots signed in the period ended 31 December 2022:

Location	Type of agreement	Signed date	Agreement net value *(PLN million)*	Paid net till 31 December 2022 *(PLN million)*	Number of units	Potential PUM
Warsaw, Stojowskiego	final	11 Aug 2021, 11 Jan 2022	16.9	16.9	191	11,000
Warsaw, Białołęka(1)	final	28 Oct 2021, 13 Jan 2022	51.4	51.4	1,081	43,754
Warsaw, Bemowo	final	22 Feb 2022	25.9	25.9	148	8,100
Warsaw, KEN(3)	final	29 Mar 2022	11.9	11.9	94	5,700
Warsaw, Marynin(2)	final	15 Jun 2022	9.0	9.0	101	4,183
Warsaw, Bemowo	final	16 Oct 2021, 31 Aug 2022	19.5	19.5	123	6,928
Warsaw, Wolska(2)	final	23 Dec 2021, 19 Sep 2022	23.7	-	292	13,947
Warsaw, Białołęka(4)	final/preliminary	23 Nov 2020, 23 Dec 2022	20.0	20.0	432	20,700
Total			**178.3**	**154.6**	**2,462**	**114,312**

1) The part of land designatned for PRS activity
2) The land designated for PRS activity
3) According to the final agreement the former owner of the plot (Orange Polska S.A.) has the right to use the property till 31 December 2024 until it moves out its telecommunication technical infrastructure located in the Building, the user of the property will pay to the Company leasing fee for the time of usage
4) The company signed final agreements for all land except for 1 land with the total value of PLN 1.45 million in which preliminary agreement is signed but not all conditions regarding this land ware fulfiled.

The below table presents signed preliminary agreements for purchase of plots signed until 31 December 2022 including advances paid:

Location	Type of agreement	Signed date	Agreement net value *(PLN million)*	Paid net till 31 December 2022 *(PLN million)*	Number of units	Potential PUM
Warsaw, Ursus	preliminary	17 Jan 2021	140.0	10.0	1,860	85,000
Warsaw, Ochota	preliminary	10 Aug 2021, 5 Oct 2021	7.1	7.1	67	3,700
Warsaw, Włochy	preliminary	30 Dec 2021	16.0	2.0	142	8,400
Warsaw, Bielany(1)	preliminary	21 Mar 2022	11.0	1.1	242	4,559
Total			**174.1**	**20.2**	**2,311**	**101,659**

1) The land designated for PRS activity

Conclusion of a material agreement for General contractors

Project name	Location	Number of units	General contractor	Agreement signing date	Agreement net value	Additional provisions
Nowe Warzymice IV	Szczecin	75	Ebud S.A.	1 February 2022	16.8	none
Eko Falenty I	Warsaw	42	Techbau Budownictwo Sp. z o.o.	4 March 2022	19.2	none
Osiedle Vola	Warsaw	84	Leancon Sp. z o.o.	19 May 2022	32.5	none
Nova Północ Ia	Szczecin	110	Ebud S.A.	28 July 2022	26	*
Między Drzewami	Poznań	117	W.P.I.P. – Mardom Sp. z o.o.	18 October 2022	36	**
Total		**428**			**130.5**	

**contract value subject to valorization*
*** subject to valorization up to 600k PLN*

Notes to the Consolidated Financial Statements

36. Events during the financial year

Building permits

Project name	Location	Building permit date	Number of units	Area of units (m^2)
Nowe Warzymice IV	Szczecin	22 January 2022	75	3,800
Między Drzewami	Poznań	15 March 2022	117	5,800
Osiedle Vola	Warsaw	15 April 2022	84	4,850
Nowa Północ I	Szczecin	21 April 2022	200	9,450
Nova Królikarnia 4b1	Warsaw	2 May 2022	11	2,566
Nowe Warzymice V	Szczecin	22 December 2022	60	4,654
Total			**547**	**31,120**

Withdrawal of the Company's shares from trading on the regulated market

On 8 March 2022, the General Meeting of the Company was held, at which the shareholders adopted a resolution on withdrawing the Company's shares from trading on the regulated market. In connection with the adoption of the above resolution, on 9 March 2022, the Company submitted an application to the Polish Financial Supervision Authority for authorization to withdraw the Company's shares from trading on the regulated market. On 14 April 2022 the Polish Financial Supervision Authority issued a consent to the withdrawal of the Company's shares from trading on the market regulated by the Warsaw Stock Exchange S.A. ("WSE") as of 28 April 2022. The respective resolution was also adopted by the Management Board of WSE on 25 April 2022.

Option program

On November 28, 2022, Luzon Group announced a private issuance of options for shares of Luzon Group (“Options”). According to the allocation, Mr. Boaz Haim received 9,817,868 Options. Options were allotted free of charge. Each Option entitles to one ordinary share of Luzon Group of NIS 0.01 par value, for an exercise price of 2 NIS (which however will be settled on a net basis, i.e. final number of received shares will be decreased by a number of shares which market value is equal to full exercise price to be paid).

Mr Haim will be entitled to exercise the Options as follows:
(i) after 24 months from the allotment date - up to 40% of allocated Options
(ii) after 36 months from the allotment date - up to 20% of allocated Options
(iii) after 48 months from the allotment date - up to 20% of allocated Options
(iv) after 60 months from the allotment date - up to 20% of allocated Options

The Options can be exercised until the end of 7 years from the date of their allocation. Options that were not exercised within the above mentioned period, expire. Assuming all the Options are exercised, Mr. Haim will hold c.a. 2.38% of the issued and paid-up capital of Luzon Group and about 1.89% of the issued and paid-up capital of Luzon Group on a full dilution basis. The Option program envisages adjustments in case of various corporate events in Luzon Group (such as the issuance of shares or other options, merger, dividend distribution, etc.). The impact of the programme for the reporting year is insignificant.

37. Subsequent events

New Building permits

Project name	Location	Building permit date	Number of units	Area of units (m^2)
Miasto Moje VIII	Warsaw	12 January 2023	147	7,687
Total			**147**	**7,687**

Occupancy permits

Project name	Location	Occupancy permit date	Number of units	Area of units (m^2)
Miasto Moje VI	Warsaw	7 February 2023	227	11,722
Total			**227**	**11,722**

Notes to the Consolidated Financial Statements

37. Subsequent events

Purchase of land

On 17 January 2023 the anex to the main agreement relating purchase of the land in Wolska was signed. According to the new provisions payment for the land has been extended till the 31 March 2023.

On March 2, 2023, the Company (through a subsidiary) signed a final agreement for the purchase of the right to perpetual usufruct of a plot of land located in Warsaw, Ochota district, with an area of 0.2484 ha for the amount of PLN 7,100 thousand. PLN net. The above property also includes the ownership right to two buildings: the main building with a usable area of 2,404 m2 and a transformer station with a usable area of 116 m2.

Conclusion of a material agreement for General contractors

Project name	Location	Number of units	General contractor	Agreement signing date	Agreement net value	Additional provisions
Miasto Moje VII	Warsaw	243	Hochtief Polska S.A.	1 March 2023	70.4	none
Ursus Centralny 2E	Warsaw	282	Techbau Budownictwo Sp. z o.o.	10 March 2023	96.9	none
Nova Królikarnia 4b1	Warsaw	11	Totalbud S.A..	10 March 2023	17.4	none
Total		**536**			**184.7**	

On March 1, 2023, the Company (through a subsidiary) concluded a contract for construction works with Hochtief Polska S.A. (General Contractor) for the execution of stage VII of the Miasto Moje investment. Construction works will start in the beginning of March 2023. Stage VII is to be completed by October 31, 2024. The Miasto Moje VII investment consists of a complex of multi-family residential buildings with underground garages (243 residential units). The remuneration for the performance of the Agreement is PLN 70.4 million, to which VAT will be added.

On March 10, 2023, the Company (through a subsidiary) concluded a contract for construction works with Techbau Budownictwo Sp. z o. o. (General Contractor) for the execution of stage IIE of the Ursus Centralny investment. Construction works will start in March 2023. The completion of the IIE stage is scheduled for February 28, 2025. The Ursus Centralny IIE investment consists of a complex of multi-family residential buildings with underground garages (282 residential units). The remuneration for the performance of the Agreement is PLN 96.9 million, to which VAT will be added.

On March 10, 2023, the Company (through a subsidiary) concluded a contract for construction works with Totalbud S.A. (General Contractor) for the execution of Nova Królikarnia 4b1. Construction works will start in March 2023. The completion of the Nova Królikarnia 4b1 is scheduled for October 31, 2024. Nova Królikarnia 4b1 investment consists of a complex of 6 single-family detached one- and two-family apartments with accompanying technical infrastructure (11 units). The remuneration for the performance of the Agreement is PLN 17.4 million, to which VAT will be added.

Litigations

In January 2023, the Company's subsidiaries submitted payment demands addressed to several related companies that were sellers (or were otherwise involved in the sale) to Ronson group companies of certain properties:

- Projekt 3 submitted a demand for payment of PLN 6.4 million as a refund of part of the deposits paid towards the price of the property at Epopei Street in Warsaw. The claim results from the payment of the total purchase price for these plots in the amount of PLN 25.2 million (net of VAT) instead of the net amount of PLN 20.0 million, agreed in the preliminary agreements. This claim was accepted by the seller. Projekt 3 submitted a demand for payment to the seller and two other related companies, which guaranteed the repayment of this debt.
- Ronson Development SPV4 sp. z o.o. submitted a demand for payment of PLN 1.6 million as a repayment of a loan granted to the entity from which the property at Dobosza Street in Warsaw was to be purchased (the loan was granted for purposes related to this acquisition). Ronson Development SPV4 sp. z o.o. submitted a demand for payment to the seller and three other related companies, which guaranteed the return of this debt.

Notes to the Consolidated Financial Statements

37. Subsequent events

Litigations

- Ronson Development sp. z o.o. - Project 4 sp.k. withdrew from the preliminary purchase agreement of real estate at Wysockiego Street in Warsaw due to non-performance of the conditions for concluding the final agreement and made a demand for payment of PLN 9.8 million as a refund of the deposit in a double amount.
- Ronson Development sp. z o.o. - Project 4 sp.k. submitted a demand for payment of PLN 861 thousand as a refund of the deposit for the property at Kasprzaka Street in Warsaw.
- In connection with the purchase of real estate at Komisji Edukacji Narodowej Avenue in Warsaw, Ronson Development SPV3 sp. z o.o. filed a demand for payment of compensation in the amount of PLN 25.0 million or for a delivery of a statement of the mortgage creditor (who is an entity related to the seller's entity) on the expiration of the claim secured by a contractual mortgage together with his consent to delete the contractual mortgage from the land and mortgage register.

Demands also include calls for payment of contractual or statutory interest for delay or reservation of the right to seek payment of these amounts, together with statutory interest for delay and court and enforcement costs, in court proceedings and the use of established securities, if any.

The Management Board

Boaz Haim President of the Management Board	**Yaron Shama** Finance Vice-President of the Management Board
Andrzej Gutowski Sales Vice-President of the Management Board	**Karolina Bronszewska** Member of the Management Board for Marketing and Innovation

Warsaw, 15 March 2023