# LC CORP CAPITAL GROUP

**CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31ST 2008**
**WITH AN INDEPENDENT AUDITOR'S REPORT ON THE REVIEW**

## CONSOLIDATED BALANCE SHEET
### as at December 31st 2007 (in PLN '000)

| | Note | December 31st 2008 | December 31st 2007 |
|---|---|---|---|
| **Assets** | | | |
| **A. Non-current assets** | | **657,216** | **562,496** |
| 1. Intangible assets | 15 | 1,016 | 447 |
| 2. Property, plant and equipment | 14 | 127,650 | 68,122 |
| 2.1. Tangible assets | | 6,043 | 1,584 |
| 2.2. Tangible assets under construction | | 121,607 | 66,538 |
| 3. Non-current receivables | | 0 | 0 |
| 4. Non-current investments | 17 | 525,806 | 489,373 |
| 5. Non-current prepayments and accrued income | 21 | 1,354 | 1,811 |
| 6. Deferred tax assets | 12.3 | 1,390 | 2,743 |
| **B. Current assets** | | **1,011,207** | **974,483** |
| 1. Inventories | 19 | 879,155 | 674,665 |
| 2. Trade and other receivables | 20 | 58,835 | 77,925 |
| 3. Income tax receivable | | 806 | 164 |
| 4. Cash and cash equivalents | 22 | 71,640 | 220,708 |
| 5. Current prepayments and accrued income | 21 | 771 | 1,021 |
| **C. Non-current assets classified as held for sale** | | **0** | **0** |
| **Total assets** | | **1,668,423** | **1,536,979** |
| **Equity and liabilities** | | | |
| **A. Equity** | | **964,687** | **897,570** |
| 1. Share capital | 24.1 | 447,558 | 446,558 |
| 2. Balance of called-up share capital not paid | | 0 | 0 |
| 3. Reserve funds | 24.2 | 418,648 | 302,659 |
| 4. Other reserve funds | 24.3 | 39,771 | 39,771 |
| 5. Other capital | 24.4 | 3,108 | 3,108 |
| 6. Retained profit / losses not covered | | 30,462 | 105,474 |
| 7. Minority interest | | 25,140 | 0 |
| **B. Non-current liabilities** | | **394,154** | **350,102** |
| 1. Non-current financial liabilities | 25 | 349,953 | 304,884 |
| 2. Non-current trade and other payables | 27.1 | 2,977 | 7,923 |
| 3. Provisions | 26 | 23 | 26 |
| 4. Deferred tax liability | 12.3 | 41,201 | 37,269 |
| **C. Current liabilities** | | **309,582** | **289,307** |
| 1. Current financial liabilities | 25 | 227,517 | 171,137 |
| 2. Current trade and other payables | 27.1 | 39,218 | 29,721 |
| 3. Income tax payable | | 561 | 0 |
| 4. Provisions | 26 | 804 | 4,861 |
| 5. Accrued expenses and revenue | 28 | 41,482 | 83,588 |
| **Total equity and liabilities** | | **1,668,423** | **1,536,979** |

# CONSOLIDATED PROFIT AND LOSS ACCOUNT
## for year ended December 31st 2008 (in PLN '000)

| | Note | Year ended December 31st 2008 | Year ended December 31st 2007 |
|---|---|---|---|
| **Operating activity** | | | |
| **Sales revenue** | | **136,498** | **34,390** |
| Revenue on sales of services | 11.1 | 43,324 | 34,390 |
| Revenue from sales of goods and products | 11.1 | 93,174 | 0 |
| **Cost of sales** | 11.2 | **( 74,796)** | **( 14,652)** |
| **Pre-tax profit on sales** | | **61,702** | **19,738** |
| Gain (loss) on disposal of non-current non-financial assets | | 3 | ( 37) |
| Revaluation of non-current non-financial assets | 17 | 36,364 | 124,741 |
| Selling and distribution costs | 11.2 | ( 5,816) | 0 |
| General administrative expenses | 11.2 | ( 14,952) | ( 17,626) |
| Other operating income | 11.5 | 92,102 | 11,684 |
| Other operating expenses | 11.6 | ( 69,466) | ( 17,099) |
| **Operating profit (loss)** | | **99,937** | **121,401** |
| Financial income | 11.7 | 4,881 | 23,519 |
| Financial expenses | 11.8 | ( 50,965) | ( 11,229) |
| **Pre-tax profit (loss)** | | **53,853** | **133,691** |
| Corporate income tax | 12.1 | ( 12,109) | ( 27,189) |
| **Net profit on business activities** | | **41,744** | **106,502** |
| **Discontinued operations** | | | |
| Profit (loss) on discontinued operations for the business year | | 0 | 0 |
| **Net profit (loss)** | | **41,744** | **106,502** |
| **of which:** | | | |
| Shareholders of Parent Undertaking | | 41,035 | 106,502 |
| Minority Shareholders | | 709 | 0 |
| | | **41,744** | **106,502** |

### Profit (loss) per share

| | Note | | |
|---|---|---|---|
| - basic from profit for financial year in PLN | 13 | **0,09** | **0,27** |
| - diluted from profit for financial year in PLN | | **0,09** | **0,27** |

## CONSOLIDATED CASH-FLOW STATEMENT
## for year ended December 31st 2008 (in PLN '000)

| | | Note | Year ended December 31st 2008 | Year ended December 31st 2007 |
|---|---|---|---|---|
| **A. Cash flows from operating activities** | | | | |
| **I. Pre-tax loss** | | | **53,853** | **133,691** |
| **II. Total adjustments** | | | **( 287,414)** | **( 587,240)** |
| 1. | Depreciation and amortisation | | 1,689 | 2,351 |
| 2. | Foreign exchange gains (losses) | | 34,525 | ( 14,565) |
| 3. | Interest and distributions from profit (dividends) | | 34,610 | 14,271 |
| 4. | Profit (loss) on investing activities | | ( 89,414) | 37 |
| 5. | Change in provisions | | ( 4,060) | 4,861 |
| 6. | Change in inventories | | ( 204,490) | ( 522,101) |
| 7. | Change in receivables | | 19,090 | ( 67,190) |
| 8. | Change in current liabilities (net of loans and borrowings) | 23.1 | 5,116 | 13,213 |
| 9. | Change in accruals and deferrals | | ( 41,399) | 75,442 |
| 10. | Corporate income tax | | ( 6,905) | ( 49) |
| 11. | Other adjustments | 23.2 | ( 36,176) | ( 93,510) |
| **III. Net cash provided by (used in) operating activities (I±II)** | | | **( 233,561)** | **( 453,549)** |
| **B. Cash flows from investing activities** | | | | |
| **I. Cash flows from investing activities** | | | **113, 883** | **32,256** |
| 1. | Sale of intangible assets and property, plant and equipment | | 33 | 32,256 |
| 2. | Sale of investment property | | 0 | 0 |
| 3. | Cash provided by financial assets | | 0 | 0 |
| 4. | Other cash provided by investing activities | | 113,850 | 0 |
| **II. Cash used in investing activities** | | | **( 62,624)** | **( 172,757)** |
| 1. | Acquisition of intangible assets and property, plant and equipment | | ( 62,612) | ( 114,255) |
| 2. | Investment property | | ( 12) | 0 |
| 3. | Cash used on financial assets | 23.2 | 0 | ( 58,502) |
| 4. | Other cash used in investing activities | | 0 | 0 |
| **III. Net cash provided by (used in) investing activities (I–II)** | | | **51,259** | **( 140,501)** |
| **C. Cash flows from financing activities** | | | | |
| **I. Cash provided by financing activities** | | | **496,381** | **1,041,602** |
| 1. | Net proceeds from issue of shares and additional contributions to equity | | 1,000 | 508,933 |
| 2. | Increase in loans and borrowings | | 358,393 | 335,049 |
| 3. | Issue of debt securities | | 136,963 | 197,620 |
| 4. | Other cash provided by financing activities | | 25 | 0 |
| **II. Cash used in financing activities** | | | **( 463,610)** | **( 284,225)** |
| 1. | Repayment of loans and borrowings | | ( 292,135) | ( 148,646) |
| 2. | Redemption of debt securities | | ( 148,685) | ( 111,171) |
| 3. | Interest paid | | ( 22,732) | ( 12,558) |
| 4. | Other cash used in financing activities | | ( 58) | ( 11,850) |

(in PLN '000)

| | | | |
|---|---|---|---|
| **III. Net cash provided by (used in) financing activities (I–I)** | | **32,771** | **757,377** |
| | | | |
| **D. Total net cash flow (A.III±B.III±C.III)** | | ( 149,531) | 163,327 |
| **E. Balance-sheet change in cash, including:** | | ( 149,531) | 163,327 |
| – foreign exchange change in cash | | ( 463) | 45 |
| **F. Cash at beginning of period** | | **220,708** | **57,426** |
| | | | |
| **G. Cash at end of period (F±D)** | 22 | **71,640** | **220,708** |
| - restricted cash | | 2,113 | 20 |

## CHANGES IN CONSOLIDATED EQUITY
**for year ended December 31st 2008 (in PLN '000)**

| | *Capital allocated to the shareholders of the parent undertaking* | | | | | | | *Minority interest* | ***Total equity*** |
|---|---|---|---|---|---|---|---|---|---|
| | *Issued share capital* | *Balance of called-up share capital not paid* | *Reserve funds* | *Other reserve funds* | *Other capital* | *Retained profit / Uncovered losses* | *Total* | | |
| **As at January 1st 2008** | **446,558** | **0** | **302,659** | **39,771** | **3,108** | **105,474** | **897,570** | **0** | **897,570** |
| Registration of series I shares | 1,000 | 0 | 0 | 0 | 0 | 0 | 1,000 | 0 | 1,000 |
| Costs of share issues | 0 | 0 | ( 58) | 0 | 0 | 0 | ( 58) | 0 | ( 58) |
| Allocation of the profit for 2007 to reserve funds | 0 | 0 | 116,047 | 0 | 0 | ( 116,047) | 0 | 0 | 0 |
| Disposal of net assets in a subsidiary | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 24,431 | 24,431 |
| Result for 2008 | 0 | 0 | 0 | 0 | 0 | 41,035 | **41,035** | 709 | 41,744 |
| **As at December 31st 2008** | **447,558** | **0** | **418,648** | **39,771** | **3,108** | **30,462** | **939,547** | **25,140** | **964,687** |

(in PLN '000)

| | *Capital allocated to the shareholders of the parent undertaking* | | | | | | | *Minority interest* | ***Total equity*** |
|---|---|---|---|---|---|---|---|---|---|
| | *Issued share capital* | *Balance of called-up share capital not paid* | *Reserve funds* | *Other reserve funds* | *Other capital* | *Retained profit / Uncovered losses* | *Total* | | |
| **As at January 1st 2007** | **149,125** | **0** | **9,698** | **39,771** | **102,000** | **( 9,717)** | **290,877** | **0** | **290,877** |
| Registration of series F shares | 102,000 | 0 | 0 | 0 | ( 102,000) | 0 | 0 | 0 | 0 |
| Issue of series G shares | 80,000 | 0 | 0 | 0 | 0 | 0 | 80,000 | 0 | 80,000 |
| Issue of series H shares | 58,433 | 0 | 0 | 0 | 0 | 0 | 58,433 | 0 | 58,433 |
| Issue of series J shares | 57,000 | 0 | 313,500 | 0 | 0 | 0 | 370,500 | 0 | 370,500 |
| Costs of issue of series G shares | 0 | 0 | (415) | 0 | 0 | 0 | (415) | 0 | (415) |
| Costs of issue of series H shares | 0 | 0 | (307) | 0 | 0 | 0 | (307) | 0 | (307) |
| Costs of issue of series J shares | 0 | 0 | (11,128) | 0 | 0 | 0 | (11,128) | 0 | (11,128) |
| Coverage of losses for 2006 and from previous years acc. to Polish Accounting Standards | 0 | 0 | ( 8,689) | 0 | 0 | 8,689 | ( 0) | 0 | ( 0) |
| Capital from valuation of management options | 0 | 0 | 0 | 0 | 3,108 | 0 | 3,108 | 0 | 3,108 |
| Profit in 2007 | 0 | 0 | 0 | 0 | 0 | 106,502 | 106,502 | 0 | 106,502 |
| **As at December 31st 2007** | **446,558** | **0** | **302,659** | **39,771** | **3,108** | **105,474** | **897,570** | **0** | **897,570** |

(in PLN '000)

# ACCOUNTING RULES (POLICIES) AND ADDITIONAL EXPLANATORY NOTES

## 1. General information

LC Corp Capital Group (the "Group") consists of LC Corp S.A. and its subsidiary companies (see Note 2). The Group's consolidated financial statements cover the year ended December 31st 2008 and contain comparable data for the year ended December 31st 2007 and as at December 31st 2007.

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

The Company was assigned statistical identification number REGON 020246398.

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

- PKD 7415Z Management activities of holding companies
- PKD 7020Z Letting of own property
- PKD 7011Z Development and selling of real estate
- PKD 7012Z Buying and selling of own real estate
- PKD 4521A General construction of buildings and civil engineering works

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

## 2. The organization of LC Corp Capital Group

As at December 31st 2008 and as at December 31st 2007 LC Corp Capital Group comprises the following subsidiaries of LC Corp S.A.:

| Company name | Registered office | December 31st 2008 Share in capital | December 31st 2007 Share in capital |
|---|---|---|---|
| Arkady Wrocławskie S.A | Wrocław | 100% | 100% |
| LC Corp Sky Tower sp. z o.o (formerly Wrocław Nieruchomości sp. z o.o.) (a) | Wrocław | 0% (*) | 99,998% |
| Katowice Ceglana sp. z o.o.(formerly Warszawa Nieruchomości sp. z o.o.) (b) | Wrocław | 99.997% | 99.997% |
| Vratislavia Residence sp. z o.o. | Wrocław | 100% | 100% |
| LC Corp Dębowa Ostoja sp. z o.o. (formerly Łódź Residence sp. z o.o.) (c) | Wrocław | 100% | 100% |
| LC Corp Pustynna sp. z o.o. | Wrocław | 100% | 100% |
| LC Corp Stabłowice sp. z o.o. | Wrocław | 100% | 100% |

(in PLN '000)

| | | | |
|---|---|---|---|
| LC Corp Bajkowy Park sp. z o.o. (formerly Gdańsk Residence sp. z o.o.) (d) | Wrocław | 100% | 100% |
| LC Corp Szmaragdowe Wzgórze sp. z o.o. (formerly Gdańsk Osiedle Łostowice; Warszawa Projekt V sp. z o.o.) (e) | Wrocław | 100% | 100% |
| Warszawa Przy Promenadzie sp. z o.o. (formerly Europlan Projekt Gocław sp. z o.o.) (f) | Wrocław (formerly Warszawa) | 100% | 100% |
| Warszawa Przy Promenadzie sp. z o.o. sp. k. (formerly Europlan Projekt Gocław sp. z o.o. sp. k.) (g) | Wrocław (formerly Warszawa) | 100% (indirectly and directly) | 100% (indirectly and directly) |
| Warszawa Przyokopowa sp. z o.o. (formerly Europlan Projekt II sp. z o.o.) (h) | Wrocław (formerly Warszawa) | 81.67 % (**) | 100% |
| Warszawa Rezydencja Kaliska sp. z o.o.(formerly Europlan Projekt III sp. z o.o.) (i) | Wrocław (formerly Warszawa) | 100% | 100% |
| Kraków Zielony Złocień sp. z o.o. (formerly Europlan Projekt IV sp. z o.o.) (j) | Wrocław (formerly Warszawa) | 100% | 100% |
| Łódź Pustynna Sp. z o.o. | Wrocław | 100% | 0 |

(*) On November 2nd 2008, the Issuer, under a share disposal agreement, sold 118,998 (one hundred eighteen thousand nine hundred ninety-eight) shares of LC Corp Sky Tower Sp. z o.o. with its seat in Wrocław (being a subsidiary of the Issuer until the disposal date), of PLN 1,000 per share, with a total par value of PLN 118,998,000.00 (one hundred eighteen million nine hundred ninety eight thousand), to LC Corp B.V. of Amsterdam, for a total price of PLN 118,998,000.00 (one hundred eighteen million nine hundred ninety eight thousand). Under the agreement and until February 15th 2010, the Issuer will be entitled to unilaterally repurchase all the shares at a price of PLN 118,998,000 (one hundred eighteen million nine hundred ninety eight thousand), increased by arm's length interest. In addition, LC Corp B.V. undertook to provide LC Corp Sky Tower Sp. z o.o. with the means up to PLN 170,000,000 (one hundred seventy million), which the Company needs to pay all its liabilities towards the Issuer and its subsidiary - Warszawa Przyokopowa Sp. z o.o.

Pursuant to IAS 27 and IAS 39, the conditions for the transfer of benefits, risks and control from LC Corp SA to LC Corp B.V. were not met. As a result, the Parent Undertaking continues to disclose the shares of LC Corp Sky Tower Sp. z o.o. in the separate (non-consolidated) financial statements, and net assets of that company in the consolidated financial statements of the LC Corp Group. The cash obtained from the share disposal is disclosed as financial liability valued at amortized cost.

(**) On July 8th 2008 LC Corp S.A., acting as the sole shareholder, adopted a resolution on increasing the share capital of Warszawa Przyokopowa Sp. z o.o., from PLN 2,450,000 to PLN 3,000,000, i.e. by the total amount of PLN 550,000 by issuing 5,500 new shares with a par value of PLN 100 per share. All new shares in the share capital of Warszawa Przyokopowa Sp. z o.o. were acquired by LC Corp B.V. of Amsterdam, which simultaneously joined the company as its new shareholder. LC Corp B.V. acquired 5,500 shares in the share capital of Warszawa Przyokopowa Sp. z o.o., with a par value of PLN 100 each, and the total par value of PLN 550,000 for the price of PLN 113,850,000 covered in full by cash contribution. The issued shares are not preferred as to dividend payment.

(a) LC Corp Sky Tower sp. z o.o. - seated in Wrocław (until September 19th 2007 operating as Wrocław Nieruchomości sp. z o.o. seated in Wrocław),

(b) Katowice Ceglana sp. z o.o. - seated in Wrocław (until January 10th 2008 operating as Warszawa Nieruchomości sp. z o.o. seated in Wrocław),

(c) LC Corp Dębowa Ostoja sp. z o.o. - seated in Wrocław (until July 1st 2008 operating as Łódź Residence sp. z o.o. seated in Wrocław),

(d) LC Corp Bajkowy Park sp. z o.o. - seated in Wrocław (until July 1st 2008 operating as Gdańsk Residence sp. z o.o. seated in Wrocław),

(e) LC Corp Szmaragdowe Wzgórze sp. z o.o. - seated in Wrocław (from May 8th 2008 to June 29th 2008 operating as Gdańsk Osiedle Łostowice sp. z o.o., and until May 7th 2008 operating as Warszawa Projekt V sp. z o.o. seated in Wrocław),

(f) Warszawa Przy Promenadzie sp. z o.o. - seated in Wrocław (until December 20th 2007 operating as Europlan Projekt Gocław sp. z o.o. seated in Warsaw),

(g) Warszawa Przy Promenadzie sp. z o.o. sp.k. - seated in Wrocław (until February 11th 2008 operating as Europlan Projekt Gocław sp. z o.o. sp. k. seated in Warsaw),

(h) Warszawa Przyokopowa sp. z o.o. - seated in Wrocław (until January 17th 2008 operating as Europlan Projekt II sp. z o.o. seated in Warsaw),

(i) Warszawa Rezydencja Kaliska sp. z o.o. - seated in Wrocław (until January 15th 2008 operating as Europlan Projekt III sp. z o.o. seated in Warsaw).

(j) Kraków Zielony Złocień sp. z o.o. - seated in Wrocław (until January 14th 2008 operating as Europlan Projekt IV sp. z o.o. seated in Warsaw),

As at December 31st 2008 and December 31st 2007 the Parent Undertaking's share in the total vote in subsidiary entities equals its share in the share capital of these entities, besides shares in LC Corp Sky Tower Sp. z o.o.

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

As at December 31st 2008, the Management Board of LC Corp comprised:

- President – Dariusz Niedośpiał
- First Vice-President - Dariusz Karwacki
- Vice-President - Waldemar Horbacki
- Member of the Board – Waldemar Czarnecki

The composition of the Company's Management Board changed during the reporting year.

On October 16th 2008, the Issuer's Supervisory Board adopted a resolution appointing Mr. Waldemar Czarnecki as Member of the Management Board as from October 16th 2008. Concurrently, Mr. Dariusz Karwacki was appointed First Vice-President of the Management Board.

On November 24th 2008, the Issuer's Supervisory Board adopted a resolution dismissing Mr. Konrad Dubelski from the Issuer's Management Board. Concurrently, the Issuer's Supervisory Board adopted a resolution appointing Mr. Dariusz Niedośpiał to the position of President of the Management Board.

## 4. Approval of the financial statements

These consolidated financial statements were approved for publication by the Management Board on March 13th 2009.

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

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

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

Deferred tax asset

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

Fair value of investment properties

Fair value of the investment properties was established with the income method, using the investment method by an independent professional property valuer.

Division of investment expenditure on the construction of the apartment, office and retail complex

In case of the construction of the apartment, office and retail complex, the Group divides the value of expenditures incurred on the construction, respectively, under "Inventories" – in the part concerning the sale of flats, and under "Tangible assets under construction" – in the part concerning shopping arcades and office buildings which will be the Group's future investment properties. The division is made on the basis of a ratio of planned investment expenditures concerning the residential or commercial part in the total planned investment expenditures.

Valuation allowances for inventories

Due to spreading financial crisis on the Polish and world markets, a slump in the property market, where the Issuer and its subsidiary undertakings operate, the Management Board reviewed all property development investments under completion to estimate if there is any evidence pointing to a loss of their value. For inventories of total balance-sheet value of PLN 294,888,000 (the amount does not include inventories in LC Corp Sky Tower described below), the Management Board estimated that there is such evidence pointing to a loss of value and using the best estimates in their belief, based on reasonable and justified assumptions and projections, the Management Board reviewed these projects in terms of future benefits generated by them. On this basis, the Management Board made valuation allowances for the above-mentioned inventories to the level of the recoverable value. The recoverable value corresponds to the higher of fair value less selling costs of the asset or its value in use, respectively.

The value in use was evaluated by means of the DCF method, which is based on discounted cash flows generated within approved investment schedules and revenues from sales of flats, allowing for the sale price of 1 square metre of usable floor space, in accordance with the current market situation. The discount rate allows for the weighted average cost of capital (WACC).

The valuation allowance for inventories in LC Corp Sky Tower Sp. z o.o. of PLN 12,800,000 was calculated as a difference between the net balance-sheet value of assets and the recoverable value defined as the sale price of shares in LC Corp Sky Tower, in accordance with the agreement dated November 3rd 2008, described in Note 2 because, in the Management Board's opinion, failure to use the option of shares' repurchasing resulting from the above-mentioned agreement is highly probable.

The recoverable value of inventories and the value of the valuation allowances for inventories are estimated as at December 31st 2008 and may be subject to change depending on the fluctuation of the sale price of flats, project completion schedules and discount rate calculations. The actual results may vary from these estimates which were calculated on the grounds of data available as at the reporting date.

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

These consolidated financial statements were prepared using the historical cost method, except with respect to investment properties, which are measured at fair value.

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

The consolidated financial statements were prepared on the assumption of a continuation of the business activity by the Group companies in the foreseeable future. As at the day of approval of these consolidated financial statements, there are no circumstances identified implying any threats for continuation of the Group companies' activity.

### 6.1. Declaration of compliance

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

As at the day of approval of these statements for publication, taking into account the process of introducing IFRS standards, currently in progress in the EU, and the Group's activity, there are no differences between IFRS standards which have come into force and IFRS standards adopted by the EU within the accounting principles used by the Group

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

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

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

## 7. Changes in accounting rules

Below are presented new or changed IFRS and new IFRIC interpretations, which the Group used in the current year. Their adoption had no bearing on the consolidated financial statements.

<u>IFRIC 11 — IFRS 2: Group and Treasury Share Transactions</u>

IFRIC 11 provides guidance on whether share-based transactions involving treasury shares should be accounted for as equity-settled or cash-settled share-based payment transactions. The interpretation also advises on the procedure in situations when an entity makes use of its treasury shares to account for share-based payment transactions.

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

There are no differences between IFRS standards adopted by the EU and regulations adopted by the International Accounting Standards Board ("IASB"), except the following interpretations which as at December 31st 2008 were not adopted into use yet.

1) IFRS 1 (amendment) *First-time Adoption of International Financial Reporting Standards* and IAS 27 (amendment) *Consolidated and Separate Financial Statements* – amended IFRS 1 and IAS 27 published on May 22nd 2008, applying to annual periods beginning on or after January 1st 2009.
2) IFRS 1 (amendment) *First-time Adoption of International Financial Reporting Standards* – published on November 27th 2008. The Standard is required when making an entity's first financial statements compliant with IFRS for annual periods beginning on July 1st 2009, with admissible earlier adoption.
3) IFRS 3 (amendment) *Business Combinations* – published on January 10th 2008, applying to periods beginning on or after July 1st 2009.
4) IAS 27 (amendment) *Consolidated and Separate Financial Statements* – amendment published on January 10th 2008, applying to periods beginning on or after July 1st 2009.
5) IAS 32 (amendment) *Financial Instruments: Presentation* – modified Standard published on February 14th 2008, applying to annual periods beginning on or after January 1st 2009.
6) IAS 39 (amendment) *Financial Instruments: Recognition and Measurement* – these amendments published on July 31st 2008 apply retrospectively to periods beginning on or after July 1st 2009.
7) IAS 39 (amendment) *Reclassification of Financial Assets: Effective Date and Transition* published on November 27th 2008. For reclassifications made before November 1st 2008: an entity can reclassify a financial asset with effect from July 1st 2008 (but not before) or any day thereafter, not later, however, than on October 31st 2008. Such assets must be identified and documented before November 1st 2008. Any reclassification made on or after November 1st 2008 (irrespective of the when the accounting period started) is effective from the date of reclassification i.e. reclassifications are made on a real-time basis.
8) IFRS (2008) *Amendments to International Financial Reporting Standards 2008* – published on May 22nd 2008. Most amendments apply to periods beginning on or after January 1st 2009.
9) IFRIC Interpretation 12 *Service Concession Arrangements* – published on November 30th 2006 IFRIC Interpretation 12 applies for the first time to annual periods beginning on or after January 1st 2008.
10) IFRIC Interpretation 15 *Agreements for the Construction of Real Estate* – IFRIC Interpretation 15, published on July 3rd 2008, applying to annual financial statements for periods beginning on or after January 1st 2009.
11) IFRIC Interpretation 16 *Hedges of a Net Investment in a Foreign Operation* - IFRIC Interpretation 16, published on July 3rd 2008, applying to annual financial statements for periods beginning on or October 1st 2008.
12) IFRIC Interpretation 16 *Hedges of a Net Investment in a Foreign Operation* - IFRIC Interpretation 16, published on July 3rd 2008, applying to annual financial statements for periods beginning on or October 1st 2008. The interpretation provides guidance on: (i) identifying the foreign currency risks that qualify as a hedged risk in the hedge of a net investment (ii) where, within a group, hedging instruments that are hedges of a net investment in a foreign operation can be held to qualify for hedge accounting; (iii) how an entity should determine the amounts to be reclassified from equity to profit or loss in foreign operations.

According to the Group's estimates, the above-mentioned standards, interpretations and amendments to standards would have little bearing on the consolidated financial statements if they were applied by the entity as at the balance-sheet date.

Moreover, when preparing these consolidated financial statements, the Group did not use the possibility of earlier application of the following standards, amendments to standards and interpretations which were published and approved for use in the EU, but do not apply yet:

1) IFRS 8 *Operating Segments* – published on November 30th 2006, applying to financial statements for periods beginning on or after January 1st 2009. Within this scope, the Group applied IAS 14 *Reporting Financial Information by Segment*.

## 9. Significant accounting principles

### 9.1. Consolidation rules

The consolidated financial statements are composed of financial statements of LC Corp S.A. and all subsidiary undertakings controlled by LC Corp S.A. prepared for the year ended December 31st 2008 and contain comparable data for the year ended December 31st 2007 and as at December 31st 2007.

The financial statements of the subsidiary undertakings are prepared for the same reporting period as the financial statements of the Parent Undertaking, for the period from their setup (if they were set up in 2008) until December 31st 2008, by adopting coherent accounting principles based on uniform accounting principles applied to transactions and economic events of similar character

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

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

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

On November 2nd 2008, the Issuer sold shares of LC Corp Sky Tower Sp. z o.o. to LC Corp B.V. (See Note 2), however pursuant to IAS 39 the conditions for the transfer of benefits, risks and control from LC Corp SA to LC Corp B.V. were not met. As a result, the Parent Undertaking continues to disclose the shares of LC Corp Sky Tower Sp. z o.o. in the separate (non-consolidated) financial statements, and net assets of that company in the consolidated financial statements of the LC Corp Group. The cash obtained from the share disposal is disclosed as financial liability valued at amortized cost.

### 9.2. Non-current assets

Non-current assets include:

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

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

As at December 31st 2008 and December 31st 2007 the Group did not own land or the right of perpetual usufruct to land classified as tangible assets.

Property, plant and equipment are disclosed according to the acquisition/production cost less depreciation and impairment charges. The initial value of non-current assets includes their acquisition price increased by all costs directly related to their acquisition and restoring to proper operating condition. The cost also includes the cost of replacing components of the machines or devices at the time it is incurred, if the criteria of recognition are fulfilled. Costs incurred after the date of handing over the non-current asset to use, such as costs of maintenance and repair, charge the profit and loss account at the time they are incurred.

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

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

| **Type** | **Period in years** |
|---|---|
| Machines and technical devices | 5 |
| Office equipment | 2 |
| Means of air transport | 25 |
| Other means of transport | 5 |
| Investments in third-party non-current assets | 10 (or time-limit of the contract if shorter) |
| Computers | 3 |

If there is any objective evidence that the balance-sheet value of property, plant and equipment may not be recoverable, the assets are reviewed for possible impairment. If any such evidence exists and the balance-sheet value exceeds the assessed recoverable value, the value of the assets or cash-generating centres which own the assets is decreased to the level of the recoverable value. The recoverable value corresponds to the higher of fair value less selling costs of the asset or its value in use, respectively. While assessing the value in use, the projected cash flows are discounted to their current value by applying a discount rate before allowing for taxation effects, which reflects the current market assessment of the value in cash and risk typical for a given asset. In the case of an asset which does not generate cash independently, the recoverable value is established for the cash-generating centre which owns the asset. Impairment allowances are disclosed in the profit and loss account.

A given item of property, plant and equipment can be removed from the balance sheet after its disposal or in the case when no economic advantages are expected resulting from the further use of such an item. All profits or losses resulting from removing a given item of non-current items from the balance sheet (calculated as a difference between potential net proceeds from sales and the balance-sheet value of a given item) are disclosed in the profit and loss account in the period during which such a removal was effected.

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

During each overhaul, its cost is disclosed in the balance-sheet value of property, plant and equipment, if the criteria of disclosure are met.

### 9.3. Non-current assets under construction

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

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

### 9.4. Investment property

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

- probability of obtaining economic profits by virtue of possessing the property,
- possibility of a credible establishment of the acquisition or production cost

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

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

Transfer of assets to investment property is made only when there is a change in the way of their use, confirmed by finishing the use of an asset by the owner, conclusion of a contract of operating lease, or completion of the construction/production of the investment property. However, if an asset is used by the owner - the Group, it becomes an investment property. The Group applies principles described in section 'Property, plant and equipment' up to the day of change in the way of using the property. In the case of transferring the assets from inventories to investment properties, the difference between the fair value of the property established at the day of transfer and its previous balance-sheet value is disclosed in the profit and loss account. When the Group completes the construction or production of an investment property, the difference between the fair value of the property established at the day of transfer and its previous balance-sheet value, is disclosed in the profit and loss account under Revaluation of non-current non-financial assets. In the case of a transfer of an investment property to assets used by the owner, or to inventories, the supposed cost of such an asset, which will be accepted to be disclosed in another category, equals the fair value of the property established as at the day of change in its use.

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

### 9.5. Investment property under construction

Up to the time of completing the construction or production of investment properties, they are disclosed as "non-current assets under construction". In addition, the value of investment properties under construction includes the costs of commission for agents by virtue of effecting contracts of office space rental. These costs are then allowed for in the amount of reassessment of the investment properties they relate to.

### 9.6. Goodwill

Goodwill arising on an acquisition of a business entity represents the excess of the cost of the acquisition over the fair value of the net identifiable assets acquired. Goodwill is stated at cost less impairment losses, if any. Goodwill is tested annually for impairment. Goodwill is not depreciated.

As at the day of assuming control, the acquired goodwill is allocated to every cash-generating unit which may benefit from synergies resulting from the merger. The Company calculates any impairment of value by estimating recoverable value of the cash-generating unit relevant to a given part of goodwill. If the recoverable value of a cash-generating unit is lower than its balance-sheet value, the Company recognizes impairment losses. If goodwill comprises a part of a cash-generating unit and the Company sells a part of the business of the cash-generating unit, the goodwill connected with the sold business is included in the balance-sheet value of the sold business for the purpose of calculating gains or losses on disposal of the part of business. Goodwill sold in such circumstances is valued using the relative value of the sold business and the value of the retained part of the cash-generating unit.

### 9.7. Intangible assets

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

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

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

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

The Group determines if the useful life of intangible assets is definite or indefinite. Intangible assets with a definite useful life are amortized over their economic useful life and tested for value impairment each time there are indications of the impairment of their value. The period and method of amortization of intangible assets with a definite useful life are verified at least at the end of each financial year. Changes in the expected useful life or expected method of consuming economic advantages coming from a given asset are disclosed by a change of the period or amortization method, respectively, and treated as changes of assessed values. Depreciation allowance of intangible assets with a definite useful life is charged in the profit and loss account in the category which corresponds to the function of a given intangible asset.

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

As at December 31st 2008 and as at December 31st 2007 there were no intangible assets of indefinite period of use. Summary of the rules applied in relation to intangible assets of the Group is presented below:

| | Patents and licences | Computer software and other |
|---|---|---|
| Period of use | Indefinite. For patents and licences used on the basis of agreement for a definite period, this period is assumed, taking into account an additional period for which the useful life may be extended. | 2 years |
| Applied method of amortization | Values of an indefinite period of useful life are not amortized or revaluated. | Straight-line method |
| Produced or | Acquired | Acquired |

| | | |
|---|---|---|
| acquired | | |
| Tested for impairment / verification of recoverable amount | An indefinite period of useful life – annually or if there are indications of value impairment.<br>For others – annual assessment if there are indications of value impairment. | Annual assessment if there are indications of impairment. |

Profits or losses resulting from the removal of intangible assets from the balance sheet are valued according to the difference between net proceeds from sale and the balance-sheet value of a given asset and are disclosed in the profit and loss account at the time of their derecognition.

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

At each balance-sheet date, the Group assesses whether there is any objective evidence that the assets are impaired. If any such evidence exists, the Group assesses the recoverable value of these assets. If the balance-sheet value of an asset exceeds its recoverable value, its value impairment is recognized and an impairment allowance is made to the established recoverable value. The recoverable value corresponds to the higher of fair value less selling costs of the asset or the value in use of an asset or a cash-generating unit.

## 9.9. Inventories

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

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

## 9.10. Trade and other receivables

Trade and other receivables are valued and recognized at amounts initially invoiced, accounting for valuation allowances for uncollectible receivables. Valuation allowances for receivables are estimated when the collection of the full amount of receivables is no longer possible. Uncollectible receivables are deducted for the profit and loss account when their uncollectibility is stated.

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

## 9.11. Cash and cash equivalents

Cash and short-term deposits shown in the balance sheet comprise cash on hand and in a bank account, and short-term deposits of initial maturity up to three months.
The cash flows balance of cash and cash equivalents consists of the above-defined monetary assets and their equivalents less bank overdrafts.

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

## 9.12. Financial assets

Financial assets are classified in the following categories:

– Financial assets held to maturity,
– Financial assets at fair value through profit and loss,
– Loans and receivables,

– Financial assets available for sale.

A held-to-maturity asset is one that has a fixed maturity and fixed or determinable payments and that the entity has the positive intent and ability to hold until maturity. Held-to-maturity assets are measured at amortized cost calculated using the effective interest method. Held-to-maturity financial assets are classified as fixed assets if the maturity exceeds 12 months period from the balance-sheet date.

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

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

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

(iii) financial assets include embedded derivatives which should be recognized separately. As at the current balance-sheet day no financial assets were classified to the category of value at fair value through profit and loss.

As at December 31st 2008 and as at December 31st 2007 no financial assets were classified to the category of value at fair value through profit and loss.

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

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

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

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

### 9.13. Embedded derivatives

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

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

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

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

As at December 31st 2008 and as at December 31st 2007 there were no embedded derivatives.

### 9.14. Hedging instruments

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

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

Hedge accounting distinguishes between hedging instruments as fair value hedges, protecting against the risk of changes of fair value of a recognized asset or liability, or cash flow hedges, protecting against the changes in cash flow attributable to a specific risk connected with a recognized asset, liability or forecast transaction.

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

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

If a hedge of a forecast transaction subsequently results in the recognition of a financial asset or a financial liability, the associated gains or losses that were recognized directly in equity are reclassified into profit or loss in the same period or periods during which the asset acquired or liability assumed affects profit or loss.

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

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

The Group ceases to apply the principles of hedge accounting when the hedging instrument expires or is sold, the instrument's use is approaching an end or the instrument is exercised, or when the hedge no longer meets the criteria for hedge accounting. In such a case the total gain or loss on the hedging instrument, initially disclosed in the revaluation capital reserve, continues to be recognized in the revaluation capital reserve until the forecast transaction takes place. If the company no longer expects a forecast transaction to take place, the total net gain or loss recognized in the revaluation capital reserve is posted to the profit and loss account for the current reporting period.

In the years 2007 and 2008, the Group did not apply hedge accounting.

### 9.15. Financial liabilities

Accounts payable are valued at the amounts initially invoiced.

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

### 9.16. Interest bearing loans, borrowings and bonds

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

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

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

Profits and losses are recorded in the profit and loss account at the moment of liability removal and when calculating the payment using effective interest rate method.

### 9.17. Provisions

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

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

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

Costs relating to a specified provision are incurred in the profit and loss account net of any reimbursements. In case the time value of money is a material factor, the provision is measured using the present value of future cash flows at the discount rate which reflects current market estimate of time value of money and the risk related to the specified liability. If the discount method is applied, the increase in the provision as time passes will be recognized as borrowing cost.

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

### 9.18. Retirement benefits

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

### 9.19. Share-based remuneration

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

*Transactions settled in equity instrument*

The cost of such equity transactions with management board members is valued at fair value at the date of granting of such rights.
The cost of transactions settled in equity instruments is recognized together with associated increase in equity in the period in which the effectiveness//results conditions were met and ending in the day in which specified employees will receive the rights (rights grant date). The cumulative cost resulting from the transactions settled in equity instrument for each balance sheet date till grant date reflects the time passage of receiving rights and the number of awards, to which rights – in the opinion of the Management as of that date, based on the possibly best estimates of the equity instrument number will be purchased.
No costs are recognized from awards to which the rights are not finally purchased, except for awards in case of which the purchase of rights depends on market conditions which are treated as purchased irrespective of meeting the market conditions, under the condition of meeting other conditions relating to effectiveness.
In case of modifications of granting the awards settled in equity instruments, in order to meet minimum requirements only costs are incurred as if in case the conditions were not modified. Moreover, the cost is recognized of each increase in transaction market value as a result of modifications, valued as of the date of modification.
In case of deletion of award settled in equity instrument it is treated in the way as if the rights were purchased in the date of deletion and all the costs due from the award not incurred yet are immediately recognized. However, in case of replacement of deleted award with new award – specified as deputy award in the day of grant, the award deleted and the new award are treated as if it is a modification of the primary award which is in the way described in the above paragraph.

The diluting effect of issued options is allowed for when establishing profit per share as an additional dilution of shares.

### 9.20. Own shares

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

### 9.21. Equity

Equity consists of:

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

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

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

As at the balance-sheet date:

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

During the financial year:

1) operations of sale and purchase of foreign currencies and operations of payment of receivables or payables are valued at the buy or sale rate of the bank whose services the undertaking used,

(in PLN '000)

2) other operations are valued at the mid-exchange rate quoted for the given currency by the National Bank of Poland binding on the day preceding the operation, unless a different rate was established in the customs declaration or another document binding on a given undertaking.

The resulting foreign exchange gains and losses are posted in the profit and loss account or, in cases determined by the accounting rules, capitalized under non-current assets. Non-cash items valued at their historic cost in foreign currency are translated at the historic exchange rate effective as at the date of the transaction. Non-cash assets and liabilities measured at fair value in a foreign currency are translated at the exchange rate effective as at the date of the fair value measurement.

| | December 31st 2008 | December 31st 2007 |
|---|---|---|
| EURO | 4,1724 | 3,5820 |
| USD | 2,9618 | 2,4350 |

## 9.23. Rules of valuation of contingent liabilities

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

## 9.24. Recognition of revenues

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

### 9.24.1 Sale of goods and products

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

#### Revenues on the sale of flats

Revenues on the sale of flats are disclosed only when basically all the risks and advantages connected with a given flat are transferred upon the customer and the revenue can be reasonably valued. Risks and advantages are not considered as basically transferred upon the buyer when, for example, the buyer's risks are limited to the loss of paid deposit and the seller cannot demand payment of the whole amount by the buyer. Costs associated with flats which have already been sold, and which will be incurred in periods following the disclosure of sale (including costs of repairing faults and costs of finishing the common spaces), are assessed and disclosed in the profit and loss account in the period when the sale of a given flat took place.

### 9.24.2 Sale of services

#### Rental revenues

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

Revenues on renting means of air transport are disclosed proportionally to the number of hours of using the means of transport by the lessee.

#### 9.24.3 Interest

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

#### 9.24.4 Dividends

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

### 9.25. Current tax

Liabilities and receivables by virtue of current tax for the current period and previous periods are valued in the amounts of predicted payment for the benefit of tax authorities (recoverable from tax authorities) using tax rates and tax regulations which were legally or actually effective as at the balance-sheet date.

### 9.26. Deferred tax

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

Deferred tax liabilities are recognized on all taxable timing differences:

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

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

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

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

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted at the balance-sheet date.

The income tax relating to the items directly recorded in net assets is recorded in net assets and not in the profit and loss account.

### 9.27. Value added tax

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

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

- receivables and liabilities which are disclosed allowing for the amount of the value added tax.

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

### 9.28. Borrowing costs

Subject to capitalization are borrowing costs allocated for financing the construction or production of tangible assets or investment properties and construction of flats presented as inventories – work in process. These costs comprise interest due up to the moment of handing an asset over to use, loss on foreign exchange differences up to the amount corresponding to the adjustment of the cost of interest to the interest level adequate to the local currency, and gains on foreign exchange differences up to the amount of earlier capitalized losses due to this fact. The actual interest rate attributed to a given asset is used to determine the amount of capitalized costs.

### 9.29. Prepayments

During a reporting period prepayments include, among others:

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

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

### 9.30. Accrued expenses

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

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

### 9.31. Net profit per share

Net profit per share for each period is calculated by dividing the net profit for the period by the weighted average number of shares during that period.

## 10. Information on segments of activity

The main pattern for division of the Group's reporting segments is based on industries.

(in PLN '000)

The Group operates mainly on the territory of Poland, hence financial reporting does not distinguish geographical segments.

In the tables below, data concerning revenues and profits as well as assets and liabilities of the individual business segments within the Group have been provided for the year ended December 31st 2008.

| | Continued operations | | | | | Total activity |
|---|---|---|---|---|---|---|
| **Year ended December 31st 2008 or as at December 31st 2008** | **Activity-rental services** | **Property development activity** | **Holding activity** | **Total** | **Eliminations** | |
| **Revenue** | | | | | | |
| Sales to external customers | 43,033 | 93,424 | 89,460 | 225,917 | 0 | 225,917 |
| Inter-segmental sales | 936 | 978 | 9,374 | 11,288 | (11,288) | 0 |
| Other revenue | 38,830 | 160 | 60 | 39,049 | 0 | 39,049 |
| **Total segmental sales revenue** | **82,799** | **94,562** | **98,894** | **276,254** | **(11,288)** | **264,966** |
| **Result** | | | | | | |
| **Segment profit/loss** | **66,558** | **(39,112)** | **87,321** | **114,767** | **(14,830)** | **99,937** |
| Unallocated costs | 0 | 0 | 0 | 0 | 0 | 0 |
| profit/loss on continued operations before tax and financial expenses | 66,558 | (39,112) | 87,321 | 114,767 | (14,830) | 99,937 |
| Net financial income | 0 | 0 | 0 | (23,392) | (22,692) | (46,084) |
| Pre-tax profit/loss | 0 | 0 | 0 | 91,375 | (37,522) | 53,853 |
| Income tax | 0 | 0 | 0 | (14,104) | 1,995 | (12,109) |
| **Net profit/loss for the period** | **0** | **0** | **0** | **77,271** | **(35,527)** | **41,744** |
| **Assets and liabilities** | | | | | | |
| Segment assets | 677,539 | 1,024,880 | 967,050 | 2,669,469 | (1,002,436) | 1,667,033 |
| Unallocated assets | 0 | 0 | 0 | 795 | 595 | 1,390 |
| **Total assets** | **677,539** | **1,024,880** | **967,050** | **2,670,264** | **(1,001,841)** | **1,668,423** |
| Segment liabilities | 352,669 | 701,563 | 195,562 | 1,249,794 | (587,259) | 662,535 |
| Unallocated liabilities | 0 | 0 | 0 | 33,576 | 7,625 | 41,201 |
| **Total liabilities** | **352,669** | **701,563** | **195,562** | **1 83,370** | **(579,634)** | **703,736** |

| | Continued operations | | | | | Total activity |
|---|---|---|---|---|---|---|
| | **Activity-rental services** | **Property development activity** | **Holding activity** | **Total** | **Eliminations** | |
| **Other segmental information** | | | | | | |
| Capital expenditure: | | | | | | |
| - on property, plant and equipment | 908 | 1,594 | 298 | 2,800 | 0 | 2,800 |

(in PLN '000)

| | | | | | | |
|---|---|---|---|---|---|---|
| - on intangible assets | 38 | 53 | 364 | 455 | 0 | 455 |
| - on investment properties | 58,740 | 0 | 0 | 58,740 | 0 | 58,740 |
| Depreciation of property, plant and equipment | 196 | 343 | 551 | 1,090 | 0 | 1,090 |
| Depreciation of intangible assets | 19 | 32 | 547 | 598 | 0 | 598 |
| Valuation allowance for property, plant and equipment | 0 | 0 | 0 | 0 | 0 | 0 |
| Valuation allowance for intangible assets | 0 | 0 | 0 | 0 | 0 | 0 |
| Valuation allowance for investment property | 0 | 0 | 0 | 0 | 0 | 0 |
| Valuation allowance for inventory | 0 | 58,100 | 0 | 58,100 | 9,817 | 67,917 |

In the financial year ended December 31st 2007 the Group sold a means of air transport and thus stopped providing the services of their rental. In the year ended December 31st 2007, most of the Group's income comes from the rental of office space and retail and service centre, hence the Group did not distinguish separate segments.

The data below concerning business segments for this period are comparable data for the year ended December 31st 2007 to financial statements concerning segments for the year ended December 31st 2008.

| | Continued operations | | | | | Total activity |
|---|---|---|---|---|---|---|
| **Year ended December 31st 2007 lub As at December 31st 2007** | **Activity-rental services** | **Property development activity** | **Holding activity** | **Total** | **Eliminations** | |
| **Revenue** | | | | | | |
| Sales to external customers | 29,195 | 132 | 5,063 | 34,390 | | 34,390 |
| Inter-segmental sales | 422 | 0 | 7,893 | 8,315 | (8,315) | 0 |
| Other revenue | 128,664 | 66 | 7,700 | 136,430 | | 136,430 |
| **Total segmental sales revenue** | **158,281** | **198** | **20,656** | **179,135** | **(8,315)** | **170,820** |
| **Result** | | | | | | |
| **Segment profit/loss** | **131,773** | **(2,556)** | **(7,723)** | **121,494** | **(93)** | **121,401** |
| Unallocated costs | 0 | 0 | 0 | 0 | 0 | 0 |
| profit/loss on continued operations before tax and financial expenses | 131,773 | (2,556) | (7,723) | 121,494 | (93) | 121,401 |
| Net financial income | 0 | 0 | 0 | 14,704 | (2,414) | 12,290 |
| Pre-tax profit/loss | 0 | 0 | 0 | 136,198 | (2,507) | 133,691 |
| Income tax | 0 | 0 | 0 | (27,493) | 304 | (27,189 |
| **Net profit/loss for the period** | **0** | **0** | **0** | **108,705** | **(2,203** | **106,502** |

**Assets and liabilities**

(in PLN '000)

| | | | | | | |
|---|---|---|---|---|---|---|
| Segment assets | 568,820 | 681,580 | 892,667 | 2,143,067 | (608,831) | 1,534,236 |
| Unallocated assets | 0 | 0 | 0 | 2,439 | 304 | 2,743 |
| **Total assets** | **568,820** | **681,580** | **892,667** | **2,145,506** | **(608,527)** | **1,536,979** |
| Segment liabilities | 259,188 | 469,776 | 135,752 | 864,716 | (262,576) | 602,140 |
| Unallocated liabilities | 0 | 0 | 0 | 27,940 | 9,329 | 37,269 |
| **Total liabilities** | **259,188** | **469,776** | **135,752** | **892,656** | **(253,247)** | **639,409** |

| | **Continued operations** | | | | | **Total activity** |
|---|---|---|---|---|---|---|
| | **Activity-rental services** | **Property development activity** | **Holding activity** | **Total** | **Eliminations** | |
| **Other segmental information** | | | | | | |
| Capital expenditure: | | | | | | |
| - on property, plant and equipment | 2,959 | 0 | 645 | 3,605 | 0 | 3,605 |
| - on intangible assets | 66 | 97 | 976 | 1,139 | 0 | 1,139 |
| - on investment properties | 175,787 | 0 | 0 | 175,787 | 0 | 175,787 |
| Depreciation of property, plant and equipment | 76 | 21 | 2,000 | 2,097 | 0 | 2,097 |
| Depreciation of intangible assets | 7 | 1 | 91 | 99 | 0 | 99 |
| Valuation allowance for property, plant and equipment | 0 | 0 | 0 | 0 | 0 | 0 |
| Valuation allowance for intangible assets | 0 | 0 | 0 | 0 | 0 | 0 |
| Valuation allowance for investment property | 0 | 0 | 0 | 0 | 0 | 0 |

## 11. Revenues and Expenses

### 11.1. Revenues

| | **Year ended December 31st 2008** | **Year ended December 31st 2007** |
|---|---|---|
| **Revenue on the sale of services** | | |
| Revenue on rental of office space and retail and service centre | 41,268 | 29,140 |
| Revenue on rental of means of air transport | 0 | 5,016 |
| Other | 2,056 | 234 |
| | **43,324** | **34,390** |
| **Revenue on sale of goods and products** | | |
| Revenue on sale of flats | 93,174 | 0 |

(in PLN '000)

| | | |
|---|---|---|
| Other | 0 | 0 |
| | **93,174** | **0** |

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

| | Year ended December 31st 2008 | Year ended December 31st 2007 |
|---|---|---|
| In the period of 1 year | 35,701 | 29,947 |
| In the period of 1 to 5 years | 110,262 | 122,952 |
| In the period of more than 5 years | 51,613 | 44,361 |
| | **197,576** | **197,260** |

## 11.2. Expenses by type

| | Year ended December 31st 2008 | Year ended December 31st 2007 |
|---|---|---|
| Depreciation | 1,689 | 2,350 |
| Consumption of materials and energy | 2,071 | 2,201 |
| Contracted services | 9,640 | 8,642 |
| Taxes and charges | 2,466 | 993 |
| Salaries and wages | 9,265 | 8,630 |
| Social security and other benefits | 1,174 | 4,463 |
| Other costs by type | 5,976 | 4,999 |
| Change in products and work in process | 63,283 | 0 |
| **Total** | **95,564** | **32,278** |

| | Year ended December 31st 2008 | Year ended December 31st 2007 |
|---|---|---|
| Cost of sales | 74,796 | 14,652 |
| Selling and distribution costs | 5,816 | 0 |
| General administrative expenses | 14,952 | 17,626 |
| **Total** | **95,564** | **32,278** |

## 11.3. Depreciation costs and valuation allowance disclosed in the profit and loss account

(in PLN '000)

| | Year ended December 31st 2008 | Year ended December 31st 2007 |
|---|---|---|
| **Items disclosed in the cost of sales :** | **10** | **1,575** |
| Depreciation of non-current assets | 7 | 1,485 |
| Depreciation of intangible assets | 3 | 90 |
| **Items disclosed in selling costs** | **536** | **0** |
| Depreciation of non-current assets | 490 | 0 |
| Depreciation of intangible assets | 46 | 0 |
| **Items disclosed in general administrative expenses:** | **1,143** | **775** |
| Depreciation of non-current assets | 593 | 767 |
| Depreciation of intangible assets | 550 | 8 |

## 11.4. Costs of employee benefits

| | Year ended December 31st 2008 | Year ended December 31st 2007 |
|---|---|---|
| Salaries and wages | 9,265 | 8,630 |
| Costs of social security | 1,025 | 1,071 |
| Costs of retirement benefits | 0 | 3 |
| Other post-employment benefits | 0 | 0 |
| Costs of share-based remuneration scheme | 0 | 3,108 |
| Other benefits | 149 | 281 |
| **Total costs of employee benefits, including :** | **10,439** | **13,093** |
| Items displayed in the cost of sales | 1,169 | 1,916 |
| Items displayed in the selling costs | 942 | 0 |
| Items displayed in the general administrative expenses | 8,328 | 11,177 |

## 11.5. Other operating income

| | Year ended December 31st 2008 | Year ended December 31st 2007 |
|---|---|---|
| Revenue on sale of net assets of subsidiary undertaking (*) | 89,419 | 0 |
| Release of provisions for legal claims | 2,143 | 0 |
| Revenue on cost recharges | 49 | 10,805 |
| Received damages | 8 | 803 |

(in PLN '000)

| | | |
|---|---|---|
| Other | 483 | 76 |
| **Total** | **92,102** | **11,684** |

(*) In 2008 the Group increased the share capital of of its subsidiary undertaking Warszawa Przyokopowa Sp. z o.o. by way of issuing new shares which were wholly held by the new shareholder, LC Corp B.V., which is concurrently a shareholder of LC Corp S.A. These shares were fully covered with a cash contribution of PLN 113,850,000. Following this increase, LC Corp B.V. holds 18.33 % share in this company's equity, and the share of LC Corp S.A. fell from 100% to 81.67%. In accordance with IAS 27.30, the difference between the gain on disposal of part of a subsidiary undertaking and its balance-sheet value at the disposal date (disposal which does not deprive of control over that undertaking) the Group disclosed in the profit and loss account under Revenue on sale of net assets of subsidiary undertaking in the amount of PLN 89,419,000.

## 11.6. Other operating expenses

| | Year ended December 31st 2008 | Year ended December 31st 2007 |
|---|---|---|
| Creation of valuation allowances for inventories | 67,917 | 0 |
| Costs to be recharged | 0 | 10,783 |
| Allowances for receivables | 61 | 343 |
| Provision for legal claims | 64 | 3,340 |
| Creation of provision for costs of terminating agreements | 804 | 0 |
| Provision for impairment of acquired liabilities | 0 | 1,289 |
| Reimbursement of costs of terminating agreements, compensations | 455 | 0 |
| Other | 165 | 1,344 |
| **Total** | **69,466** | **17,099** |

## 11.7. Financial income

| | Year ended December 31st 2008 | Year ended December 31st 2007 |
|---|---|---|
| Bank interest received | 4,458 | 8,878 |
| Positive foreign exchange differences surplus | 0 | 14,611 |
| Other | 423 | 30 |
| **Total** | **4,881** | **23,519** |

## 11.8. Financial expenses

| | Year ended December 31st 2008 | Year ended December 31st 2007 |
|---|---|---|
| Interest on bonds and loans | 15,179 | 7,456 |
| Negative foreign exchange differences surplus | 34,294 | 93 |

(in PLN '000)

| | | |
|---|---|---|
| Provision for expenses connected with earlier repayment of credit | 0 | 1,502 |
| Other | 1,492 | 2,178 |
| **Total** | **50,965** | **11,229** |

## 12. Income tax

### 12.1. Tax expense

The main elements of tax expense for year ended December 31st 2008 and December 31st 2007 are as follows:

| **Profit and loss account** | **Year ended December 31st 2008** | **Year ended December 31st 2007** |
|---|---|---|
| ***Current income tax*** | | |
| Current income tax expense | ( 6,824) | ( 6) |
| Adjustments of the current income tax from previous years | 0 | 0 |
| ***Deferred income tax*** | | |
| Timing differences and their reversal | ( 5,285) | ( 27,183) |
| Tax expense shown in the consolidated profit and loss account | **( 12,109)** | **( 27,189)** |
| **Consolidated statement of changes in equity** | | |
| Tax on unrealized profit from revaluation of investment properties | 0 | 0 |
| Tax benefit / (tax expense) reported in equity | 0 | 0 |

### 12.2. Reconciliation of effective tax rate

Reconciliation of income tax on the gross financial result before tax according to the statutory tax rate, with income tax counted according to effective tax rate of the Group for year ended December 31st 2008 and December 31st 2007 is as follows:

| | **Year ended December 31st 2008** | **Year ended December 31st 2007** |
|---|---|---|
| Gross profit /(loss) before tax on continued operations | 53,853 | 133,691 |
| Profit /(loss) before tax on discontinued operations | 0 | 0 |
| **Gross profit /(loss) before tax** | **53,853** | **133,691** |
| Tax according to the statutory tax rate binding in Poland: 19% (2007: 19%) | 10,232 | 26,511 |
| Non-tax-deductible costs | 13,618 | 1,710 |
| Undisclosed tax loss | 4,022 | 0 |

(in PLN '000)

| | | |
|---|---|---|
| Undisclosed inventory adjustments | 3,139 | 0 |
| Revenues excluded from tax | ( 667) | 0 |
| Cost of capital increase disclosed in share capital decreasing tax base in the current tax account | ( 11) | (2,249) |
| Differences between tax value and balance-sheet value not passing through the profit and loss account | ( 1,471) | 1,532 |
| Revenue on sale of net assets of subsidiary undertaking | ( 16,989) | 0 |
| Other | 236 | (314) |
| **Tax according to the effective tax rate 22% (2007:20%)** | **12,109** | **27,189** |
| | | |
| Income tax (expense) reported in the profit and loss account | ( 12,109) | ( 27,189) |
| Income tax attributed to discontinued operations | 0 | |
| | **( 12,109)** | **( 27,189)** |

## 12.3. Deferred income tax

Deferred income tax results from the following items:

| | **Balance sheet** | | **Profit and loss account for year** | |
|---|---|---|---|---|
| | **December 31st 2008** | **December 31st 2007** | **ended December 31st 2008** | **ended December 31st 2007** |
| ***Deferred tax liability*** | | | | |
| Non-tax income | ( 5,426) | ( 73) | ( 5,353) | 37 |
| Accrued expenses of effecting contracts | ( 28) | ( 17) | ( 11) | 166 |
| Currency translation differences disclosed in the profit and loss account | ( 231) | ( 3,193) | 2,962 | ( 2,701) |
| Revaluation of investment properties | ( 30,685) | ( 23,701) | ( 6,984) | ( 23,701) |
| Difference in tax and balance-sheet depreciation | ( 5,617) | ( 7,656) | 2,039 | ( 6,486) |
| Difference in tax and balance-sheet value of other assets | 160 | 0 | 160 | 0 |
| Provision for the settlement of the transaction of acquisition of assets | ( 9,329) | ( 9,329) | 0 | 0 |
| **Gross deferred tax liability** | **( 51,156)** | **( 43,969)** | | |
| ***Deferred tax assets*** | | | | |
| Valuation allowance for tangible assets | 0 | 0 | 0 | ( 817) |
| Provision for retirement severance payments | 4 | 8 | ( 4) | 3 |
| Unused holiday accrual | 57 | 66 | ( 9) | 33 |
| Payroll accrual | 123 | 25 | 98 | ( 32) |
| Provision for balance-sheet audit | 18 | 25 | ( 7) | ( 4) |

(in PLN '000)

| | | | | |
|---|---|---|---|---|
| Other provision | 104 | 954 | ( 850) | 954 |
| Interest accrued on issued bonds | 361 | 248 | 113 | ( 16) |
| Interest accrued on loans | 333 | 0 | 333 | ( 18) |
| Currency translation differences disclosed in the profit and loss account | 6,507 | 0 | 6,507 | 0 |
| Non-tax income | 178 | 0 | 144 | 0 |
| Other timing expenses | 226 | 34 | 226 | 26 |
| Difference in tax and balance-sheet value of other assets | 595 | 0 | 595 | 0 |
| Difference in tax and balance-sheet depreciation | 0 | 0 | 0 | 0 |
| Losses that can be deducted from future taxable income | 2,839 | 8,083 | ( 5,244) | 5,373 |
| **Gross deferred tax assets** | **11,345** | **9,443** | | |
| **Deferred tax expense** | | | **( 5,285)** | **( 27,183)** |
| **Net deferred tax asset** | **1,390** | **2,743** | | |
| **Net deferred tax provision** | **( 41,201)** | **( 37,269)** | | |

Due to the specificity of the conducted activity within the scope of achieving deferred tax income, the Group activates incurred tax losses up to the moment of achieving tax income, allowing for tax regulations concerning the possibility of settling such losses. The amount of an asset resulting from tax losses disclosed in deferred tax is presented in the table above.

Due to safe evaluation as at December 31st 2008, the Group did not create a deferred tax asset, among others, resulting from tax losses in companies where it made valuation allowance for inventories in the amount of PLN 4,430,000. In addition, the Group did not create a deferred tax asset concerning consolidation adjustments on inventories concerning these companies in the amount of PLN 3,139,000. In the year ended December 31st 2007, the Group did not include in the deferred tax the tax loss asset in the amount of about PLN 228,000.

## 13. Profit per share

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

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

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

(in PLN '000)

| | Year ended December 31st 2008 | Year ended December 31st 2007 |
|---|---|---|
| Average weighted number of issued ordinary shares used to calculate the basic profit per share | 447,391,644 | 391,913,729 |
| The impact of dilution: | | |
| Options for shares | 0 | 1,000,000 |
| Adjusted average weighted number of issued ordinary shares used to calculate the basic profit per share | **447,391,644** | **392,913,729** |

| | Year ended December 31st 2008 | Year ended December 31st 2007 |
|---|---|---|
| Net profit/loss on continued operations | 41,744 | 106,502 |
| Profit/loss on discontinued operations | 0 | 0 |
| Net profit/loss | 41,744 | 106,502 |
| Net profit attributable to ordinary shareholders, used to calculate profit per share | 41,744 | 106,502 |
| Net profit/loss per share in PLN | 0,09 | 0,27 |
| Net diluted profit/loss per share in PLN | 0,09 | 0,27 |

## 14. Property, plant and equipment

| Year ended December 31st 2008 | Land and buildings | Means of transport | Plant and equipment | Tangible assets under construction | Total |
|---|---|---|---|---|---|
| **Net value as at January 1st 2008** | **29** | **802** | **753** | **66,538** | **68,122** |
| Increase – acquisition | 0 | 0 | 0 | 61,496 | 61,496 |
| Increase – other | 0 | 0 | 0 | 0 | 0 |
| Sale | 0 | 0 | ( 36) | 0 | ( 36) |
| Liquidation | ( 6) | 0 | ( 9) | ( 144) | ( 159) |
| Transfer from tangible assets under construction | 1,844 | 136 | 3,690 | ( 5,670) | 0 |
| Transfer to investment property | 0 | 0 | ( 69) | 0 | ( 69) |
| Decrease - Other | 0 | 0 | 0 | ( 613) | ( 613) |
| Depreciation allowance for the period | ( 414) | ( 224) | ( 453) | 0 | ( 1,091) |
| Valuation allowance | 0 | 0 | 0 | 0 | 0 |
| **Net value as at December 31st 2008** | **1,453** | **714** | **3,876** | **121,607** | **127,650** |
| | | | | | |
| **As at January 1st 2008** | | | | | |
| Gross value | 30 | 1,031 | 1,085 | 66,538 | 68,684 |

(in PLN '000)

| | | | | | |
|---|---|---|---|---|---|
| Depreciation and impairment allowance | ( 1) | ( 229) | ( 332) | 0 | ( 562) |
| **Net value** | **29** | **802** | **753** | **66,538** | **68,122** |
| **As at December 31st 2008** | | | | | |
| Gross value | 1,866 | 1,166 | 4,614 | 121,607 | 129,253 |
| Depreciation and impairment allowance | ( 413) | ( 452) | ( 738) | 0 | ( 1,603) |
| **Net value** | **1,453** | **714** | **3,876** | **121,607** | **127,650** |

| **Year 2007** | **Land and buildings** | **Means of transport** | **Plant and equipment** | **Tangible assets under construction** | **Total** |
|---|---|---|---|---|---|
| **Net value as at January 1st 2007** | **0** | **24,774** | **387** | **251,928** | **277,089** |
| Increase – acquisition | 0 | 0 | 135 | 114,267 | 114,402 |
| Increase – reclassification from inventories | 0 | 0 | 0 | 62,875 | 62,875 |
| Increase – other | 0 | 0 | 0 | 3,394 | 3,394 |
| Acquisition of a subsidiary | 0 | 0 | 69 | 0 | 69 |
| Sale | 0 | ( 22,276) | ( 67) | 0 | ( 22,343) |
| Liquidation | 0 | 0 | ( 87) | (10) | ( 97) |
| Transfer from tangible assets under construction | 30 | 138 | 577 | ( 1,285) | ( 540) |
| Transfer to investment property | 0 | 0 | 0 | ( 364,631) | ( 364,631) |
| Depreciation allowance for the financial year | ( 1) | ( 1,834) | ( 261) | 0 | ( 2,096) |
| Valuation allowance | 0 | 0 | 0 | 0 | 0 |
| **Net value as at December 31st 2007** | **29** | **802** | **753** | **66,538** | **68,122** |
| **As at January 1st 2007** | | | | | |
| Gross value | 0 | 24,858 | 436 | 251,928 | 277,222 |
| Depreciation and impairment allowance | 0 | ( 84) | ( 49) | 0 | ( 133) |
| **Net value** | **0** | **24,774** | **387** | **251,928** | **277,089** |
| **As at December 31st 2007** | | | | | |
| Gross value | 30 | 1,031 | 1,085 | 66,538 | 68,684 |
| Depreciation and impairment allowance | ( 1) | ( 229) | ( 332) | 0 | ( 562) |
| **Net value** | **29** | **802** | **753** | **66,538** | **68,122** |

*) In the year ended December 31st 2007, the Group depreciated a means of transport in the amount of about PLN 155,000, which as at December 31st 2006 was disclosed as a Non-current asset classified for sale.

(in PLN '000)

## 15. Intangible assets

| As at December 31st 2008 | Computer software and other |
|---|---|
| **Net value as at January 1st 2008** | **447** |
| Increase - acquisition | 562 |
| Increase - other | 615 |
| Decrease (sale, liquidation, transfer) | (9) |
| Depreciation allowance for the period | ( 599) |
| Impairment allowance | |
| **As at December 31st 2008** | 1,016 |

| | |
|---|---|
| **As at January 1st 2008** | |
| Gross value | 640 |
| Depreciation and impairment allowance | ( 193) |
| **Net value** | **447** |

| | |
|---|---|
| **As at December 31st 2008** | |
| Gross value | 1,812 |
| Depreciation and impairment allowance | ( 796) |
| **Net value** | **1016** |

| Year 2007 | Computer software and other |
|---|---|
| **Net value January 1st 2007** | **6** |
| Increase | 0 |
| Transfer from assets under construction | 540 |
| Decrease (sale, liquidation, transfer) | 0 |
| Impairment allowance | 0 |
| Depreciation allowance for the period – into expenses | (99) |
| **As at December 31st 2007** | **447** |

| | |
|---|---|
| **As at January 1st 2007** | |
| Gross value | 104 |
| Depreciation and impairment allowance | (98) |
| **Net value** | **6** |

**As at December 31st 2007**

(in PLN '000)

| | |
|---|---|
| Gross value | 640 |
| Depreciation and impairment allowance | (193) |
| **Net value** | **447** |

## 16. Acquisitions of shares

On March 7th 2008 LC Corp S.A. made a declaration of joining the company Łódź Pustynna Sp. z o.o. and acquiring in its increased capital 7,950 new shares at PLN 1,000 each with aggregate par value PLN 7,950,000 in exchange for cash contributions.

On March 31st 2008 LC Corp S.A. bought from Leszek Czarnecki the other shares for the price of their par value. As at the balance-sheet date LC Corp S.A. held 100% shares of this company.
The fair value of the acquired assets equalled the acquisition price; thus the transaction did not result in creation of the company value in accordance with IFRS 3.

## 17. Investment properties

As at December 31st 2008 the Group owned among its assets a retail and service centre Arkady Wrocławskie, which was valued at fair value at the end of each financial year. As at the balance-sheet day, December 31st 2008, the fair value amounted to PLN 525,806,000 (EUR 126,000,000).

The valuation was made by a professional valuer. The market value was assessed by the income method, using the investment method. The income method and the investment method are based on the assumption that the value of a property depends on the rental income that can be obtained from the property. Income from the property can result from rental contracts or, in the case of vacant spaces, from the analysis of market rental rates. After evaluating the rent, the value is calculated as a ratio of the income from the property to the rate of return on the investment. The rate of return, known as capitalization rate, is established on the basis of an analysis of similar transactions on the market and depends on the risk associated with a given investment.

| | **2008** | **2007** |
|---|---|---|
| **As at January 1st** | **489,373** | **0** |
| Transfer of investment property from tangible assets under construction | 0 | 364,632 |
| Revaluation to fair value | 36,364 | 124,741 |
| Increase - acquisition | 69 | 0 |
| **As at December 31st** | **525,806** | **489,373** |

## 18. Employee benefits

### 18.1. Staff incentive schemes

The Group has a Staff Incentive Scheme under which the members of the Group's management are granted options for shares.

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

(in PLN '000)

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

The Parent Company undertook to issue altogether not more than 3 million Bonds with Pre-Emptive Rights. The bonds were issued and acquired by the Custodian. The Custodian is obliged to sell the bonds to the Eligible Persons.

Each bond authorizes to 1 subscription for Series I Shares.

As at December 31st 2007, under the incentive scheme, options were granted for:

- 1,000,0000 series I ordinary shares of par value PLN 1.00 per share.

The fair value of options for shares granted in the period ended December 31st 2007 amounts to PLN 3,108,000 and is disclosed as a cost in the profit and loss account for that period.

Valuation of the fair value was made by an actuary. The assumptions and methodology adopted for valuation are commonly used for valuation of derivatives and comply with IFRS 2. It is a development of the so-called Black-Scholes-Merton model. Guided by guidelines included in IFRS 2 section B5, the following assumptions were made for the valuation.

| | December 31st 2007 |
|---|---|
| Dividend rate (%) | 0 |
| Price variability index (%) | 48.01% |
| Interest rate free from risk (%) | 5.53% |
| Share price as at October 24th 2007 in PLN | 4,10 |

Between January 30th 2008 and February 6th 2008 a subscription for series I shares was held. It was the first tranche of the issue of series I shares offered by the Parent Company under the Management Share Options Scheme.

The number of securities subscribed for in this tranche of series I shares issue totalled 1,000,000. The number of eligible persons who took over the 1,000,000 series I shares was 21. The price of the securities was PLN 1.00 each (The issue price of the bonds corresponds to their par value).

By October 12th of each year of the execution of the Scheme the Supervisory Board determines the number of Bonds that each Eligible Person can acquire from the Custodian in a given year of the Scheme's execution.

In the year ended December 31st 2008 and until the balance-sheet date other options for shares were not granted.

## 19. Inventories

| | December 31st 2008 | December 31st 2007 |
|---|---|---|
| Materials | 0 | 9,018 |
| Work in process | 947,045 | 665,647 |
| Finished products | 27 | 0 |
| Valuation allowances for inventories | ( 67,917) | 0 |
| **Total inventories** | **879,155** | **674,665** |

(in PLN '000)

As at December 31st 2008 the costs of external financing of PLN 27,115,000 were capitalized in the inventories (as at December 31st 2007 they amounted to PLN 5,877,000).

Due to spreading financial crisis on the Polish and world markets, a slump in the property market, where the Issuer and its subsidiary undertakings operate, the Management Board reviewed all property development investments under completion in terms of estimating if there is any evidence pointing to a loss of their value. For inventories of total balance-sheet value of PLN 294,888,000 (the amount does not include inventories in LC Corp Sky Tower described below), the Management Board estimated that there is such evidence pointing to a loss of value and using the best estimates in the Board's belief, based on reasonable and justified assumptions and projections, reviewed these projects in terms of future benefits generated by them. On this basis, the Management Board made valuation allowances for the above-mentioned inventories to the level of the recoverable value. The recoverable value corresponds to the higher of fair value less selling costs of the asset or its value in use, respectively.

The value in use was evaluated by means of the DCF method, which is based on discounted cash flows generated within approved investment schedules and revenues from sales of flats, allowing for the sale price of 1 square metre of usable floor space, in accordance with the current market situation. The discount rate allows for the weighted average cost of capital (WACC).

The valuation allowance for inventories in LC Corp Sky Tower Sp. z o.o. of PLN 12,800,000 was calculated as a difference between the net balance-sheet value of assets and the recoverable value defined as the sale price of shares in LC Corp Sky Tower in accordance with the agreement dated November 3rd 2008 described in Note 2 because, in the Management Board's opinion, failure to use the option of shares' repurchasing resulting from the above-mentioned agreement is highly probable.

The recoverable value of inventories and the value of the valuation allowances for inventories are estimated as at December 31st 2008 and may be subject to change depending on the fluctuation of the sale price of flats, project completion schedules and discount rate calculations. The actual results may vary from these estimates which were calculated on the grounds of data available as at the reporting date.

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

| | **Year ended December 31st 2008** | **Year ended December 31st 2007** |
|---|---|---|
| **At the beginning of the period** | **0** | **0** |
| Increase | 67,917 | 0 |
| Use | 0 | 0 |
| Deduction of unused amounts | 0 | 0 |
| **At the end of the period** | **67,917** | **0** |

## 20. Trade and other receivables

| | **December 31st 2008** | **December 31st 2007** |
|---|---|---|
| Trade receivables | 6,071 | 6,580 |
| Budget receivables (without income tax) | 52,554 | 60,885 |

(in PLN '000)

| | | |
|---|---|---|
| Other receivables from third parties | 210 | 10,460 |
| **Total receivables (net)** | **58,835** | **77,925** |
| Valuation allowance for receivables | ( 272) | ( 349) |
| **Gross receivables** | **59,107** | **78,274** |

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

| | **Year ended December 31st 2008** | **Year ended December 31st 2007** |
|---|---|---|
| **At the beginning of the period** | **349** | **60** |
| Increase | 61 | 343 |
| Use | ( 96) | ( 54) |
| Deduction of unused amounts | ( 42) | 0 |
| Adjustment of the discount rate | 0 | 0 |
| **At the end of the period** | **272** | **349** |

Below is presented an analysis of trade receivables, which as at December 31st 2008 and December 31st 2007 were past due, but were not regarded as uncollectible.

| | | | **Past due, but collectible** | | | |
|---|---|---|---|---|---|---|
| | **Total** | **Term** | **< 30 days** | **30 – 90 days** | **90 – 180 days** | **>180 days** |
| December 31st 2008 | 6,071 | 2,431 | 1,837 | 1,555 | 215 | 33 |
| December 31st 2007 | 6,580 | 1,914 | 1,791 | 778 | 1,480 | 617 |

## 21. Accrued expenses

| | **December 31st 2008** | **December 31st 2007** |
|---|---|---|
| Rent paid in advance | 357 | 393 |
| Insurance | 849 | 1,418 |
| Other | 148 | 0 |
| **Non-current** | **1,354** | **1,811** |
| | | |
| Rent paid in advance | 37 | 36 |
| Insurance | | |

| | December 31st 2008 | December 31st 2007 |
|---|---|---|
| | 675 | 814 |
| Other (insurance, subscriptions) | 59 | 171 |
| **Current** | **771** | **1,021** |

## 22. Cash and cash equivalents

| | December 31st 2008 | December 31st 2007 |
|---|---|---|
| Cash on hand and in a bank account | 65,318 | 10,870 |
| Short-term deposits | 6,322 | 209,838 |
| | **71,640** | **220,708** |

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

## 23. Explanations to the cash-flow statement

### 23.1. Change in current liabilities (net of loans and borrowings)

| | December 31st 2008 | December 31st 2007 |
|---|---|---|
| Balance-sheet change in current liabilities (net of loans and borrowings) | 4,551 | 13,213 |
| Investment liabilities | 565 | 0 |
| **Change in current liabilities (net of loans and borrowings)** | **5,116** | **13,213** |

### 23.2. Other adjustments

| | December 31st 2008) | December 31st 2007 |
|---|---|---|
| Adjustment of the results of acquired subsidiaries | 0 | ( 1,356) |
| Opening balance adjustments connected with the acquisition of subsidiary companies | 0 | 95,675 |
| Construction costs settlement liability | 0 | ( 3,394) |
| Reclassification of expenditures from inventories to tangible assets under construction | 0 | ( 62,875) |
| Revaluation of an investment property | (36,364) | ( 124,741) |
| Management options pricing | 0 | 3,108 |
| | | 73 |

| | | |
|---|---|---|
| Other | 188 | |
| **Other adjustments** | **(36,176)** | **( 93,510)** |

## 24. Capital

### 24.1. Share capital

| **Share capital** | **December 31st 2008 in PLN '000** | **December 31st 2007 in PLN '000** |
|---|---|---|
| Series A ordinary shares of par value PLN 1.00 per share | 500 | 500 |
| Series B ordinary shares of par value PLN 1.00 per share | 113,700 | 113,700 |
| Series C ordinary shares of par value PLN 1.00 per share | 1,453 | 1,453 |
| Series D ordinary shares of par value PLN 1.00 per share | 1,472 | 1,472 |
| Series E ordinary shares of par value PLN 1.00 per share | 32,000 | 32,000 |
| Series F ordinary shares of par value PLN 1.00 per share | 102,000 | 102,000 |
| Series G ordinary shares of par value PLN 1.00 per share | 80,000 | 80,000 |
| Series H ordinary shares of par value PLN 1.00 per share | 58,433 | 58,433 |
| Series I ordinary shares of par value PLN 1.00 per share | 1,000 | 0 |
| Series J ordinary shares of par value PLN 1.00 per share | 57,000 | 57,000 |
| | **447,558** | **446,558** |

| **Ordinary shares of LC Corp S.A. issued, registered and fully paid** | **Number** | **Value in PLN '000** |
|---|---|---|
| **As at January 1st 2007** | **446,558,311** | **446,558** |
| Issued in exchange for cash by virtue of realizing options for shares | 1,000,000 | 1,000 |
| **As at December 31st 2008** | **447,558,311** | **447,558** |

The Group has implemented programmes for granting options for shares under which certain members of the management and senior employees were granted options for taking over the Company's shares (Note 18.1).

#### Par value of the shares

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

#### Rights of shareholders

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

#### Shareholders of significant interest

Shareholders possessing, directly or indirectly through subsidiary undertakings, at least 5% of the total vote at the Issuer's general meeting as at December 31st 2008:

(in PLN '000)

| Shareholder | Number of shares | Number of votes | Share % in share capital | Share % in vote at general meeting |
|---|---|---|---|---|
| Leszek Czarnecki directly and indirectly*<br>including:<br>LC Corp B.V. seated in Amsterdam | 229,126,674<br><br><br>214,701,110 | 229,126,674<br><br><br>214,701,110 | 51.19%<br><br><br>47.97% | 51.19%<br><br><br>47.97% |
| ING Nationale-Nederlanden Polska Otwarty Fundusz Emerytalny | 27,774,961 | 27,774,961 | 6.21% | 6.21% |
| Commercial Union Otwarty Fundusz Emerytalny BPH CU WBK | 27,000,000 | 27,000,000 | 6.03% | 6.03% |

* Leszek Czarnecki directly holds 14,424,564 shares constituting 3.22% of the share capital and 3.22% share in the vote at the General Meeting, and indirectly through his subsidiary undertakings Leszek Czarnecki holds 214,702,110 shares constituting 47.97% of the share capital and 47.97% share in the vote at the General Meeting. Leszek Czarnecki's subsidiary undertaking is LC Corp. B.V seated in Amsterdam holding 214,601,110 shares constituting 47.97% of the share capital and 47.97% share in the vote at the General Meeting and RB Investcom Sp. z o.o. seated in Wrocław holding 1,000 shares constituting 0.0002% of the share capital and 0.0002% share in the vote at the General Meeting.

As at December 31st 2007 the shareholders possessing, directly or indirectly through subsidiary undertakings, at least 5% of the total vote at the Issuer's general meeting were:

| Shareholder | Number of shares | Number of votes | Share % in share capital | Share % in vote at general meeting |
|---|---|---|---|---|
| Leszek Czarnecki directly and indirectly*<br>including:<br>LC Corp B.V. seated in Amsterdam | 226,354,564<br><br>211,929,000 | 226,354,564<br><br>211,929,000 | 50.68%<br><br>47.45% | 50.68%<br><br>47.45% |
| ING Nationale-Nederlanden Polska Otwarty Fundusz Emerytalny | 27,000,000 | 27,000,000 | 6.05% | 6.05% |
| Commercial Union Otwarty Fundusz Emerytalny BPH CU WBK | 25,000,000 | 25,000,000 | 5.60% | 5.60% |

* Leszek Czarnecki directly holds 14,424,564 shares constituting 3.23% of the share capital and 3.23% share in the vote at the General Meeting, and indirectly through his subsidiary undertakings Leszek Czarnecki holds 211,930,000 shares constituting 47.45% of the share capital and 47.45% share in the vote at the General Meeting. Leszek Czarnecki's subsidiary undertaking is LC Corp. B.V seated in Amsterdam holding 211,929,000 shares constituting 47.45% of the share capital and 47.45% share in the vote at the General Meeting and RB Investcom Sp. z o.o. seated in Wrocław holding 1,000 shares constituting 0.0002% of the share capital and 0.0002% share in the vote at the General Meeting.

### 24.2. Reserve funds

As at December 31st 2008 reserve funds amount to PLN 418,648,000. They were created from the surplus of the issue value over the par value in the Parent Undertaking in the amount of PLN 321,452,000 less issue costs disclosed as decrease in the reserve funds in the amount of PLN 13,157,000 and to cover the loss of the Parent Undertaking from 2006 in the amount of PLN 1,319,000. The remaining part of minus PLN 14,376,000 resulting from the acquisition of subsidiaries in 2006 (disclosed with the pooling of interests method) from the difference in adding assets and liabilities of these companies and eliminating the value of their shares in the account books of the parent undertaking, and the amount of PLN 10,059,000 constitute the reserve funds of the subsidiaries.

(in PLN '000)

In the year ended December 31st 2008 reserve funds increased by the amount of profit from previous years allocated to reserve funds i.e. by PLN 116,046,000 and were decreased by the costs of series I shares issue of PLN 58,000.

### 24.3. Other reserve funds

Other reserve funds of PLN 39,771,000 were created as a result of settling the acquisition of a land property in Wrocław (Poltegor).

### 24.4. Other capital

Other capital of PLN 3,108,000 was created as a result of the valuation of fair value of management options in 2007.

## 25. Interest-bearing bank loans and borrowings

| | Maturity | December 31st 2008 | December 31st 2007 |
|---|---|---|---|
| **Non-current** | | | |
| Bank loan in PLN (non-current portion) | - | 0 | 12,700 |
| Bank loan in PLN (non-current portion) | - | 0 | 94,000 |
| Payment resulting from sale of subsidiary undertaking (*) in PLN | 15-02-2010 | 70,802 | 0 |
| Bank loan in EUR (non-current portion) | 31-12-2017 | 233,664 | 198,184 |
| Investment note in PLN | 31-10-2010 | 45,487 | 0 |
| | | **349,953** | **304,884** |

(*) see Note 2

| | Maturity | December 31st 2008 | December 31st 2007 |
|---|---|---|---|
| **Current** | | | |
| Bank loan in PLN (current portion) | 28-02-2009 | 12,700 | 10,500 |
| Bank loan in PLN (current portion) | - | 0 | 18,886 |
| Bank loan in PLN (current portion) | 30-09-2009 | 94,584 | 499 |
| Bank loan in PLN (current portion) | 30-11-2009 | 25,648 | |
| Bank loan in EUR (current portion) | 31-12-2009 | 11,570 | 12,007 |
| Bond Scheme | 18-03-2008 | 0 | 129,245 |
| Bond Scheme | 12-02-2009 | 57,748 | 0 |
| Investment note in PLN | 17-02-2009 | 25,267 | 0 |
| | | **227,517** | **171,137** |

(in PLN '000)

In the year ended December 31st 2008, the average weighted interest of bank loans, borrowings, bonds and investment notes amounted to 6.8%. The average weighted interest of borrowings and bonds in 2007 amounted to 6.6 %.

## 26. Provisions

The Group will pay severance payments defined in the labour code to those of its employees who retire. Therefore, based on a valuation made by a professional actuarial company, the Group creates a provision for the current value of the retirement benefit liability, and also disability retirement severance liability or death benefit liability. As at December 31st 2008, the Group analyzed changes in the structure and level of employment and estimated that the impact of these changes on the amount of provisions for retirement and disability severance payments and death benefits would be non-significant; hence, the Group withdrew from actuarial valuation of these provisions. The previous actuarial valuation of these provisions was made as at December 31st 2007.

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

| | 2008 | 2007 |
|---|---|---|
| **As at January 1st** | **4,887** | **26** |
| Provision creation | 868 | 4,864 |
| Use | ( 2,805) | 0 |
| Release of provisions | ( 2,123) | (3) |
| **As at December 31st** | **827** | **4,887** |

| | 2008 | 2007 |
|---|---|---|
| **Provisions by type** | | |
| For retirement and disability severance payments, and death benefits | 23 | 27 |
| For legal claims | 804 | 3,340 |
| For expenses connected with earlier repayment of credit | 0 | 1,520 |
| **As at December 31st** | **827** | **4,887** |
| Non-current | 23 | 26 |
| Current | 804 | 4,861 |

The main assumptions adopted by the actuary as at December 31st 2007 to calculate the amount due retirement and disability severance payments, and death benefits are as follows:

(in PLN '000)

| | 2007 |
|---|---|
| Technical discount rate (%) | 5% |
| Probability of disability retirement (expressed in per mille) | 2.5 |
| Mobility | 1 |
| Expected growth rate of remuneration (%) | 10% in 2008, 5% in successive years |

## 27. Liabilities

### 27.1. Trade and other payables

| | December 31st 2008 | December 31st 2007 |
|---|---|---|
| Trade payables | 32,464 | 22,220 |
| Budget liabilities (without income tax) | 1,405 | 422 |
| Liabilities under security deposits | 6,792 | 12,516 |
| Other liabilities | 1,534 | 2,486 |
| | **42,195** | **37,644** |
| Non-current | 2,977 | 7,923 |
| Current | 39,218 | 29,721 |

An analysis of maturity of trade and other payables as at December 31st 2008 and December 31st 2007 is shown below:

| | December 31st 2008 | December 31st 2007 |
|---|---|---|
| up to 1 year | 39,218 | 29,721 |
| between 1 and 5 years | 2,977 | 5,970 |
| over 5 years | 0 | 1,953 |
| | **42,195** | **37,644** |

### 27.2. Liabilities due to lease contracts

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

| | December 31st 2008 | December 31st 2007 |
|---|---|---|
| In the period of 1 year | 968 | 968 |
| In the period of 1 to 5 years | 4,839 | 4,839 |

(in PLN '000)

| | | |
|---|---|---|
| In the period of more than 5 years | 19,276 | 20,244 |
| | **25,083** | **26,051** |

### 27.3. Contingent liabilities

1. On February 1st 2008, insurance guarantee commissioned by Arkady Wrocławskie S.A. issued by TU EUROPA S.A. for the beneficiary Spółdzielnia Usług Motoryzacyjnych SPOLMOT, seated in Wrocław, in order to secure the payment of the lease fee in the period February 1st 2008 – January 31st 2009, specified in the lease agreement concluded on May 13th 2004, together with Annexe No. 1 dated December 9th 2005. The value of the guarantee amounted to PLN 267,421.75.
2. On February 1st 2008, Insurance guarantee commissioned by Arkady Wrocławskie S.A. issued by TU EUROPA S.A. for the beneficiary Spółdzielnia Usług Motoryzacyjnych SPOLMOT, seated in Wrocław, in order to secure the payment of the lease fee in the period February 1st 2008 – January 31st 2009, specified in the lease agreement and the preliminary sale contract concluded on May 13th 2004. The value of the guarantee amounted to PLN 276,766.05.
3. On June 6th 2008 the Issuer provided Gdańsk Residence Sp. z o.o. (at present LC Corp Bajkowy Park Sp. z o.o.) with guarantee up to the amount of PLN 15,357,500 as the security for repayment of a bank credit in the amount of PLN 25,480,000, granted to this company by Bank DnB Nord Polska SA on June 5th 2008.

### 27.4. Investment liabilities

In 2009, the Group plans to incur expenditures on property, plant and equipment and investment property in the amount of about PLN 80 million.

### 27.5. Court proceedings

As at December 31st 2008, no proceedings before court or public administration authorities were initiated with regard to liabilities or receivables of LC Corp SA and its subsidiaries, whose total value amounted to at least 10% of the equity of LC Corp SA.

## 28. Accrued expenses and revenues

| | December 31st 2008 | December 31st 2007 |
|---|---|---|
| Liability due to employee benefits | 648 | 128 |
| Liability due to costs of holiday equivalents | 376 | 351 |
| Liability due to balance-sheet audit | 195 | 131 |
| Other | 97 | 37 |
| **Accrued expenses** | **1,316** | **647** |

(in PLN '000)

| | | |
|---|---|---|
| Accrued rental revenues | 82 | 142 |
| Accrued revenues on sale of flats | 40,084 | 82,799 |
| **Accrued revenues** | **40,166** | **82,941** |

## 29. Transactions with related undertakings

The following table shows total amounts of transactions concluded with related undertakings for the year ended December 31st 2008 and December 31st 2007:

| Related undertaking | | Sales to related undertakings | Purchases from related undertakings | Receivables from elated undertakings | Liabilities to related undertakings | Financial income (interest) | Financial expenses (interest, discounts) | Capitalized costs of financing |
|---|---|---|---|---|---|---|---|---|
| ***Shareholders*** | | | | | | | | |
| LC Corp B.V | 2008 | 113,850* | - | - | 70,802 | - | 802 | - |
| Leszek Czarnecki | 2008 | 41 | 50 | 28 | 45,503 | - | - | 570 |
| ***Undertakings related through shareholders*** | | | | | | | | |
| RB Investcom Sp. z o.o. | 2008 | 73 | - | 7 | 9 | - | - | - |
| RB Computer Sp. z o.o. | 2008 | - | 24 | - | 5 | - | - | - |
| RB Expert S.A. | 2008 | - | - | - | - | - | - | - |
| Getin Holding S.A. | 2008 | 467 | 4 | - | 137 | - | - | - |
| Getin International S.A. | 2008 | 210 | - | - | 54 | - | - | - |
| Getin Leasing S.A. | 2008 | 882 | - | - | 233 | - | - | - |
| Getin Raty S.A. | 2008 | - | - | - | - | - | - | - |
| Getin Bank S.A. | 2008 | 1,530 | - | - | 329 | 2,917 | 1,152 | 856 |
| Getin International S.a.r.l. | 2008 | - | - | - | - | - | - | - |
| LC Engineering Sp. z o.o. | 2008 | - | 5 | - | - | - | - | - |
| TU Europa S.A. | 2008 | 753 | 64 | 1 | 1,356 | - | - | - |
| TU Europa Życie S.A. | 2008 | 477 | - | - | - | - | - | - |
| Fiolet -PDK S.A. | 2008 | 94 | 1 | - | 25,296 | - | - | 267 |
| PDK Biznes | 2008 | 757 | - | 1 | - | 1 | - | - |
| Fundacja LC Heart | 2008 | 36 | - | - | 23 | - | - | - |
| Zakład Techniki Konstrukcyjnej | 2008 | - | 69 | - | - | - | - | - |

* - see Note 11.5

(in PLN '000)

| Related undertaking | | Sales to related undertakings | Purchases from related undertakings | Receivables from elated undertakings | Liabilities to related undertakings | Financial income (interest) | Financial expenses (interest, discounts) | Capitalized costs of financing |
|---|---|---|---|---|---|---|---|---|
| **Shareholders** | | | | | | | | |
| LC Corp B.V | 2007 | 9,383 | - | 1,137 | - | - | - | - |
| Leszek Czarnecki | 2007 | 712 | - | 5 | - | - | - | - |
| RB Investcom Sp. z o.o. | 2007 | - | - | - | - | - | 16 | - |
| ***Undertakings related through shareholders*** | | | | | | | | |
| LC Corp B.V | 2007 | - | - | - | - | - | 517 | - |
| RB Investcom Sp. z o.o. | 2007 | 260 | - | 2 | 9 | - | - | - |
| RB Computer Sp. z o.o. | 2007 | - | 190 | - | 8 | - | - | - |
| RB Expert S.A. | 2007 | 56 | - | - | - | - | - | - |
| Getin Holding S.A. | 2007 | 429 | - | 20 | 137 | - | - | - |
| Getin International Sp. z o.o. | 2007 | 125 | - | 8 | 40 | - | - | - |
| Getin Leasing S.A. | 2007 | 564 | - | 49 | 233 | - | - | - |
| Getin Raty S.A. | 2007 | 23 | - | - | - | - | - | - |
| Getin Bank S.A. | 2007 | 936 | - | 38 | 71,091 | 8,467 | 1,523 | - |
| Getin International S.a.r.l. | 2007 | 23 | - | - | - | - | - | - |
| LC Engineering Sp. z o.o. | 2007 | 22,344 | - | 515 | - | - | - | - |
| TU Europa S.A. | 2007 | 426 | 185 | 32 | 49 | - | 1,362 | - |
| TU Europa Życie S.A. | 2007 | 595 | - | 20 | - | - | - | - |
| Powszechny Dom Kredytowy | 2007 | 315 | - | 1 | - | - | - | - |
| PDK Biznes | 2007 | 13 | - | 1 | 6 | - | - | - |
| Fundacja LC Heart | 2007 | 43 | - | 3 | 23 | - | - | - |
| BP Real Nieruchomości S.A. | 2007 | - | 3,292 | - | - | - | - | - |
| Z-d Techniki Konstrukcyjnej | 2007 | - | 226 | - | - | - | - | - |

## 29.1. The Parent Undertaking of the whole Group

*LC Corp B.V.*

In the year ended December 31st 2008 there were no transactions between the Group and LC Corp B.V., except for payment for the share capital of Warszawa Przyokopowa in the amount of PLN 113,850,000 and conclusion of contract of sale of shares of LC Corp Sky Tower Sp. z o.o.z with a repurchase option, described in Note 2.

*Leszek Czarnecki*

Leszek Czarnecki directly owns 3.22% shares of LC Corp S.A. and at the same time holds 100% shares of LC Corp B.V, which holds 47.95% shares of LC Corp S.A.

In the year ended December 31st 2008 sales of services were effected, mainly connected with property management for the amount of PLN 41,000.

On March 31st 2008, LC Corp S.A. repurchased from Mr. Leszek Czarnecki shares of Łódź Pustynna Sp. z o.o. described in Note 2.

(in PLN '000)

## 29.2. Remuneration to senior management of the Group

| | Year ended December 31st 2008 | Year ended December 31st 2007 |
|---|---|---|
| Short-term employee benefits | 3,083 | 1,346 |
| Jubilee bonuses and retirement severance payments | 0 | 0 |
| Termination benefits | 0 | 0 |
| Share-based payment | 0 | 124 |
| **Total remuneration paid to the senior management except the Management Board and Supervisory Board** | **3,083** | **1,470** |

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

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

| | Year ended December 31st 2008 | Year ended December 31st 2007 |
|---|---|---|
| Management Board - remuneration | 2,756 | 2,614 |
| Management Board - share-based remuneration | 0 | 2,465 |
| Management Board (subsidiaries) - remuneration | 347 | 326 |
| Management Board (subsidiaries) - share-based remuneration | 0 | 83 |
| Supervisory Board - remuneration | 105 | 99 |
| Supervisory Board - share-based remuneration | 0 | 310 |
| **Total** | **3,208** | **5,897** |

## 30. Rules Governing Financial Risk Management

The main financial instruments which the Group uses include bank loans and bonds. The main purpose of these financial instruments is to obtain financial resources for the Group's activity. Temporary cash flow surpluses are deposited in banks as short-term deposits. The Group also has other financial instruments such as trade receivables and trade payables, which occur directly in the course of conducting business activity by the Group.

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

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

## 30.1. Interest rate risk

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

This risk is partly compensated by indexation of lease revenues.

Quantitative exposure to the interest rate risk is presented in Note 31.2

### 30.2. Currency risk

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

The table below shows sensitivity of a gross financial result (due to the change in the fair value of assets and financial liabilities) and the Group's equity to rationally possible fluctuations of the euro exchange rates, with the assumption of invariability of other factors. Due to big instability of exchange rate of euro in 2008 sensitivity of the financial result for this year is presented for a change by 10 groszy.

| | Increase/ decrease in the exchange rate in PLN | Impact on the net financial result in PLN '000 | Impact on equity |
|---|---|---|---|
| | + 0.10 | 5,429 | 5,429 |
| December 31st 2008 - EUR | - 0.10 | (5,429) | (5,429) |
| | + 0.02 | 1,262 | 1,262 |
| December 31st 2007 - EUR | - 0.02 | (1,262) | (1,262) |

### 30.3. Credit risk

The Group concludes transactions with renowned companies of good credit capacity. Moreover, due to current monitoring of receivables, exposure of the Group to the risk of uncollectible receivables is negligible.

As at December 31st 2008, trade receivables amounted to PLN 6,071,000; an analysis of their maturity is presented in Note 20. Receivables from rental/lease contracts are hedged by bank guarantees or security deposits.

Rental receivables of PLN 5,896,000 were secured with security deposits of PLN 1,550,000; and in the remaining part – with bank guarantees.

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

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

### 30.4. Liquidity risk

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

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

An analysis of liabilities by maturity dates is presented in Note 31.2.

## 31. Financial instruments

### 31.1. Fair values

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

(in PLN '000)

| | Balance-sheet value | | Fair value | |
|---|---|---|---|---|
| | December 31st 2008 | December 31st 2007 | December 31st 2008 | December 31st 2007 |
| ***Financial assets available for sale*** | | | | |
| Cash | 71,640 | 220,708 | 71,640 | 220,708 |
| ***Loans and receivables*** | | | | |
| Trade and other receivables | 58,835 | 77,925 | 58,835 | 77,925 |
| ***Financial liabilities*** | | | | |
| Trade and other payables | 42,195 | 37,644 | 42,195 | 37,644 |
| Interest-bearing bank loans and borrowings: | | | | |
| Loans, bonds and borrowings at a floating interest rate | 448,968 | 346,776 | 448,968 | 346,776 |
| Loans, bonds and borrowings at a fixed interest rate | 128,502 | 129,245 | 128,502 | 129,245 |

A significant part of information on the grounds of which the fair value is evaluated is of a highly subjective character and results from an individual assessment; hence, it may not be accurate. Since the fair value is evaluated as at the balance-sheet day, amounts which were not actually realized or paid at maturity of individual instruments may significantly differ from it.

## 31.2. Interest rate risk

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

Period ended December 31st 2008

**Fixed interest rate [PLN]**

| | *<1 year* | *1-2 years* | *2-3 years* | *3-4 years* | *4-5 years* | *>5 years* | *Total* |
|---|---|---|---|---|---|---|---|
| Zero coupon bonds | 57,748 | 0 | 0 | 0 | 0 | 0 | 57,748 |
| Investment notes | 25,267 | 45,487 | 0 | 0 | 0 | 0 | 70,754 |
| | **83,015** | **45,487** | **0** | **0** | **0** | **0** | **128,502** |

**Floating interest rate [PLN]**

| | *<1 year* | *1-2 years* | *2-3 years* | *3-4 years* | *4-5 years* | *>5 years* | *Total* |
|---|---|---|---|---|---|---|---|
| Bank loans in PLN (based on WIBOR) | 132,932 | 70,802 | 0 | 0 | 0 | 0 | 203,734 |
| Bank loan in EUR (based on EURIBOR) | 11,570 | 12,234 | 12,936 | 13,677 | 14,461 | 180,356 | 245,234 |
| | **144,502** | **83,036** | **12,936** | **13,677** | **14,461** | **180,356** | **448,968** |

Except for the bank loan in EUR in the amount of EUR 58,775,000, in the year ended December 31st 2008, changes in interest rates did not have a direct impact on the financial result and capital.

Sensitivity of the gross financial result to changes in the interest rate of the loan in EUR in the year ended December 31st 2008 and year ended December 31st 2007 is shown in the table below:

| | Increase/ decrease in the interest rate | Impact on the net financial result in PLN '000 | Impact on equity |
|---|---|---|---|
| | + 1% | (2,212) | (2,212) |
| December 31st 2008 | - 1% | 2,212 | 2,212 |
| | + 1% | (539) | (539) |
| December 31st 2007 | - 1% | 539 | 539 |

### 31.3. Collaterals

As at December 31st 2008 the main collaterals of repayment of loans were:

- ordinary (for a fixed amount) mortgage – overall for all projects – up to PLN 178,000,000
- capped mortgage – overall for all projects – up to PLN 65,120,000
- capped mortgage *(loan in EUR)* – up to EUR 91,500,000
- pledge on shares of Arkady Wrocławskie S.A. owned by LC Corp SA – up to EUR 91,500,000
- pledge on shares of Kraków Zielony Złocień sp. z o.o. (formerly Europlan Projekt IV sp. z o.o.)
- pledge on shares of LC Corp Bajkowy Park sp. z o.o. up to PLN 38,220,000
- registered pledge on bank accounts – up to PLN 38,220,000
- registered pledge on bank accounts (loan in EUR) – up to EUR 91,500,000
- assignments of rights from rental/lease contracts, insurance and guarantees from contracts with contractors within particular real estate development projects.
- security deposit of EUR 500,000

## 32. Capital management

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

The Group manages the capital structure and introduces changes resulting from changes in economic conditions. In order to maintain or adjust the capital structure, the Group can change payment of dividend to shareholders, return capital to shareholders or issue new shares. In the financial period ended December 31st 2008 and until December 31st 2007 there were no changes in the objectives, rules and processes binding in this area.

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

| | Year ended December 31st 2008 | Year ended December 31st 2007 |
|---|---|---|

(in PLN '000)

| | | |
|---|---|---|
| Interest-bearing loans and borrowings (external financing) | 577,470 | 476,021 |
| Trade payables and other liabilities | 42,195 | 37,644 |
| **A. Net debt** | **619,665** | **513,665** |
| **B. Equity** | **964,687** | **897,570** |
| **Leverage ratio (A/B)** | **0,6** | **0,6** |

## 33. Structure of employment

Average employment in the Group in the year ended December 31st 2008 and December 31st 2007 was as follows:

| | Year ended December 31st 2008 | Year ended December 31st 2007 |
|---|---|---|
| Management Board of the Parent Undertaking | 3,2 | 3,6 |
| Management Boards of the Group's Entities (*) | 2,2 | 1,7 |
| Administration | 47,3 | 53,5 |
| Sales Department | 10 | 5,0 |
| Others | 1,0 | 1,0 |
| **Total** | **63,7** | **64,8** |

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

## 34. Events subsequent to the balance-sheet date

1. On January 2nd 2009, Kraków Zielony Złocień Sp. z o.o. obtained building permit for Stage II of the investment located in Krakow Bieżanów-Złocień. The building permit decision became definitive on February 6th 2009.
2. On January 5th 2009, LC Corp SA granted a subordinated loan to Warszawa Rezydencja Kaliska Sp. z o.o. in the amount of PLN 1,600,000 for an indefinite time, at arm's length, for the investment of Rezydencja Kaliska.
3. On January 15th 2009, LC Corp B.V. of Amsterdam sold 15,000 shares of LC Corp Sky Tower Sp. z o.o., PLN 1,000 per share, to Mr Leszek Czarnecki. Under the agreement of November 2nd 2008 concerning the disposal of all shares in this company, concluded by and between the Issuer and LC Corp B.V., the Issuer was entitled to an option of unilateral repurchase of the shares. As a result of this transaction and under a relevant agreement signed by the Issuer and the buyer of the shares, the Issuer retained the repurchase option on the terms the parties agreed on earlier.
4. On January 15th 2009, LC Corp Sky Tower Sp. z o.o. took out a loan of PLN 11,002,000 from its shareholder LC Corp B.V. for the period of 2 years and at arm's length, intended for repayment of LC Corp Sky Tower Sp. z o.o. liabilities towards LC Corp S.A and Warszawa Przyokopowa Sp. z o.o.
5. On February 3rd 2009, LC Corp Sky Tower Sp. z o.o. took out a loan of PLN 23,000,000 from its shareholder Mr Leszek Czarnecki for the period of 2 years and at arm's length, intended for repayment of LC Corp Sky Tower Sp. z o.o. liabilities towards LC Corp S.A and Warszawa Przyokopowa Sp. z o.o.
6. On February 13th 2009, LC Corp Sky Tower Sp. z o.o. took out a loan of PLN 17,000,000 from its shareholder LC Corp B.V. for the period of 2 years and at arm's length, intended for repayment of LC Corp Sky Tower Sp. z o.o. liabilities towards LC Corp S.A and Warszawa Przyokopowa Sp. z o.o.

7. On January 21st 2009, LC Corp SA granted a subordinated loan to Kraków Zielony Złocień Sp. z o.o. in the amount of PLN 700,000 for an indefinite time, at arm's length, for the purposes of current business activities.
8. On January 21st 2009, LC Corp SA granted a subordinated loan to Warszawa Rezydencja Kaliska Sp. z o.o. in the amount of PLN 2,050,000 for an indefinite time, at arm's length, for the purposes of current business activities.
9. On January 20th 2009, Warszawa Przy Promenadzie Sp. z o.o. Sp. k. issued 14 investment notes. Par value of 13 notes was established at PLN 1,000,000 each, and 1 note at PLN 500,000. The redemption value of the investment notes was established at arm's length. The notes' redemption date is January 20th 2010, with an optional payment available at an earlier date. In case of an early payment, their redemption value will be established in proportion to the actual duration of the issue. The investment notes were acquired by LC Corp SA The transaction was concluded at arm's length.
10. On February 16th 2009, the redemption date and value was changed with respect to the investment note issued on November 17th 2008 by LC Corp Sky Tower Sp. z o.o., and acquired by Fiolet-Powszechny Dom Kredytowy SA. Redemption date of the note was established to be August 17th 2009, and the note's redemption value was increased proportionally.
11. On February 12th 2009, LC Corp SA performed redemption of the last series of LC Corp bonds issued under the Bond Issue Scheme, and the company currently has no liability of that kind.
12. On February 26th 2009, LC Corp SA performed redemption of all 10 bonds issued on September 9th 2008 – under Art. 9 Section 3 of the Act on Bonds – Series C unsecured, zero-coupon registered bonds with a par value of PLN 1,078,300 each, total value of PLN 10,783,000. The total redemption price was PLN 10,364,684.90.
13. On February 26th 2009, LC Corp SA granted a subordinated loan to Kraków Zielony Złocień Sp. z o.o. in the amount of PLN 1,300,000 for an indefinite time, at arm's length, for the purposes of current business activities.
14. On February 26th 2009, Warszawa Rezydencja Kaliska Sp. z o.o. entered into an agreement with the bank PKO BP SA, relating to a buy-to-let Nowy Dom (New Home) loan to the amount of PLN 34,036,112, intended for partial financing of the housing project "Calisia Residence" within the property located in Warsaw ul. Kaliska. By signing this loan agreement the Company incurred no financial liability. The loan agreement makes the activation of the loan conditional upon the sale of specific number of flats in the estate. Repayment of the loan will be made in instalments by March 31st 2011. The agreement was signed at arm's length.
15. On March 4th 2009, due to the expiry of the current Management Board's term of office, the Supervisory Board appointed Mr Dariusz Niedospiał to the position of President of the Management Board, and Mr Waldemar Czarnecki as Member of the Management Board, for a new three-year term of office, jointly for the entire Management Board, to begin on the day after an Ordinary General Meeting of Shareholders is held to approve the financial statements of the Company for 2008.

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President Dariusz Niedośpiał Chief Accountant Lidia Kotowska

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First Vice-President Dariusz Karwacki

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Vice-President Waldemar Horbacki

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Member of the Board Waldemar Czarnecki

Wrocław, March 13th 2009