

Ronson Europe N.V.

Annual Report
for the year ended
31 December 2013

General Information

Management Board

Shraga Weisman
Tomasz Łapiński
Andrzej Gutowski
Israel Greidinger
Ronen Ashkenazi

Supervisory Board

Mark Segall, *Chairman*
Arie Mientkavich, *Vice-Chairman*
Przemyslaw Kowalczyk
Reuven Sharoni
Yair Shilhav

Company Secretary

Rami Geris

Registered office

Weena 210-212
3012 NJ Rotterdam
The Netherlands

Auditors

Ernst & Young Accountants LLP
Antonio Vivaldistraat 150
1083 HP Amsterdam
The Netherlands

To our shareholders

The year 2013 was characterized by mixed trends in the global economy. With the lingering effects of the 2008 financial crisis still impacting many countries around the world and with another year of relatively stagnant growth in Europe, the Polish economy continued to generate growth and general stability. In 2013, the Polish economy grew by approximately 1.6%, while unemployment stayed at approximately 13%, with many of the larger Polish cities maintaining rates around 5%. According to many economists, the Polish economy is expected to grow by another 2.5% to 3.5% in 2014.

During 2013, the residential market in Poland showed signs of growth on the demand side and equilibrium between supply and demand. In 2013, construction commenced on 127,000 new residential units in Poland, which is a decrease of over 10% compared to 2012. The total number of building permits granted during 2013 amounted to 139,000, which was 16% lower than the year before. Decreasing supply started to become visible in a number of major Polish metropolitan areas since the third quarter 2012, when the overall number of apartments available for purchase decreased compared to the second quarter 2012. The increase in demand and not sufficient supply started to reverse the previous years' - trend of lower real estate prices. However, due to new restrictive regulations and banking policies only the most credible developers were able to secure financing for new projects and were able to increase supply.

The Company's highlights for 2013 include:

- pre-sale of 572 units which exceeded the Company's plans for 2013 and represented the highest yearly output in Ronson's history;
- delivery of 474 units to our customers, which was also the best annual result in Ronson's history;
- completion of construction works on 4 projects (Sakura II, Chilli II, Verdis II and Naturalis III), resulting in receipt of permits for occupancy for 294 units;
- commencement of construction of 6 projects (Espresso II, Verdis III, Sakura III, Chilli III, Impressio II and Tamka), representing a total of 688 units (another record for the Company);
- a further strengthening of Ronson's brand name, and
- adapting the Company operations to comply with the new Polish Developers' Law.

During 2013, in an environment of still high competition, the Company sold 572 units with a total value of PLN 221.8 million while in 2012 the Company sold 380 units with the total value of PLN 153.0 million. Net profit for 2013 amounted to PLN 19.0 million while in 2012 it amounted to PLN 31.7 million.

We continue to believe that in the medium and long term, the residential Polish market holds great promise. Studies continue to suggest that over 4 million new units will need to be built in the coming years in order for Poland to reach the EU27 average number of units per 1,000 inhabitants. In addition, the on-going migration of Polish citizens from rural to urban areas will create further demand for a new housing stock. With current annual production topping out at approximately 160,000 units the long-term shortage in the residential market will remain pronounced and should continue to create strong residential development opportunities.

We believe the Company is in an advantageous position to benefit from current market conditions. We believe the Company currently enjoys the following advantages:

- a strong capital structure allowing the Company to start and finance new projects;
- a pipeline of projects at attractive locations;
- the ability to increase and decrease the size and timing of specific projects based on perceived market demand;
- a highly professional staff, and
- a known brand in Warsaw and an emerging brand in other Polish cities.

Letter from the CEO

The advantages mentioned above should give the Company the opportunity to significantly expand the scale of its operations and sales, and ultimately to rank amongst the larger residential development companies in Poland.

We wish to thank all of our shareholders for their continued support and confidence in our ability to carry out our corporate vision.

Sincerely,
Shraga Weisman
CEO

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Supervisory Board report

We are pleased to present the Financial Statements of Ronson Europe N.V. for the financial year 2013, accompanied by the report of the Management Board. Ernst & Young Accountants LLP have audited the Financial Statements and issued an unqualified Auditor's Report. We recommend the shareholders to adopt the Financial Statements as presented.

We concur with the Management Board's proposal as taken up on page 116 to allocate the net profit for the year 2013 amounting to PLN 19,026 thousand to Retained earnings.

Supervision

During 2013, there were frequent Supervisory Board and Management Board meetings and conference calls, during which, among other topics, the following items were discussed:

- the Company's business strategy;
- new dividend policy;
- the strengthening of the Company's financial position;
- potential sources of long term capital, including issuance of long-term bonds and new shares;
- performance review of the Management Board and evaluation of the Company's remuneration policy;
- the corporate governance structure of the Company;
- risk management and processes undertaken during the year;
- group restructuring anticipating Polish tax regulations;
- evaluation and re-appointment of the Company's auditors; and
- financial results and other related issues.

The Supervisory Board (including its committees) met eleven times to discuss, among other things, the functioning of the Management Board. The Board (Audit committee) also met with the external auditors without the presence of the Management Board. All Supervisory Board meetings held in 2013 were attended by the majority of the members of the Supervisory Board.

Audit Committee

The roles and responsibilities of the Audit Committee are to supervise, monitor and advise the Management Board and Supervisory Board on all matters related to risk management, audit, control and compliance to relevant financial legislation and regulations. The Audit Committee has also been involved in the process of assessing the performance and costs of the external auditors, with whom the committee met twice during the year.

Remuneration and Nominating Committee

It is the primary task of the Remuneration and Nominating Committee to: (i) propose to the Supervisory Board remuneration of the members of the Management Board, including a review and monitoring of the Group's total remuneration policy, (ii) advise the Supervisory Board on matters relating to the nominations of both Supervisory and Management Board members. The Remuneration and Nominating Committee regularly reviews the Supervisory Board profile, its effectiveness and composition. The committee also reviews the performance of the members of the Management Board.

Internal Auditor

The Supervisory Board appointed an internal auditor for the Company, which - upon request - examines relevant control procedures within the Company in specific areas.

Supervisory Board Report

Financial statements

The Management Board has prepared the Financial Statements for the year ended 31 December 2013. These financial statements were discussed at a Supervisory Board meeting attended by the auditors.

Composition of the Supervisory Board

On 25 November 2013, Mr Frank Roseen resigned as Supervisory Director of the Company.

Composition of the Management Board

During the Annual General Meeting of Shareholders held on 27 June 2013, Mr Pierre Decla was appointed member of the Management Board and managing director B for a term of four years. On 25 November 2013, Mr Decla resigned from his position.

During the upcoming General Meeting of Shareholders, it will be proposed to appoint Mr Peter Dudolenski as a new member of the Management Board of the Company. On the same date, Mr Israel Greidinger will step down as a member of the Management Board of the Company. The Board of the Supervisory Directors would like to express its gratitude to Mr Greidinger for his many years of contribution to the development and growth of the Company.

5 March 2014
For the Supervisory Board

Mark Segall,
Chairman

Corporate Governance

Governance structure

The Company is a Dutch public company with a listing on the Warsaw Stock Exchange ('WSE'). For this reason the Company is subject to both Dutch and Polish rules and regulations regarding corporate governance.

Corporate Governance Code in the Netherlands

On 9 December 2003, the Dutch Corporate Governance Committee released the Dutch Corporate Governance Code. It was updated on 10 December 2008 by the Corporate Governance Code Monitoring Committee ("the Committee") to take effect as of the financial year 2009. The updated Dutch Corporate Governance Code ('the Code') contains principles and best practice provisions for management boards, supervisory boards, shareholders and general meetings of shareholders, financial reporting, auditors, disclosure, compliance and enforcement standards. The Committee has published its most recent monitoring report in October 2013.

Dutch companies listed on a regulated stock exchange in the EU/EER are required under Dutch law to disclose in their annual reports whether or not they apply the provisions of the Code and, if not, to explain the reasons why. The Code provides that if a company's general meeting of shareholders explicitly approves the corporate governance structure and policy and endorses the explanation for any deviation from the best practice provisions, such company will be deemed to have complied with the Code.

The Company acknowledges the importance of good corporate governance. The Management and Supervisory Boards have reviewed the Code, and generally agree with its purport. The Boards have taken and will take any further steps they consider required and appropriate to further implement the Code and any Dutch law corporate governance requirements and improve the Company's corporate governance features. This is very much a living process. It is the Company's policy to discuss the topic annually with the shareholders and schedule it for this purpose for the annual general meeting of shareholders each financial year. The topic has been part of the agenda for each general meeting of shareholders since 2007.

The corporate governance policy and the corporate governance framework of the Company were approved for the first time by the shareholders in 2007 at the occasion of the IPO of the Company.

Exceptions to the application of the Dutch Corporate Governance Code:

The Company endorses the Code and has applied the relevant best practice provisions of the Dutch Corporate Governance Code, except for the provisions set out below.

II. 2.4 If options are granted, they shall, in any event, not be exercised in the first three years after the date of granting. The number of options to be granted shall be dependent on the achievement of challenging targets specified beforehand.

In 2014, the Company has granted to selected members of management and key personnel a form of variable remuneration, which are technically not options to acquire shares but the cash value of such variable remuneration is determined by the development of the Company's share price after the date of granting (Phantom Stock). The rationale is to align the interests of management and key personnel with the interests of shareholders. Reference is made to the Remuneration Report on page 13. This variable remuneration has been granted unconditionally and independent on the achievement of targets. The Company shall not amend these existing agreements to comply with provision II 2.4 of the Code (to the extent it would be deemed applicable). Considering that the Company's stage of development and its intention to create a simple alignment of interests of management and shareholders, the Company shall not apply this provision (to the extent deemed applicable).

Governance structure (cont'd)

III. 2.1 The supervisory board members, with the exception of not more than one person, shall be independent within the meaning of best practice provision III. 2.2.

Our Supervisory Board currently consists of five members, of which three are independent within the meaning of the Dutch Corporate Governance Code. Two leading shareholders, i.e. Israel Theaters Ltd. and U. Dori Group Ltd., each (indirectly) holding a shareholding and voting rights of 39.8%, have agreed to use their voting rights in such a manner to procure that the two leading shareholders will be in a position to nominate independent supervisory directors to the Company. Moreover, the Company's articles of association state that the Supervisory Board shall have at least two independent Supervisory Board directors.

III. 6.5 The terms of reference of the supervisory board shall contain rules on dealing with conflicts of interest and potential conflicts of interest between management board members, supervisory board members and the external auditor on the one hand and the company on the other. The terms of reference shall also stipulate which transactions require the approval of the supervisory board. The company shall draw up regulations governing ownership of, and transactions in securities by management or supervisory board members, other than securities issued by their 'own' company.

The Company believes that the restrictions under Dutch securities law are sufficient to govern the ownership of, and transactions in, securities by Supervisory and Management Board members. Implementing additional restrictions would potentially harm its ability to attract and ensure the continued services of Supervisory and Management Board members and the Company therefore believes that applying this best practice provision is not in its best interest.

IV. 3.1 Meetings with analysts, presentations to analysts, presentations to investors and institutional investors and press conferences shall be announced in advance on the company's website and by means of press releases. Provision shall be made for all shareholders to follow these meetings and presentations in real time, for example by means of web casting or telephone lines. After the meetings, the presentations shall be posted on the company's website.

Considering the Company's size, it would create an excessive burden to provide facilities which enable shareholders to follow in real time the meetings and presentations referred to in the best practice provision. The Company will ensure that presentations are posted on its website immediately after the meetings in question.

Transactions with a conflict of interest

During the financial year 2013, no transactions as referred to in best-practice provisions II.3.4, III.6.3 and III.6.4 took place involving a conflict of interest relating to directors, supervisory board members or natural and/or legal persons holding at least 10% of the shares in the company. Applying best-practice provisions II.3.2, II.3.3, III.6.1 and III.6.2 was therefore not relevant.

Statement referred to in the Decree of 20 March 2009, Stb 154, determining the further requirements concerning the contents of annual reports

Based on Section 391 of Book 2 of the Dutch Civil Code (Act of 9 July 2004, Stb 370, to amend Book 2, CC) and the Royal Decree of 20 March 2009, limited liability companies, whose shares – to put it briefly – are listed on a regulated stock exchange, must include a statement in their annual reports about their compliance with the principles and best practices of the Code.

In light of the foregoing the Company confirms that in the year under review, it did not comply fully with the provisions of the Code, nor does it intend to comply during the current financial year or the next financial year. Its reasons for doing so are explained in the paragraphs above.

Governance structure (cont'd)*Corporate Governance Code in Poland*

The Code of Best Practice for WSE-Listed Companies (the 'WSE Corporate Governance Rules') applies to companies listed on the WSE, irrespective of whether such companies are incorporated in Poland or outside of Poland. The WSE Corporate Governance Rules consist of general recommendations relating to best practices for listed companies (Part I) and best practice provisions relating to management boards, supervisory board members and shareholders (Parts II to IV).

The WSE Corporate Governance Rules impose upon the companies listed on the WSE an obligation to disclose in their current reports continuous or incidental non-compliance with best practice provisions (with the exception of the rules set forth in Part I). Moreover, every year each WSE-listed company is required to publish a detailed statement on any non-compliance with the WSE Corporate Governance Rules (including the rules set forth in Part I) by way of a statement submitted with the company's annual report (the 'Yearly Compliance Statement').

Companies listed on the WSE are required to justify non- or partial compliance with any WSE Corporate Governance Rules and to show the ways of eliminating the possible consequences of such non-compliance or the steps such company intends to take to mitigate the risk of non-compliance with such rule in future.

The Company intends, to the extent practicable, to comply with all principles of the WSE Corporate Governance Rules. However, certain principles will apply to the Company only to the extent permitted by Dutch law. Detailed information regarding non-compliance, as well as additional explanations regarding partial compliance with certain WSE Corporate Governance Rules due to incompatibilities with Dutch law, are included in the aforementioned reports, which are also available on the Company's website (www.ronson.pl) and are being published by way of a current report.

The Company makes all efforts to comply with all principles of both the Dutch Code and the WSE Corporate Governance Rules and to enforce such corporate structure that ensures the Company's transparency to the most possible extent. The Company believes that its efforts are appreciated by its stakeholders and that these efforts will support the Company's growth and its reliability.

General Meeting of Shareholders

Per the Articles of Association* of the Company, the annual General Meeting of Shareholders shall be held within six months after the end of the financial year to deal with, among other matters: (i) the annual report' (ii) adoption of the annual accounts, (iii) discussion of (any substantial changes in) corporate governance, (iv) discussion of remuneration policy for the Board of Managing Directors ("Management Board"), (v) granting of discharge to the Management Board for the management over the past financial year, (vi) discussion of remuneration of Supervisory Board members, (vii) granting of discharge to the Supervisory Board for the supervision over the past financial year, (viii) policy on additions to reserves and dividends, (ix) adoption of the profit appropriation, (x) (re)appointment of members of the Management Board and (xi) (re)appointment of members of the Board of Supervisory Directors ("Supervisory Board").

Other General Meetings of Shareholders shall be held as often as the Management Board or the Supervisory Board deems necessary. Shareholders representing in the aggregate of at least one-tenth of the Company's issued capital may request the Management Board or the Supervisory Board to convene a General Meeting of Shareholders, stating specifically the business to be discussed.

* Most recently amended on 30 June 2011

Issue of new shares

The Company shall only issue shares pursuant to a resolution of the General Meeting or of another corporate body designated to do so by a resolution of the General Meeting for a fixed period not exceeding five years. The designation must be accompanied by a stipulation as to the number of shares that may be issued. The designation may each time be extended for a period of up to five years. The designation may not be cancelled, unless the designation provides otherwise. A decision by the General Meeting to issue shares or to designate another body to issue shares can only be taken upon the proposal of the Management Board. The proposal is subject to the approval of the Supervisory Board.

Each shareholder shall have a pre-emptive right with respect to any share issue in proportion to the aggregate amount of his shares, except if shares are issued for a non-cash consideration or if shares are issued to employees of the Group.

Considering the interest in the Company held (indirectly) by two leading shareholders, (1) Israel Theaters Ltd. and (2) U. Dori Group Ltd., each holding (indirectly) 39.8% of the Company's share capital and votes, the change of control over the Company is not possible without the consent and involvement of at least one of the two leading shareholders. In addition, the two leading shareholders are represented both in the Supervisory Board and in the Management Board of the Company.

Supervisory and Management Boards

The Company has a two-tier corporate governance structure, consisting of an executive Management Board (the 'Management Board') and a non-executive Supervisory Board (the 'Supervisory Board'). The day-to-day management and policy-making of the Company is vested in the Management Board, under the supervision of the Supervisory Board. There are currently five members of the Management Board whose names are set out below. The Supervisory Board supervises the Management Board and the Company's general course of affairs and the business it conducts. It also supports the Management Board with advice. In performing their duties the Supervisory Board members must act in accordance with the interests of the Company and the business connected with it.

As of 1 January 2013 the Act on Management and Supervision ('Wet Bestuur en Toezicht') came into effect. With this Act, statutory provisions were introduced to ensure a balanced representation of men and women in management boards and supervisory boards of companies governed by this Act. Balanced representation of men and women is deemed to exist if at least 30% of the seats are filled by men and at least 30% are filled by women.

Ronson Europe N.V. has currently no seats taken by women. Since Ronson Europe N.V. does not comply with the law in this respect, it has looked into the reasons for non-compliance. The Supervisory Board recognizes the benefits of diversity, including gender balance. However, the Supervisory Board feels that gender is only one part of diversity. Supervisory Board and Management Board members will continue to be selected on the basis of wide ranging experience, backgrounds, skills, knowledge and insights. The Supervisory Board continues to strive for more diversity in both the Supervisory Board and Management Board. For more information on the rules of the Supervisory Board please refer to the profile of the Supervisory Board on Ronson Europe N.V.'s website.

Supervisory Board

The Articles of Association provide that the Company shall have a Supervisory Board consisting of at least three and at most seven persons of which at least two Supervisory Directors shall be independent. Supervisory Directors are appointed by the General Meeting of Shareholders for a period of four years. After holding office for the first period of four years, Supervisory Directors are eligible for re-election for two additional terms of four years each. The General Meeting of Shareholders shall establish the remuneration for each Supervisory Director.

Supervisory Board Committees

The Supervisory Board is supported by two committees:

- the Audit Committee (comprising Mr Shilhav (chairman), Mr Sharoni and Mr Segall)
- the Remuneration and Nominating Committee (comprising Mr Mientkavich, (chairman), Mr Shilhav and Mr Sharoni)

These committees are composed of members of the Supervisory Board with relevant experience. All committees operate under the overall responsibility of the Supervisory Board, in accordance with the best practice stipulations of the Dutch Corporate Governance Code.

Composition of the Supervisory Board

Mark Segall (age 51, US citizen, male), Chairman

Mr Mark Segall was appointed as a member of the Supervisory Board of the Company on 28 September 2007 and re-appointed on 30 June 2011. Mr Segall is the founder of Kidron Corporate Advisors LLC, a corporate advisory and mergers and acquisitions boutique, Kidron Capital Advisors LLC, a US registered broker dealer, and of Kidron Opportunity Fund I, LLC, a small private equity fund. Prior to forming Kidron in 2003, he was the Co-chief executive officer of Investec Inc. Mr Segall serves on the board of directors of ATMI, Inc., Bel Fuse Inc., Integrated Asset Management plc., Temco Services Industries Inc. and Infinity Cross Border Acquisition Corp. His current term as Supervisory Director expires in June 2015. There is no conflict of interest between the Company and other business activities of Mr Segall.

Arie Mientkavich (age 71, Israeli citizen, male), Vice-Chairman

Mr Arie Mientkavich was appointed a member of the Supervisory Board of the Company on 30 June 2011, and is Chairman of the Remuneration Committee. He has been Deputy Chairman of the Board of Gazit Globe Ltd (since 2005). He is also Chairman of the Boards of the following companies: Gazit Globe Israel (Development) Ltd. (since 2006), U. Dori Group Ltd. (since 2012), Elron Electronic Industries Ltd. (since 2007) and Rafael Development Corporation Ltd. (since 2007) and a director in Nulens Ltd. (since 2010). From May 2006 to January 2014 Mr Mientkavich served as Vice-Chairman of IDB Holding Corporation Ltd. and from July 2007 to February 2014, director in Given Imaging Ltd. Previously (1997 to 2006), Mr Mientkavich was Chairman of the Board of Israel Discount Bank Ltd. He served as Active Chairman of the Israel Securities Authority, (1987 to 1997) and concurrently he was a member of the License Committee as well as of the Advisory Committee of the Bank of Israel. His current term as Supervisory Board Director expires in June 2015. There is no conflict of interest between Ronson and other business activities of Mr Mientkavich.

Przemyslaw Kowalczyk (age 44, Polish citizen, male)

Mr Przemyslaw Kowalczyk was appointed as a member of the Supervisory Board on 30 June 2011. Since 2010 Mr Kowalczyk is an independent business consultant and operates as financial and investment advisor to a range of small and medium enterprises in Poland. From 2002 to 2009, he was member of the management board at Volkswagen Bank Polska Group. Prior to that, from 1994 to 2002, Mr Kowalczyk was active in the banking sector in both Switzerland and Poland, and held various positions including the Head of the Treasury Department with Bankgesellschaft Berlin (Polska) S.A.. His current term as Supervisory Director expires in June 2015. There is no conflict of interest between the Company and other business activities of Mr Kowalczyk.

Composition of the Supervisory Board (cont'd)*Reuven Sharoni (age 76, Israeli citizen, male)*

Mr Reuven Sharoni was appointed as a member of the Supervisory Board on 23 June 2008 and re-appointed on 28 June 2012. Mr Sharoni's recent positions include Deputy Manager and head of Non Life Arieh Insurance Company Ltd. from 1980 to 1984. In the years 1984 to 2000, he acted as Deputy General Managing Director and from 2000 until 2002 as the General Managing Director of Arieh Insurance Company Ltd. Since 2003, Mr Sharoni has been an active chairman of Shirbit Insurance Company Ltd. and since 2006 also a Chairman of Millenium Pension Savings Ltd. His current term as Supervisory Director expires in June 2016. There is no conflict of interest between the Company and other business activities of Mr Sharoni.

Yair Shilhav (age 55, Israeli citizen, male)

Mr Yair Shilhav was appointed as a member of the Supervisory Board on 28 September 2007 and re-appointed on 30 June 2011, and he is the Chairman of the Audit Committee. Mr Shilhav is member of the Supervisory Board and Chairman of the Audit Committee of Global City Holdings N.V. (previously known as Cinema City International N.V.). Since 2004, Mr Shilhav has been the owner of a business consulting office. Between 2000 and 2003, he was a member of the executive directory committee of the audit firm, Somekh Chaikin, a member of KPMG. Between 1995 and 2003, he was the head of the Haifa branch of Somekh Chaikin, of which he was partner from 1990 to 2003. Prior to becoming a partner at Somekh Chaikin, he was head of the professional and finance department of the same firm. He was also the head of the accountancy faculty at Haifa University between 1998 and 2002. His current term as Supervisory Director expires in June 2015. There is no conflict of interest between the Company and other business activities of Mr Shilhav.

Management Board

The management of the Company is entrusted to the Management Board under the supervision of the Supervisory Board. The Articles of Association provide that the Management Board shall consist of two or more managing directors. Managing directors are appointed by the General Meeting of Shareholders. The Management Board shall meet as often as a managing director requests a meeting. All resolutions by the Management Board shall be adopted by an absolute majority of the votes cast.

The Management Board as a whole is responsible for the day-to-day management, including comprehensive risk management control, financing and regulatory compliance.

The Company and its operating companies are organized along clear functional reporting lines. Throughout the Group, corporate and operating accountabilities, roles and responsibilities are in place.

Managing directors A and B

Per the Company's Articles of Association, the Management Board shall consist of one or more managing directors A and may in addition consist of one or more managing directors B. The Supervisory Board shall determine precisely the number of managing directors and the precise number of managing directors of a specific class.

The General Meeting of Shareholders shall grant to one of the managing directors A the title of 'Chief Executive Officer' who will be the President of the Management Board, and may also grant to one of the managing directors A the title of 'Chief Financial Officer' and other titles to managing directors A or managing directors B.

The Management Board shall represent the Company. The authority to represent the Company shall also be vested in two managing directors among whom, if one or more managing directors B are in office, at least one shall be a managing director B.

Composition of the Management Board*Shraga Weisman (age 62, Israeli citizen, male)*

On 10 October 2008, Mr Shraga Weisman was appointed as managing director A and President of the Management Board, for a term of four years and granted the title 'Chief Executive Officer'. On 28 June 2012, he was re-appointed for another term of four years.

Mr Weisman served as 'Chief Executive Officer' of Ashdar Building Company Ltd. from 1997 until May 2008. Ashdar Building Company Ltd., listed on the Tel-Aviv Stock Exchange since May 2007, is one of the largest real estate development companies in Israel focusing on residential and commercial projects, hotels and protected accommodation projects. From 1990 to 1997, he was 'Chief Executive Officer' of Natanya Tourism Development Company, which developed residential and infrastructure development projects in Israel. Mr Weisman holds a BA title from Tel-Aviv University, an MSC title from Technion, the Israeli Institute of Technology, and is a certified real estate appraiser in Israel. His current term as Managing Director expires in June 2016.

Composition of the Management Board (cont'd)*Tomasz Łapiński (age 37, Polish citizen, male)*

On 23 June 2008, Mr Łapiński was appointed as managing director A and member of the Management Board, for a term of four years and granted the title 'Chief Financial Officer'. On 28 June 2012, he was re-appointed for another term of four years. Mr Łapiński is also a member of the management boards of many subsidiaries of the Company.

Between 2000 and 2008, Mr Łapiński worked in the investment banking division of UniCredit Group in Warsaw (formerly of HVB and of Bank Austria Creditanstalt) – in UniCredit CA IB Poland (formerly CA IB Financial Advisers). His experience in investment banking includes mainly M&A (mergers and acquisitions) transactions as well as other corporate finance related assignments. He was also responsible for equity capital market (ECM) transactions, including the initial public offering of Ronson Europe N.V. Before joining CA IB Financial Advisers, from 1998 to 2000, Mr Łapiński worked for the consulting company Central Europe Trust. Mr Łapiński graduated from Warsaw School of Economics (Finance and Banking Faculty). His current term as Managing Director expires in June 2016. Mr Łapiński does not perform any activities other than for the Company.

Andrzej Gutowski (age 44, Polish citizen, male)

On 10 October 2008, Mr Gutowski was appointed as managing director A and member of the Management Board, for a term of four years and granted the title 'Sales and Marketing Director'. On 28 June 2012, he was re-appointed for another term of four years. Mr Gutowski is also a member of the management boards of many subsidiaries of the Company.

Mr Gutowski had been employed by Ronson Development Management Sp. z o.o. for five years as the 'Sales and Marketing Manager'. Mr Gutowski is also a member of the management boards of many subsidiaries of the Company. Before joining Ronson Development Group, between 1994-2003 Mr Gutowski worked for Emmerson Sp. z o.o. (leading real estate agency and advisory company in the Polish market) as Director of Primary Markets and member of the management board. From 1988 until 1993, Mr Gutowski studied at Warsaw School of Economics (Foreign Trade). His current term as Managing Director expires in June 2016. Mr Gutowski does not perform any activities other than for the Company.

Israel Greidinger (age 52, Israeli citizen, male)

On 30 June 2011, Mr Israel Greidinger was appointed as managing director B and member of the Management Board of the Company, for a term of four years. Mr Greidinger is the Chief Operating Officer and member of the Executive Board of Cineworld Group plc. Currently, Mr Greidinger is also a Non-Executive Director of Global City Holdings N.V. (previously known as Cinema City International N.V.), a company of which he was Chief Financial Officer since 1995 until 28 February 2014. He is also a director of Israel Theatres Ltd. since 1994. From 1985 to 1992, Mr Greidinger served as Managing Director of C.A.T.S. Ltd. (Computerised Automatic Ticket Sales), a London based company, and from 1992 to 1994, he was President and Chief Executive Officer of Pacer Cats Inc. His current term as Managing Director expires in June 2015. There is no conflict of interest between the Company and other business activities of Mr Greidinger.

Ronen Ashkenazi (age 52, Israeli citizen, male)

On 30 June 2011, Mr Ronen Ashkenazi was appointed as managing director B and member of the Management Board of the Company, for a term of four years. Mr Ashkenazi is CEO and co-owner of Gazit Globe Israel (Development) Ltd and CEO and indirect co-owner of U. Dori Group Ltd. Moreover, Mr Ashkenazi is the Chairman of the board of U.Dori Construction LTD, a director on the board of Dori Energy, a director on the board of Citycon Oyj, a property investment company specialized in retail premises in Finland, Sweden and the Baltic countries. His current term as Managing Director expires in June 2015. There is no conflict of interest between the Company and other business activities of Mr Ashkenazi.

Explanatory notes by reason of the Decree, Article 10 of the Takeover Directive

By reason of the Decree of 5 April 2006 to implement article 10 of Directive 2004/25/EC of the European Parliament and the Council of the European Union of 21 April 2004 regarding public takeover bids, Ronson Europe N.V. ('the Company') provides the following explanation:

a. Capital structure of the Company

The capital of the company consists of one class of shares, being ordinary shares with a nominal value of EUR 0.02 each. Information on issued shares has been included under Note 25 to the Consolidated Financial Statements.

b. Restriction on transferring shares or issued depositary receipts with the Company's co-operation

The Articles of Association of the Company have no restriction with respect to the transfer of shares. The Company has no depositary receipts issued with the Company's co-operation.

c. Duty to report interests in the Company

The Company has been notified regarding shareholders with a substantial holding in accordance with the Act on Financial Supervision (3% or more) in the Company: by I.T.R. 2012 B.V (ultimately controlled by Israel Theaters Ltd.), U Dori Group Ltd. (indirectly), Amplico Otworthy Fundusz Emerytalny and ING Otworthy Fundusz Emerytalny.

d. Special controlling rights

The Company has issued no shares with special controlling rights.

e. Employees' shares

The Company currently does not hold any employee share scheme or option plan where the control rights are not exercised directly by the employees.

f. Restriction on voting right and issue of depositary receipts

No restrictions are currently imposed on voting rights attached to issued shares. The Company has no depositary receipts issued with the Company's co-operation.

g. Agreements with shareholders

Currently, the Company is unaware of any shareholder agreements, except for agreements among I.T.R. 2012 B.V., Israel Theaters Ltd., U. Dori Group Ltd. and I.T.R. Dori B.V., which sets forth certain rights and obligations of the parties with respect to each other in connection with various matters, including the appointment to management board and the supervisory board of the Company.

h. Regulations pertaining to the appointment and dismissal of executive and supervisory directors and amendments to the Articles of Association

By virtue of articles 13 and 14 and articles 21 and 22 of the Articles of Association, the General Meeting is authorized to appoint, suspend or dismiss members of the Management Board as well as members of the Supervisory Board. The Directors shall be appointed from a list of nominees, containing the names of at least two persons for each vacancy, to be drawn up by the Supervisory Board. A nomination which is drawn up in time shall be binding. However, the General Meeting may deprive the nomination of its binding character by resolution adopted with a majority of not less than two thirds of the votes cast, representing more than half of the issued capital. The members of the Management Board and the Supervisory Board may be suspended or dismissed by the General Meeting at any time. If a resolution to suspend or dismiss a Director has not been proposed by the Supervisory Board, the resolution to suspend or dismiss a Managing Director is adopted with not less than two thirds of the votes cast by shareholders, representing more than half of the issued capital.

By virtue of article 40 of the Articles of Association, the Articles of Association can only be amended at the proposal of the Management Board subject to approval from the Supervisory Board and the shareholders. A resolution to amend the Articles of Association shall be passed by an absolute majority of the votes cast.

i. The powers of the board

By virtue of article 5 of the Articles of Association, the Management Board is, subject to the approval of the Supervisory Board, authorized to resolve to issue shares for a certain period for a maximum per issue of shares of 25% of the issued share capital immediately prior to that issue, with an aggregate maximum of all non-issued shares of the authorized share capital. The period of authorization of the Management Board by the General Meeting of Shareholders was renewed by a decision of the General Meeting of Shareholders which took place on 28 of June 2012 for another period of five years lapsing at 28 June 2017.

j. Important agreements when issuing a public bid

The Company is not aware of any existing agreement which is relevant in the context of the issuance of a public bid.

k. Agreements with executive directors or employees in the event of a public bid

The employment contracts of the Members of the Management Board do not contain any specific clauses which refer to a change of control in the Company.

Remuneration Report

Remuneration Report

Introduction

The Extraordinary General Meeting of Shareholders held on 1 October 2007, upon recommendation of the Supervisory Board, approved the Company's remuneration policy which sets forth the terms of remuneration of the members of the Management Board. The remuneration for the Supervisory Board was also adopted at the same General Shareholders' Meeting.

Remuneration Policy

The objective of the Company's remuneration policy is to provide a compensation program that allows the Company to attract, retain and motivate members of the Supervisory and Management Boards and those who have the character traits, skills and background to successfully lead, manage and supervise the Company. The remuneration policy is designed to reward members of the Management Boards and other key personnel for their contribution to the success of the Company. Each of the Supervisory Boards member receives fixed annual remuneration and remuneration per attended meeting.

Governance

The General Meeting of Shareholders approves all aspects of the remuneration policy for the Management Board. The General Meeting of Shareholders further determines the remuneration of the Supervisory Board. Compensation of both the Supervisory Board and Management Board is reviewed regularly. The Supervisory Board has a dedicated Remuneration Committee.

Remuneration of the Management Board

Shraga Weisman

Mr Shraga Weisman, as a member of the Management Board of Ronson Europe N.V., has entered into an employment contract with a subsidiary of the Company (Ronson Development Management Sp. z o.o.). The terms of his compensation package include a gross monthly fee of the PLN equivalent of EUR 2,500. Mr Weisman is also entitled to reimbursement of housing and office costs amounting up to the PLN equivalent of EUR 3,000 per month, as well as certain other social and medical insurance costs. His compensation also includes a reimbursement of reasonably incurred and documented expenses related to the proper performance of his consulting agreement up to the amount of EUR 5,000 per calendar year as well as reimbursement of the costs related to his and his family's travel to Israel up to the maximum amount of EUR 20,000 per year and a company car.

In addition, he provides via his consulting company services to Ronson Europe N.V. For these services Mr Weisman's company charges Ronson Europe N.V. a monthly fee of EUR 22,500. His consulting company is also entitled to an annual bonus set at 3.3% of the consolidated annual pre-tax profit of the Group.

Tomasz Łapiński

Mr Tomasz Łapiński, as a member of the Management Board of Ronson Europe N.V., has entered into an employment contract with a subsidiary of the Company (Ronson Development Management Sp. z o.o.). The conditions of the employment contract include a monthly salary of PLN 42,000, reimbursement of the medical insurance costs and a company car.

Remuneration Report

Remuneration of the Management Board (cont'd)

Andrzej Gutowski

Mr Andrzej Gutowski, as a member of the Management Board of Ronson Europe N.V., has entered into an employment contract with a subsidiary of the Company (Ronson Development Management Sp. z o.o.). The conditions of the employment contract include a monthly salary of PLN 25,000, reimbursement of the medical insurance costs and a company car.

Israel Greidinger

Mr Israel Greidinger is not entitled to any remuneration from Ronson Europe nor from any of the Company's subsidiaries.

Ronen Ashkenazi

Mr Ronen Ashkenazi is not entitled to any remuneration from Ronson Europe nor from any of the Company's subsidiaries.

Pierre Decla

Mr Pierre Decla, previous member of the Management Board, was not entitled to any remuneration from Ronson Europe nor from any of the Company's subsidiaries.

Remuneration of the Management Board in 2013

Total compensation of the Members of the Management Board – not including any benefits from the employee stock incentive plan (share based payments) and the company car – amounted to PLN 3,302 thousand, of which the compensation of:

- Mr Shraga Weisman amounted to PLN 2,116 thousand,
- Mr Tomasz Łapiński amounted to PLN 653 thousand,
- Mr Andrzej Gutowski amounted to PLN 533 thousand.

Long-term incentive plan linked to the share price performance of Ronson Europe N.V.

On 3 February 2014 the Supervisory Board of the Company adopted an incentive plan, addressed to selected key employees, which is based on the price performance of the Company's shares (the "Phantom Stock Plan"). The Phantom Stock Plan, which does not assume any new issue of shares and which will not result in any new shares supply, is based on the following key assumptions and includes the settlement mechanism as described below:

- i. the exercise price of one option under the Phantom Stock Plan is PLN 1.6;
- ii. the total number of options is 2,705,000 (which is the equivalent of approximately 1% of the Company's total number of shares), and the allocation of options to particular employees shall be made by way of a separate decision of the Remuneration Committee;
- iii. benefits will be aggregated among the selected employees (of the Company or of its subsidiaries) who join the Phantom Stock Plan through the end of 2015, of which (a) 50% is awarded as of the date of the decision of the Remuneration Committee approving the Phantom Stock Plan, (b) 25% as of the end of 2014, and (c) 25% by the end of 2015;
- iv. employees participating in the Phantom Stock Plan maintain the right to exercise their options until the end of 2017 (or a maximum of two years from the date they are no longer employed by the Ronson Group);

Remuneration Report

Long-term incentive plan linked to the share price performance of Ronson Europe N.V. (cont'd)

- v. upon the exercise of the options, the Company will pay the option holder the amount in cash equal to the difference between PLN 1.6 and the current market price of the shares in the Company ("Current Market Price") allocated to a particular employee (option holder);
- vi. the Current Market Price will be calculated as the average trading price of the shares during the preceding calendar month, whereby the average trading price shall be determined by calculating the total turnover value in PLN of all of the shares in the Company traded during that period divided by the total number of shares traded during such period (however, if the total value of the overall turnover in any particular month is lower than PLN 100 thousand, then the Current Market Price shall be calculated on the basis of the most recent two-month market average);
- vii. in the event that the free float is less than 10% of all the outstanding shares in the Company, the Current Market Price will be established by a reputable valuation company based on a comparable valuation of Ronson's peer companies listed on the Warsaw Stock Exchange (based on P/E and P/BV multiples);
- viii. an option holder shall be entitled to submit a payment request during the first five working days of each calendar month, provided that all employees must observe any trading restrictions related to the sale/purchase of the Company's shares by Management and Supervisory Board members and key management under applicable regulations, especially with respect to the observance of closed periods.

Based on the Remuneration Committee decision, out of the total 2,705,000 options, 950,000 options were allocated to Tomasz Łapiński, and 675,000 options were allocated to Andrzej Gutowski while the remaining 1,080,000 options were allocated to other key employees of the Company.

Long-term incentive plan linked to Ronson Europe N.V. financial results

On 3 February 2014 the Supervisory Board of the Company adopted an incentive plan, addressed to selected key employees, which is based on the financial performance of the Company. Financial performance shall be determined by the Company's Remuneration Committee of the Supervisory Board taking into consideration either (a) current sales results (the new contracts signed with customers) or (b) profits before tax recognized by the Company.

Based on the Remuneration Committee decision, Tomasz Łapiński (in addition to his remuneration) is entitled to an aggregated payment which would be equivalent of 0.75% of the Company's profit before tax in particular financial year. Moreover Andrzej Gutowski is entitled to an aggregated payment which would be equivalent of 0.1% of the net value of the Company's current sales results.

Remuneration of the Supervisory Board

Each Supervisory Board member currently receives an annual remuneration of EUR 8,900 and EUR 1,500 per attendance at meetings or EUR 750 if attendance is by telephone. Moreover Supervisory Board members are entitled to reimbursement of out-of-pocket expenses related to services provided to the Company (mainly comprising travel and accommodation expenses). The Supervisory Board members are not entitled to any benefits on termination of their service. Two Supervisory Board members, notably Mr Arie Mientkavich and Mr Frank Roseen (member of the Supervisory Board until 25 November 2013), have waived their remuneration from the Company. The remuneration paid (or accrued) to the Supervisory Board members includes only the remuneration for the remaining members: Mr Mark Segall, Mr Yair Shilhav, Mr Przemyslaw Kowalczyk and Mr Reuven Sharoni. The total Supervisory Board remuneration during 2013 amounted to PLN 281 thousand (EUR 67 thousand).

Risk Profile and Risk Management

Risk Profile

Management believes that the residential market as a whole in Poland is less saturated than in any other country within the European Union, including also the developing countries in Central and Eastern Europe, which in general provides for many opportunities for residential developers. However due to the fact that the Polish economy is still experiencing many dynamic changes, it may be sensitive to potential up and down-turns. These market conditions form an important and significant risk factor for the Company and for other residential developers, as the development process (including stages such as the purchase of land, the preparation of land for construction works, the construction process itself and, finally, also the sale of apartments) may take several years from start until completion. It is important to understand that decisions taken by the Company must assume a relatively long-term time horizon for each project as well as a significant volatility of land prices, construction cost levels and sales prices of apartments during the duration of projects which may have a material impact on the Company's profitability and financing needs.

Another specific risk is associated with the rapid development of many Polish cities which very often involves a lack of stability of development plans which could substantially impact the likelihood that projects on particular sites are realized as initially desired or planned. Quite often, residential developers are interested in buying land parcels without zoning conditions or without a valid master plan for the area, which would allow for a better assessment of the ultimate value of the plot. Pursuing such market opportunities may result in relatively low prices of the land parcels. However, this strategy may result in increasing operational and financial risks for the developer. Moreover, changing development plans of the cities could also impact the planned development and realization of utility infrastructure (including water, gas, sewage and electricity connections), which is critical factor for the Company and other developers. However, for a vast majority of land parcels, the Company has already obtained zoning approvals, which reduces this risk to the Company significantly.

A very specific risk for the Polish residential market is related to the initiatives of the Polish Government supporting young people wanting to buy their first apartment. The previous government program, which expired at the end of 2012, was called *Rodzina na Swoim* (Family on its Own) and was subsidizing the costs of mortgage loans. A new program called *Mieszkanie dla Młodych* (Apartment for the Young) was launched in the beginning of 2014. The Polish government, whilst setting up the parameters of such programs (for instance maximum total area of the apartments qualifying for the program, or maximum allowable price in particular cities), will thus be of influence on the increasing attractiveness of certain type of apartments and the decreasing for other types.

Another operating risk lies within the construction process itself. The Company does not operate a construction business, but, instead, it hires third party general contractors, who are responsible for running the construction and for the finalization of the project including obtaining all permits necessary for safe use of the apartments. Important selection criteria when hiring a general contractor include experience, professionalism and financial strength of the contractor as well as the quality of the insurance policy covering all risks associated with the construction process.

The turbulence in the financial markets and with the euro currency during the past few years has resulted in a lack of stability in the manner in which financing institutions (banks) have approached both real estate companies and individual customers when applying for a mortgage loan. As the real estate business is very capital consuming, the role of the banking sector and its lending ability and willingness are crucial for the Company leveraging not only when land parcels are acquired but also during the later stages of development, especially during the construction phase. Moreover, the availability of external financing is a crucial element driving the demand for apartments, as the vast majority of our customers are using mortgage secured loans to finance the purchase of apartments.

For addition informational on financial instruments risks see Note 39 of the Consolidated Financial Statements.

Risk Profile and Risk Management

Risk Management

As part of its risk management measures, the Company is continually requesting, monitoring and purchasing insurance policies for most common risks associated with the activities of its contractors and their subcontractors, including construction companies and architectural designers, as well as insurance policies with respect to third-party liability. In the Company's opinion, these insurance policies offer adequate coverage for the financial consequences of any misconduct of Company's business partners.

In order to mitigate the market risks involved with the Company's activities, the Company applies relevant internal procedures. Moreover, in response to market instability over the past several years, the Company decided to scale down the size of individual projects offered for sale, by splitting larger residential projects into relatively smaller phases (usually at on average around 100 units for each stage of completion). The Company's plans for 2014 assume the possibility of commencing the construction of four new projects and six further stages of projects that are currently under construction comprising some 570 and 650 units respectively, which means that the average scale of each new project, i.e. stage of completion, will be around 120 units. The Company is further mitigating the risks related to the construction process by selecting and hiring experienced construction companies with good reputation and proven track-record in Poland.

Moreover, various other organizational measures and procedures were implemented in order to safeguard the quality of operations and to incorporate adequate checks and balances, including approvals, authorizations, reviewing investment decisions and so on. As part of implementing best-practice provisions of both the Dutch and Polish corporate governance codes, the Company introduced a tailored internal risk management and control system. During 2013, the proper operation of the new internal risk management and control system has again been monitored. The evaluation was discussed with the members of the Audit Committee and the Supervisory Board. Also, the Company has a set of whistleblower rules in place to ensure that employees of the Company and its subsidiaries have the possibility of reporting alleged irregularities of a general, operational or financial nature.

The Company's Management Board believes that its existing risk management measures are sufficient to provide a reasonable degree of certainty as to the absence of material inaccuracies in the financial reporting, losses and fraud.

Moreover, as a result of ongoing volatility in the financial markets and the continued unstable situation in the banking sector, the Company's Management pays particular attention to cash and liquidity management, basically securing sufficient amounts of cash deposits with a view to a continuation of the Company's operations in these potentially more turbulent times.

For a description of the Company's financial instruments risk management reference is made to Note 39 of the Consolidated Financial Statements.

Directors' Report

General

Introduction

Ronson Europe N.V. ('the Company') is a Dutch public company with its statutory seat in Rotterdam, the Netherlands, and was incorporated on 18 June 2007.

The Company (together with its Polish subsidiaries, 'the Group') is active in the development and sale of residential units, primarily apartments, in multi-family residential real-estate projects to individual customers in Poland. For information about companies in the Group from which their financial data included in the Consolidated Financial Statements see Note 1 of the Consolidated Financial Statements.

The shares of the Company are traded on the Warsaw Stock Exchange since 5 November 2007. As at 31 December 2013, 39.8% of the outstanding shares are held indirectly by I.T.R. 2012 B.V., which is an indirect subsidiary of Israel Theaters Ltd. ('ITR 2012') and 39.8% of the outstanding shares are held indirectly by U. Dori Group Ltd., whereas the remaining 20.4% of the outstanding shares are reportedly held by other investors including Amplico Otworthy Fundusz Emerytalny and ING Otworthy Fundusz Emerytalny with each party holding an interest of between 5% and 10% of the outstanding shares. On 5 March 2014, the market price was PLN 1.85 per share giving the Company a market capitalization of PLN 503.9 million.

Company overview

The Company is an experienced, fast-growing and dynamic residential real estate developer expanding its geographic reach to major metropolitan areas across Poland. Leveraging upon its large portfolio of secured sites, the Company believes it is well positioned to maintain its position as a leading residential development company throughout Poland.

The Company aims to maximize value for its shareholders by a selective geographical expansion in Poland as well as by creation of a portfolio of real estate development properties. Management believes the Company has positioned itself strongly to navigate the volatile economic environment the Company has found itself in over the past several years. On the one hand, the Polish economy appears to remain stable, which potentially bodes well for the Company's prospects. On the other hand, the tenuous European recovery may continue to have a negative impact on the Polish economy and the Company's overall prospects. As a result, the Company continues to adhere to a development strategy that allows it to adjust quickly to these uncertain conditions by spreading risks through (i) closely monitoring its projects, (ii) potentially modifying the number of projects and their quality and sizes, (iii) considering various other geographical locations to commence development, and (iv) maintaining its conservative financial policy compared to other regional residential developers.

As at 31 December 2013, the Group has 809 units available for sale in eleven locations, of which seven are ongoing projects, comprising a total of 1,046 units, with a total area of 56,800 m². The construction of 396 units, with a total area of 20,300 m², is expected to be completed during 2014. In addition, the Group has a pipeline of 20 projects in different stages of preparation, representing approximately 4,900 residential units with a total area of approximately 320,500 m² for future development in Warsaw, Poznań, Wrocław and Szczecin. The Group is considering commencement of another six stages of the currently running projects comprising 638 units with a total area of 35,800 m², and four new projects comprising 573 units with a total area of 34,500 m² (in total 1,211 units with a total area of 70,300 m²), during 2014.

During the financial year ended 31 December 2013, the Company realized sales of 572 units with the total value PLN 221.8 million, which compares favorably to sales of 380 units with a total value of PLN 153.0 million during the year ended 31 December 2012. These results appear to reflect an improving market position of the Company in comparison to other developers listed on the WSE, as while they reported increased sales, they were at a slower rate than our reported increase during the same period.

Company overview (cont'd)

During June and July 2013, the Company issued bonds with an aggregate nominal value and issue price of PLN 116.3 million. The bonds carry an interest rate composed of a base rate equal to 6 months Wibor plus a margin, with interest payable semi-annually and maturing in June 2016 (PLN 23.5 million), July 2016 (PLN 9.3 million) and June 2017 (PLN 83.5 million), with full payment due on the maturity date. The bonds have been issued in order to enable the Company to refinance the PLN 66.8 million in bonds issued by the Company in April 2011. Moreover, in October 2013, the Company repaid all of its outstanding series B bonds in the nominal value of PLN 15.7 million utilizing its option of earlier repurchase. Furthermore, the proceeds from the bonds provide the Company with additional capital required to purchase land for new projects as well as to commence construction of new projects. For additional information see Note 28 and 29 of the Consolidated Financial Statements.

Dividend policy

On 8 May 2013, the Company issued current report number 4/2013, announcing that the Company's Management Board would recommend to the General Meeting of Shareholders to change its dividend policy and to start paying dividend in 2013. On 14 May 2013, current report number 5/2013 was issued, stating that the Supervisory Board approved the recommendations of the Management Board. On 27 June 2013, the Annual General Meeting of Shareholders approved the proposal to declare a dividend for the financial year 2012 in the amount of PLN 8,170,800 in total or PLN 0.03 per ordinary share in cash. This is equal to 26% of the net profit attributable to the equity holders of the parent company in 2012.

Prior to 2013, since the incorporation of the Company and the IPO in 2007, the Company has retained its profits and did not distribute dividends, in accordance with the dividend policy as set out in the prospectus. The new dividend policy assumes on-going periodic dividend payouts to the shareholders. The Management Board believes that the expected operating, financial and cash-flow position of the Company may allow for increasing the dividend payout in the future. According to a new policy, the Board of Supervisory Directors will be evaluating the future recommendations of the Board of Managing Directors with respect to the potential dividend payouts taking into account (i) the current and expected balance sheet of the Company, with close observance of the all balance-sheet linked debt covenants, (ii) the financial needs of the Company aiming to be ranked amongst leading residential developers in Poland and (iii) changing market environment.

Market overview

The Polish economy has proven to be relatively strong even in the recent turbulent times throughout Europe, which in combination with the general paucity of dwellings in Poland (in comparison to all other European countries) creates, what management believes to be, solid long term prospects for further development of the residential real estate market in spite of the volatility that has characterized the market for the past six years. Management believes the Company is well positioned to adapt to changing market conditions. The Company's sales results during 2010 through 2013 seem to confirm that the Company has adapted positively to the volatile market environment.

The trend observed in 2010 and in 2011, when increasing activities of developers resulted in an increased offer of apartments available for sale on the market, slowed down in 2012, as many developers faced difficulties in finding customers for their products. In 2012, the construction of 142 thousand new apartments was commenced in Poland (a decrease of 12% compared to 2011) and during 2013 this number decreased by further 10%. Simultaneously, demand in 2013 increased in comparison to 2012 and the increase in demand was even faster than in the supply. It is also important to highlight that due to new regulations and banking restrictions only the most reputable developers (such as the Company) were able to secure financing for new investments and were able to increase their offer substantially. Simultaneously, competition among real estate developers increased, which has, in turn, led to increased customer demands and expectations relating to quality, a more advanced stage of construction and higher expectations for lower priced apartments. Moreover, an increasing number of customers have indicated interest in more "economical-sized" apartments, i.e. the same number of rooms in a smaller area.

Market overview (cont'd)

Another unique factor affecting the Polish residential market is related to the governmental plans supporting and subsidizing young couples purchasing their first apartments. The previous program called "Rodzina na Swoim" ("Family on its own") expired at the end of 2012, whereas the new governmental program came into effect in the beginning of 2014.

Moreover, in the last few quarters, the National Bank of Poland has kept interest rates at record low levels (only 2.5% since July 2013). Sharp decreases in interest rates in 2013 have positively impacted the residential market, as on the one hand mortgage loans became more affordable to the potential clients and on the other hand more customers purchase apartments for cash, as they consider this real estate investment as an attractive alternative to the very low interest earned on banking deposits. To that end (according to the estimates of real estate brokers), the number of clients purchasing apartments for cash doubled in comparison to the trends observed for similar periods in 2012.

Taking into consideration all these circumstances, the demand increase noticed in 2013 caught up with supply and more recently, it appears demand has even begun to exceed supply, suggesting the possibility of potential increases in apartment prices, which would benefit the Company. The number of total new apartments sold in Warsaw during 2013 amounted to 14.6 thousand and this number was 19% higher than in 2012. Number of new apartments sold in eight major Polish metropolitan areas (other than Warsaw) increased in the same period by 13%.

Management believes that all the above factors, and especially the significantly improved sales results during 2013, particularly in the second half of 2013 for both the Company and the market as a whole throughout the country, may indicate on-going improvement in the Polish residential market in the coming quarters.

Meanwhile, on the construction side, arranging the financing of construction sites has become more challenging for developers due to implementation of a new law that entered into force in Poland in April 2012, which requires construction processes to be financed from debt as well as equity or, alternatively, to be secured by additional bank guarantees increasing security of customers' deposits, if such deposits are being used for financing the construction. Management believes that the Company is in a relatively strong financial position and should not face difficulties in arranging debt financing for its projects. Accordingly, when planning its newest projects, the Company has prepared itself for more demanding debt facility structures that are being imposed by the lending banks especially anticipating the requirements under the new developers' law.

Directors' Report

Business highlights during the year ended 31 December 2013

A. Projects completed

The table below presents information on the projects that were completed (i.e. completing all construction works and receiving occupancy permit) during the year ended 31 December 2013:

Project name	Location	Number of units	Area of units (m ²)
Sakura II (*)	Warsaw	136	8,300
Chilli II (*)	Poznań	20	1,600
Naturalis III (*)	Warsaw	60	3,400
Verdis II (*)	Warsaw	78	4,900
Total		294	18,200

(*) For additional information see section 'B. Results breakdown by projects' below.

B. Results breakdown by project

Revenue from the sale of residential units is recognized upon the transfer to the buyer of significant risks and rewards of the ownership of the residential unit, i.e. upon signing of the protocol of technical acceptance and the transfer of the key to the buyer of the residential unit. Total revenue of the Group recognized during the year ended 31 December 2013 amounted to PLN 207.0 million, whereas cost of sales amounted to PLN 164.4 million, which resulted in a gross profit amounting to PLN 42.6 million with a gross margin of 20.6%.

The following table specifies revenue, cost of sales and gross profit in 2013 on a project by project basis:

Project name	Information on the delivered units		Revenue (*)		Cost of sales (**)		Gross profit	Gross margin
	Number of units	Area of units (m ²)	PLN		PLN		PLN	
			(thousand)	%	(thousand)	%	(thousand)	%
Gemini II	73	5,627	45,395	21.9%	27,618	16.8%	17,777	39.2%
Verdis I & II	82	5,935	40,481	19.6%	28,343	17.2%	12,138	30.0%
Sakura I & II	148	9,087	62,410	30.1%	53,006	32.2%	9,404	15.1%
Impressio I	23	1,526	8,809	4.3%	9,011	5.5%	(202)	-2.3%
Constans	10	2,688	9,974	4.8%	10,320	6.3%	(346)	-3.5%
Naturalis I, II & III	62	3,349	17,759	8.6%	15,555	9.5%	2,204	12.4%
Panoramika I	46	2,648	11,996	5.8%	11,354	6.9%	642	5.4%
Chilli I & II	30	2,221	9,276	4.5%	8,785	5.3%	491	5.3%
Other	N.A	N.A	925	0.4%	468	0.3%	457	49.4%
Total / Average	474	33,081	207,025	100.0%	164,460	100.0%	42,565	20.6%

(*) Revenue is recognized upon the transfer of significant risks and rewards of the ownership of the residential unit to the buyer, i.e. upon signing of the protocol of technical acceptance and the transfer of the key of the residential unit to the buyer.

(**) Cost of sales allocated to the delivered units proportionally to the expected total value of the project.

Business highlights during the year ended 31 December 2013 (cont'd)

B. Results breakdown by project (cont'd)

Gemini II

The construction of the Gemini II project was completed in December 2012. The Gemini II project was developed on a land strip of 4,703 m² located in the Ursynów district in Warsaw (KEN Avenue) situated next to the subway station Imielin. The Gemini II project comprises 2 eight and eleven-storey, multi-family residential buildings with a total of 167 apartments and 15 commercial units and an aggregate floor space of 13,900 m².

Verdis I & II

The construction of the Verdis I and Verdis II projects was completed in December 2012 and December 2013, respectively. The Verdis I and Verdis II projects were developed on a part of a land strip of 16,300 m² located in the Wola district in Warsaw (Sowińskiego Street). The Verdis I and Verdis II projects comprise 3 seven, eight and ten-storey, multi-family residential buildings with a total of 128 apartments and 11 commercial units and an aggregate floor space of 9,400 m² and 2 seven-storey, multi-family residential buildings with a total of 72 apartments and 6 commercial units and an aggregate floor space of 4,900 m², respectively.

Sakura I & II

The construction of the Sakura I and Sakura II projects was completed in May 2012 and May 2013, respectively. The Sakura I and Sakura II projects were developed on a part of a land strip of 21,000 m² located in the Mokotów district in Warsaw (Kłobucka Street). The Sakura I and Sakura II projects comprise 1 eleven-storey, multi-family residential building with a total of 99 apartments and 21 commercial units and an aggregate floor space of 8,100 m² and 1 seven and eleven-storey, multi-family residential building with a total of 136 apartments and an aggregate floor space of 8,300 m², respectively.

Impressio I

The construction of the Impressio I project was completed in June 2012. The Impressio I project was developed on a part of a land strip of 14,500 m² located in the Grabiszyn district in Wrocław. The Impressio I project comprises 3 four-storey, multi-family residential buildings with a total of 70 apartments and an aggregate floor space of 4,500 m².

Constans

The first, second and the third phases of the Constans housing project were completed in July 2010, November 2010 and June 2011, respectively. This project was developed on part of a land strip of 36,377 m² located in Konstancin near Warsaw. The first, second and the third phases of the Constans housing project comprise 8 semi-detached units (total 16 units) with an aggregate floor space of 4,471 m², 5 semi-detached units (total 10 units) with an aggregate floor space of 2,758 m² and 4 semi-detached units (total 8 units) with an aggregate floor space of 2,176 m², respectively.

Naturalis I, II & III

The construction of the Naturalis I, II and III projects was completed in December 2012, August 2012 and August 2013, respectively. The Naturalis I, II and III projects were developed on a part of a land strip of 31,800 m² located in Łomianki near Warsaw. The Naturalis I, II and III projects comprise 1 four-storey, multi-family residential building with a total of 52 apartments and an aggregate floor space of 2,900 m² and 2 four-storey, multi-family residential buildings, each with a total of 60 apartments and an aggregate floor space of 3,400 m².

Business highlights during the year ended 31 December 2013 (cont'd)

B. Results breakdown by project (cont'd)

Panoramika I

The construction of the Panoramika I project was completed in October 2012. The Panoramika I project was developed on a part of a land strip of 30,300 m² located in Szczecin at Duńska Street. The Panoramika I project comprises 2 four and five-storey, multi-family residential buildings with a total of 90 apartments and an aggregate floor space of 5,300 m².

Chilli I & II

The construction of the Chilli I and II projects was completed in July 2012 and July 2013, respectively. The Chilli I and II projects were developed on a part of a land strip of 39,604 m² located in Tulce near Poznań. The Chilli I and II projects comprises 30 units with an aggregate floor space of 2,100 m² and 20 units with an aggregate floor space of 1,600 m², respectively.

Other

Other revenues are mainly associated with sales of the parking places and storages in other projects that were completed in previous years, as well as rental revenues.

Directors' Report

Business highlights during the year ended 31 December 2013 (cont'd)

C. Units sold during the year

The table below presents information on the total units sold (i.e. total number of units for which the Company signed the preliminary sale agreements with the clients), during the year ended 31 December 2013:

Project name	Location	Units sold until 31 December 2012	Units sold during the year ended 31 December 2013	Units for sale as at 31 December 2013	Total
Constans ^(*)	Warsaw	21	11	2	34
Gemini II ^(*)	Warsaw	166	14	2	182
Verdis I & II ^(*)	Warsaw	124	79	14	217
Verdis III ^(**)	Warsaw	-	21	125	146
Sakura I & II ^(*)	Warsaw	141	104	11	256
Sakura III ^(**)	Warsaw	-	29	116	145
Naturalis I, II & III ^(*)	Warsaw	61	45	66	172
Impressio I ^(*)	Wrocław	48	19	3	70
Impressio II ^(*)	Wrocław	-	1	141	142
Chilli I & II ^(*)	Poznań	21	26	3	50
Chilli III ^(**)	Poznań	-	2	36	38
Panoramika I ^(*)	Szczecin	33	47	10	90
Espresso I ^(**)	Warsaw	96	91	23	210
Espresso II ^(**)	Warsaw	-	29	123	152
Młody Grunwald I ^(**)	Poznań	25	44	79	148
Tamka ^(**)	Warsaw	-	10	55	65
Total		736	572	809	2,117

(*) For information on the completed projects see "Business highlights during the year ended 31 December 2013 – B. Results breakdown by project" (pages 20 to 22).

(**) For information on current projects under construction, see "Outlook for 2014 – B. Current projects under construction" (pages 32 to 34).

D. Commencements of new projects

The table below presents information on the projects for which the construction and/or sales process commenced during the year ended 31 December 2013:

Project name	Location	Number of units	Area of units (m ²)
Sakura III ^(*)	Warsaw	145	7,300
Verdis III ^(*)	Warsaw	146	7,700
Espresso II ^(*)	Warsaw	152	7,600
Impressio II ^(*)	Wrocław	142	8,400
Chilli III ^(*)	Poznań	38	2,300
Tamka ^(*)	Warsaw	65	5,500
Total		688	38,800

(*) For additional information see section "Outlook for 2014 – B. Current projects under construction" (pages 32 to 34).

E. Land purchase

During financial year ended 31 December 2013, the Group did not purchase any land.

Directors' Report

Overview of results

The net profit attributable to the equity holders of the parent company for the year ended 31 December 2013 was PLN 19,026 thousand and can be summarized as follows:

	For year ended	
	31 December	
	2013	2012
	PLN	
	(thousands, except per share data)	
Revenue	207,025	198,759
Cost of sales	(164,460)	(148,352)
Gross profit	42,565	50,407
Changes in the value of investment property	774	(970)
Selling and marketing expenses	(6,821)	(6,200)
Administrative expenses	(15,905)	(15,972)
Other expense	(2,608)	(1,953)
Other income	731	967
Result from operating activities	18,736	26,279
Finance income	1,876	3,433
Finance expense	(3,371)	(1,441)
Net finance income/(expense)	(1,495)	1,992
Profit before taxation	17,241	28,271
Income tax benefit	1,181	3,040
Net profit for the period before non-controlling interests	18,422	31,311
Non-controlling interests	604	344
Net profit for the period attributable to the equity holders of the parent	19,026	31,655
Net earnings per share attributable to the equity holders of the parent (basic and diluted)	0.070	0.116

Overview of results (cont'd)

Revenue

Total revenue increased by PLN 8.3 million (4.2%) from PLN 198.7 million during the year ended 31 December 2012 to PLN 207.0 million during the year ended 31 December 2013, which increase is primarily explained by an increase in apartments delivered to the customers in terms of area size (in m²). The increase is offset in part by a decrease in the average selling price per m².

Cost of sales

Cost of sales increased by PLN 16.1 million (10.9%) from PLN 148.4 million during the year ended 31 December 2012 to PLN 164.5 million during the year ended 31 December 2013, which is primarily explained by the increase in apartments delivered to the customers in terms of area size (in m²), which is partly offset by a slight decrease in the average cost of sales per m². During the year ended 31 December 2012, Cost of sales was furthermore impacted by the write-down adjustment on the Constans project.

Gross margin

The gross margin during the year ended 31 December 2013 was 20.6% compared to the gross margin during the year ended 31 December 2012 of 25.4%. The decrease in gross margin is primarily explained by the increase of number of units delivered in less profitable projects.

Selling and marketing expenses

Selling and marketing expenses increased by PLN 0.6 million (10.0%) from PLN 6.2 million for the year ended 31 December 2012 to PLN 6.8 million for the year ended 31 December 2013. The increase of expenses reflects the changing market dynamics, which demand that developers undertake a more proactive sales and marketing effort in a more competitive environment. Simultaneously, the number of units sold by the Company in the period increased by 50.5% (from 380 units during the year ended 31 December 2012 to 572 units during the corresponding period in 2013).

Administrative expenses

Administrative expenses decreased by PLN 0.1 million (0.4%) from PLN 16.0 million for the year ended 31 December 2012 to PLN 15.9 million for the year ended 31 December 2013. The decrease is primarily explained by a decrease in the Management Board bonus which is calculated in proportion to the profit before tax. The decrease is offset in part by an increase in the sales department bonus due to the increase in sales.

Other expenses

Other expenses increased by PLN 0.6 million (33.5%) from PLN 2.0 million for the year ended 31 December 2012 to PLN 2.6 million for the year ended 31 December 2013, which is primarily explained by an increase in maintenance expense of unsold units.

Other income

Other income decreased by PLN 0.3 million (24.4%) from PLN 1.0 million for the year ended 31 December 2012 to PLN 0.7 million for the year ended 31 December 2013, which is primarily explained by a decrease in rental income from inventory.

Result from operating activities

As a result of the factors described above, the Company's operating result decreased by PLN 7.6 million, from an operating profit of PLN 26.3 million for the year ended 31 December 2012 to an operating profit of PLN 18.7 million for the year ended 31 December 2013.

Directors' Report

Overview of results (cont'd)

Net finance income

Finance income and expenses are accrued and capitalized as part of the cost price of inventory to the extent this is directly attributable to the construction of residential units. Unallocated finance income and expenses not capitalized are recognized in the statement of comprehensive income.

The table below shows the finance income and expenses before capitalization into inventory and the total finance income and expenses capitalized into inventory.

	For the year ended 31 December 2013		
	PLN (thousands)		
	<u>Total amount</u>	<u>Amount capitalized</u>	<u>Recognized as profit or loss</u>
Finance income	2,012	(136)	1,876
Finance expense	(17,250)	13,879	(3,371)
Net finance (expense)/income	(15,238)	13,743	(1,495)

	For the year ended 31 December 2012		
	PLN (thousands)		
	<u>Total amount</u>	<u>Amount capitalized</u>	<u>Recognized as profit or loss</u>
Finance income	3,626	(193)	3,433
Finance expense	(19,971)	18,530	(1,441)
Net finance (expense)/income	(16,345)	18,337	1,992

Net finance expenses before capitalization decreased by PLN 1.2 million (6.8%) from PLN 16.4 million during the year ended 31 December 2012 to PLN 15.2 million during the year ended 31 December 2013, that is primarily explained by a decrease in the reference rates (WIBOR). The decrease is offset in part by an increase in the average net debt position during the period from PLN 138.7 million during the financial year ended 31 December 2012 to PLN 150.5 million during the financial year ended 31 December 2013, as well as a result of accelerated recognition of the one-time costs related to the bonds issued in 2011, which were repurchased before maturity.

Due to the increased proportion of the finished goods in the Company's inventory (finished apartments), the amount of financial expense capitalized decreased.

Income tax benefit/(expense)

During the year ended 31 December 2013 the Group realized a tax benefit of PLN 1.2 million, in comparison to a tax benefit of PLN 3.0 million for the year ended 31 December 2012. The tax benefit during the financial years ended 31 December 2013 and 31 December 2012 is explained by the recognition of tax assets. The recognition of the tax assets took place after an organizational restructuring of the Group, which allowed the Company to utilize certain tax losses that in prior periods were deemed not to be usable.

Non-controlling interests

Non-controlling interests comprise the share of non-controlling interest (minority shareholders) in profit and losses from subsidiaries that are not 100% owned by the Company and amounted to PLN 604 thousand (positive) for the year ended 31 December 2013 as compared to PLN 344 thousand (positive) for the year ended 31 December 2012.

Directors' Report

Selected financial data

PLN/EUR	Exchange rate of Euro versus the Polish Zloty			
	Average exchange rate	Minimum exchange rate	Maximum exchange rate	Year end exchange rate
2013 (12 months)	4.198	4.067	4.343	4.147
2012 (12 months)	4.185	4.047	4.514	4.088

Source: National Bank of Poland ('NBP')

Selected financial data	EUR		PLN	
	(thousands, except per share data and number of shares)			
	For year ended 31 December or as at 31 December			
	2013	2012	2013	2012
Revenues	49,315	47,493	207,025	198,759
Gross profit	10,139	12,045	42,565	50,407
Profit before taxation	4,107	6,755	17,241	28,271
Net profit for the year attributable to the equity holders of the parent	4,532	7,564	19,026	31,655
Cash flows from/(used in) operating activities	12,804	(8,657)	53,753	(36,231)
Cash flows from/(used in) investing activities	267	(1,872)	1,119	(7,833)
Cash flows from/(used in) financing activities	(11,338)	(1,345)	(47,596)	(5,630)
Increase/(decrease) in cash and cash equivalents	1,733	(11,874)	7,276	(49,694)
Inventory	149,585	163,425	620,330	668,080
Total assets	181,928	192,397	754,456	786,519
Advances received	17,016	16,754	70,565	68,492
Long term liabilities	39,505	37,409	163,827	152,927
Short term liabilities (including advances received)	29,795	42,521	123,560	173,824
Equity attributable to the equity holders of the parent	112,174	111,511	465,186	455,858
Share capital	5,054	5,054	20,762	20,762
Average number of equivalent shares (basic)	272,360,000	272,360,000	272,360,000	272,360,000
Net earnings per share (basic and diluted)	0.017	0.028	0.070	0.116

* Information is presented in EUR solely for presentation purposes. Due to the significant fluctuation of the Polish Zloty against the Euro over the past years, the Statement of Financial Position data do not accurately reflect the actual comparative financial position of the Company. The reader should consider changes in the PLN / EUR exchange rate in 2013 comparing to 2012, when reviewing this data.

Selected financial data were translated from PLN into EUR in the following way:

- (i) Statement of financial position data were translated using the period end exchange rate published by the National Bank of Poland for the last day of the period.
- (ii) Statement of comprehensive income and cash flows data were translated using the arithmetical average of average exchange rates published by the National Bank of Poland.

Overview of selected details from the Consolidated Statement of Financial Position

The following table presents selected details from the Consolidated Statement of Financial Position in which material changes had occurred.

	As at 31 December 2013	As at 31 December 2012
	PLN (thousands)	
Inventory	620,330	668,080
Advances received	70,565	68,492
Loans and borrowings	172,536	207,557

Inventory

The balance of inventory is PLN 620.3 million as of 31 December 2013 compared to PLN 668.1 million as of 31 December 2012. The decrease in inventory is primarily explained by cost of sales recognized for a total amount of PLN 163.9 million. The decrease is offset in part by the Group's investments associated with direct construction costs for a total amount of PLN 90.2 million and a net finance expense capitalized for a total amount of PLN 13.7 million.

Advances received

The balance of advances received is PLN 70.6 million as of 31 December 2013 compared to PLN 68.5 million as of 31 December 2012. The increase is a result of advances received from clients regarding sales of residential units for a total amount PLN 209.1 million and is offset in part by revenues recognized from the sale of residential units for a total amount of PLN 207.0 million.

Loans and borrowings

The total of short-term and long-term loans and borrowings is PLN 172.5 million as of 31 December 2013 compared to PLN 207.6 million as of 31 December 2012. The decrease in loans and borrowings is primarily explained by repayment of bonds loans (Series A and B) for the total amount PLN 82.5 million, as well as repayment of bank loans for the total amount PLN 90.6 million. The decrease is offset in part by the effect of issuance of new bond loans (Series C, D and E) for the total amount PLN 113.3 million (net of issue costs), as well as proceeds from bank loans net of bank charges for a total amount of PLN 26.4 million. Of the mentioned PLN 172.5 million, an amount of PLN 20.1 million comprises facilities maturing no later than 31 December 2014.

The maturity structure of the loans and borrowings reflects the Company's recent activities related to bonds issued in April 2011, June 2013 and in July 2013. Simultaneously, the banking loans that were obtained by the Company in the past 5 to 6 years to partially refinance some of its land acquisitions with short-term and medium-term banking facilities are gradually converted into construction loans (when the Company commences construction in a particular project) and repaid by the Company after construction is completed and the apartments are sold to the customers. In addition, for the majority of projects where construction works have already commenced, the Company also entered into new loan agreements regarding the financing of construction costs. The Company intends to repay its loans and borrowings, both received for land purchases as well as for construction works from the proceeds expected from customers buying apartments in the projects co-financed with the particular loans as well as with the bonds.

Overview of selected details from the Consolidated Statement of Financial Position (cont'd)

Loans and borrowings (cont'd)

The loans and borrowings may be split into four categories: 1) floating rate bond loans, 2) banking loans related to residential projects which are completed or under construction, 3) banking loans granted for the financing of land purchases related to projects where the Company has not entered into loan facilities regarding the financing of construction works and 4) loans from third parties.

Floating rate bond loans as at 31 December 2013 amounted to PLN 119.4 million comprising a loan principal amount of PLN 121.3 million plus accrued interest of PLN 0.7 million minus one-time costs directly attributed to the bond issuances which are amortized based on the effective interest method (PLN 2.6 million). For additional information see Notes 28 and 29 of the Consolidated Financial Statements.

The bank loans supporting completed projects or projects under construction are tailored to the pace of construction works and of sales. As at 31 December 2013, loans in this category amounted to PLN 17.4 million.

The bank loans granted to finance the land purchases as at 31 December 2013 amounted to PLN 24.5 million in total.

Loans from third parties as at 31 December 2013 amounted to PLN 11.2 million.

Overview of cash flow results

Debt and net debt position

As of 31 December 2013, the Company's total debt to banks, bonds and third parties amounted to PLN 172.5 million (31 December 2012: PLN 207.6 million). Taking into account the Company's available cash position at 31 December 2013 amounting to PLN 52.2 million (31 December 2012: PLN 44.9 million), the net debt position of the Company amounted to PLN 120.3 million as at 31 December 2013 (31 December 2012: PLN 162.6 million).

Liquidity and capital resources

The Company funds its day-to-day operations principally from cash flows provided by its sales activities as well as from borrowings under several loan facilities, including bonds. The net cash inflow from operating activities and from financing activities has enabled the Company to proceed with the development of its residential projects and purchasing new plots of lands whilst at the same time maintaining sufficient liquidity for its day-to-day operations.

Cash flow from/(used in) operating activities

The Company's net cash inflow from operating activities for the year ended 31 December 2013 amounted to PLN 53.8 million which compares to a net cash outflow used in operating activities during the year ended 31 December 2012 of PLN 36.2 million. The increase in cash inflow is principally explained by:

- a net cash inflow from inventory amounting to PLN 59.7 million during year ended 31 December 2013 as compared to a net cash outflow used in inventory amounting to PLN 23.7 million during the year ended 31 December 2012. The main reason for increasing cash inflow from inventory was an increase in the cost of sales recognized.

Cash flow from/(used in) investing activities

The Company's net cash inflow from investing activities amounting to PLN 1.1 million during the year ended 31 December 2013 compared to a net cash outflow used in investing activities totaling PLN 7.9 million during the year ended 31 December 2012. The increase is primarily explained by:

- a net cash outflow used for granting of loans to related parties amounting to PLN 0.2 million during the year ended 31 December 2013 compared to PLN 7.5 million during the year ended 31 December 2012.

Cash flow from/(used in) financing activities

The Company's net cash outflow used in financing activities totalled PLN 47.6 million during the year ended 31 December 2013 compared to a net cash outflow totalling PLN 5.6 million in the year ended 31 December 2012. The decrease is primarily due to:

- a repayment of bonds loans (issued in April 2011) for the total amount of PLN 82.5 million during the year ended 31 December 2013 compared to PLN nil during the year ended 31 December 2012;
- a repayment of secured bank loans amounting to PLN 90.6 million during the year ended 31 December 2013 compared to a repayment of secured bank loans amounting to PLN 48.5 million during the year ended 31 December 2012;
- a payment of announced dividend amounting to PLN 8.2 million during the year ended 31 December 2013 compared to PLN nil during the year ended 31 December 2012.

The decrease is partly offset by

- proceeds from issuance of newly issued bond loans for a total amount of PLN 113.3 million (net of issue costs) during the year ended 31 December 2013 compared to PLN nil during the year ended 31 December 2012.

Directors' Report

Employees

The average number of personnel employed by the Company and its subsidiaries – on a fulltime equivalent basis – increased from 60 in 2012 to 66 in 2013. The increase in the number of employees resulted from the Company's expanding activities.

Research and development

The Company and its subsidiaries are not involved in any research and development activities.

Environmental protection

The Company, in conducting its business activities, undertakes to comply with all laws and regulations regarding use of land and protection of the natural environment. The Company is not a party to any pending proceedings regarding potential environmental protection violations.

Quarterly reporting by the Company

As a result of requirements pertaining to U. Dori Group Ltd, one of the Company's larger (indirect) shareholders, whose shares are listed on the Tel Aviv stock exchange, the first quarter reports, semi-annual reports and third quarter reports are subject to a full scope review by the Company's auditors. For the Company itself, being domiciled in the Netherlands and listed on the Warsaw Stock Exchange, only the semi-annual report is subject to an audit review. The Company has agreed with U. Dori Group that the costs for the first and third quarter audit review will be fully reimbursed to the Company. The Company considers having its first and third quarter report provided with an audit report a benefit to all of its shareholders.

Directors' Report

Outlook for 2014

A. Completed projects

The table below presents information on the total residential units in the completed projects/stages that the Company expects to sell and deliver:

Project name	Location	Number of residential units delivered (*)			Number of residential units expected to be delivered (*)			Total project
		Until 31 December 2012	During the period ended 31 December 2013	Total units delivered	Sold until 31 December 2013	Not sold as at 31 December 2013	Total units expected to be delivered	
Constans ^(**)	Warsaw	19	10	29	3	2	5	34
Gemini II ^(**)	Warsaw	106	73	179	1	2	3	182
Verdis I & II ^(**)	Warsaw	67	82	149	54	14	68	217
Naturalis I,II & III ^(**)	Warsaw	33	62	95	11	66	77	172
Sakura I & II ^(**)	Warsaw	86	148	234	11	11	22	256
Impressio I ^(**)	Wrocław	43	23	66	1	3	4	70
Chilli I & II ^(**)	Poznań	14	30	44	3	3	6	50
Panoramika I ^(**)	Szczecin	23	46	69	11	10	21	90
Total		391	474	865	95	111	206	1,071

^(*) For the purpose of disclosing information related to the particular projects, the word "sell" ("sold") is used, that relates to signing the preliminary sale agreement with the client for the sale of the apartment; whereas the word "deliver" ("delivered") relates to the transferring of significant risks and rewards of the ownership of the residential unit to the client.

^(**) For information on the completed projects see "Business highlights during the year ended 31 December 2013 – B. Results breakdown by project" (pages 20 to 22).

B. Current projects under construction

The table below presents information on projects for which completion is scheduled in 2014 and 2015. The Company has obtained construction permits for all projects/stages and has commenced construction.

Project name	Location	Total area of units (m ²)	Total units	Units sold until 31 December 2013	Expected completion of construction
Espresso I	Warsaw	9,500	210	187	2014
Młody Grunwald I	Poznań	8,500	148	69	2014
Chilli III	Poznań	2,300	38	2	2014
Sakura III	Warsaw	7,300	145	29	2015
Verdis III	Warsaw	7,700	146	21	2015
Espresso II	Warsaw	7,600	152	29	2015
Impressio II	Wrocław	8,400	142	1	2015
Tamka	Warsaw	5,500	65	10	2015
Total		56,800	1,046	348	

Outlook for 2014 (cont'd)

B. Current projects under construction (cont'd)

Espresso I and II

Description of project

The first and the second phase of the Espresso project are being developed on a part of a land strip of 16,192 m² located in Wola district in Warsaw at Jana Kazimierza Street. The first and the second phase of this project will comprise 2 seven-eight-nine-and-ten-storey, multi-family residential buildings with a total of 202 apartments and 8 commercial units and an aggregate floor space of 9,500 m² and 2 seven-and-eight -storey, multi-family residential buildings with a total of 142 apartments and 10 commercial units and an aggregate floor space of 7,600 m², respectively.

Stage of development

The construction of the Espresso I project commenced in March 2012, while completion is expected in the first quarter of 2014. The construction of the Espresso II project commenced in August 2013, while completion is expected in the second quarter of 2015.

Młody Grunwald I

Description of project

The first phase of the Młody Grunwald project is being developed on a part of a land strip of 15,449 m² located in Grunwald district in Poznań at Jeleniogórska Street. The first phase of this project will comprise 3 six-storey, multi-family residential buildings with a total of 136 apartments and 12 commercial units and an aggregate floor space of 8,500 m².

Stage of development

The construction of the Młody Grunwald I project commenced in September 2012, while completion is expected in the second quarter of 2014.

Chilli III

Description of project

The third phase of the Chilli project is being developed on a part of a land strip of 39,604 m² located in Tulce near Poznań, and is a continuation of Chilli I and Chilli II, which were completed during 2012 and 2013. The third phase of this project will comprise 38 units with an aggregate floor space of 2,300 m².

Stage of development

The construction of the Chilli III project commenced in September 2013, while completion is expected in the fourth quarter of 2014.

Sakura III

Description of project

The third phase of the Sakura project is being developed on a part of a land strip of 21,000 m² located in the Mokotów district in Warsaw at Kłobucka Street and is a continuation of Sakura I and Sakura II, which were completed during 2012 and 2013. The third phase of this project will comprise 1 six-and-seven-storey, multi-family residential building with a total of 145 apartments and an aggregate floor space of 7,300 m².

Stage of development

The construction of the Sakura III project commenced in October 2013, while completion is expected in the first quarter of 2015.

Outlook for 2014 (cont'd)

B. Current projects under construction and/or on sale (cont'd)

Verdis III

Description of project

The third phase of the Verdis project is being developed on a part of a land strip of 16,300 m² located in the Wola district in Warsaw at Sowińskiego Street and is a continuation of Verdis I and Verdis II, which were completed during 2012 and 2013. The third phase of this project will comprise 2 seven-and-eleven-storey, multi-family residential buildings with a total of 140 apartments and 6 commercial units and an aggregate floor space of 7,700 m².

Stage of development

The construction of the Verdis III project commenced in October 2013, while completion is expected in the second quarter of 2015.

Impressio II

Description of project

The second and the last phase of the Impressio project is being developed on a part of a land strip of 14,500 m² located in the Grabiszyn district in Wrocław at Rymarska Street, and is a continuation of Impressio I, which was completed during 2012. The last phase of this project will comprise 5 four-storey, multi-family residential buildings with a total of 142 units with an aggregate floor space of 8,400 m².

Stage of development

The construction of the Impressio II project commenced in November 2013, while completion is expected in the second quarter of 2015.

Tamka

Description of project

The Tamka project is being developed on a land strip of 2,515 m² located in the Śródmieście district in Warsaw at Tamka Street (Warsaw city center). The Tamka project will comprise 1 eight-storey, multi-family residential building with a total of 60 apartments and 5 commercial units with an aggregate floor space of 5,500 m².

Stage of development

The construction of the Tamka project commenced in November 2013, while completion is expected in the third quarter of 2015.

Outlook for 2014 (cont'd)

C. Projects for which construction work is planned to commence during 2014

As the Company is aware of the increasing competition in the market, the Company has been careful to manage the number of new projects and the makeup of such projects in order to best satisfy consumer demand. During 2014, the Company is considering the commencement of development of another six stages of currently running projects and four new projects, which management believes are well-suited to current customer requirements, including smaller apartments at more economical prices. Furthermore, in order to minimize market risk, the Company's management breaks down the new projects into relatively smaller stages. In the event of any market deterioration or difficulties with securing financing by the banks for the considered projects, management may further delay some of those plans.

a) New Projects

Moko

The Moko project will be developed on a land strip of 12,150 m² located in the Mokotów district in Warsaw at Magazynowa Street. The project will comprise 398 units with an aggregate floor space of 23,600 m² and will be divided into 2 or more phases. The first stage is to comprise 190 units with an aggregate floor space of 11,200 m². The Company is considering commencing construction of the first phase of this project during 2014.

Copernicus

The Copernicus project will be developed on a land strip of 5,605 m² located in the Jeżyce district in Poznań at Kościelna Street. The project will comprise 307 units with an aggregate floor space of 15,200 m². The first stage is to comprise 149 units with an aggregate floor space of 7,800 m². The Company is considering commencing construction of the first phase of this project during 2014.

Jasminowa

The Jasminowa project will be developed on a land strip of 118,437 m² located in the Mokotów district in Warsaw at Jasminowa Street. The project will comprise 656 units with an aggregate floor space of 49,200 m². The first stage is to comprise 101 units with an aggregate floor space of 9,400 m². The Company is considering commencing construction of the first phase of this project during 2014.

Skierniewicka

The Skierniewicka project will be developed on a land strip of 8,893 m² located in the Wola district in Warsaw at Skierniewicka Street. The project will comprise 458 units with an aggregate floor space of 23,900 m². The first stage is to comprise 133 units with an aggregate floor space of 6,100 m². The Company is considering commencing construction of the first phase of this project during 2014.

b) New stages of running projects

Panoramika II

The Panoramika II project is a continuation of Panoramika I. The project will comprise 105 units with an aggregate floor space of 5,600 m². The Company is considering commencing construction of this project during the remainder of 2014.

Sakura IV

The Sakura IV project is the last stage of the Sakura project and is a continuation of Sakura I, II and III projects. The project will comprise 114 units with an aggregate floor space of 6,600 m². The Company is considering commencing construction of this project during 2014.

Outlook for 2014 (cont'd)

C. Projects for which construction work is planned to commence during 2014 (cont'd)

b) New stages of running projects (cont'd)

Verdis IV

The Verdis IV project is the last stage of the Verdis project and is a continuation of Verdis I, II and III projects. The project will comprise 78 units with an aggregate floor space of 4,000 m². The Company is considering commencing construction of this project during 2014.

Espresso III

The Espresso III project is continuation of Espresso I and II projects. The project will comprise 166 units with an aggregate floor space of 9,100 m². The Company is considering commencing construction of this project during 2014.

Młody Grunwald II

The Młody Grunwald II project is a continuation of Młody Grunwald I project. The project will comprise 137 units with an aggregate floor space of 8,200 m². The Company is considering commencing construction of this project during 2014.

Chilli IV

The Chilli IV project is a continuation of Chilli I, II and III projects. The project will comprise 38 units with an aggregate floor space of 2,300 m². The Company is considering commencing construction of this project during 2014.

Outlook for 2014 (cont'd)

D. Value of the preliminary sales agreements signed with clients for which revenue has not been recognized in the Consolidated Statement of Comprehensive Income as at 31 December 2013

The current volume and value of the preliminary sales agreements signed with the clients do not impact the Statement of Comprehensive Income account immediately but only after final settlement of the contracts with the customers (for more details see under "A – Projects completed" above on page 32). The table below presents the value of the preliminary sales agreements executed with the Company's clients in particular for units that have not been recognized in the Consolidated Statement of Comprehensive Income:

Project name	Location	Value of the preliminary sales agreements signed with clients in thousands of PLN	Completed / expected completion of construction
Gemini II ^(*)	Warsaw	712	Completed
Verdis I & II ^(*)	Warsaw	21,675	Completed
Sakura I & II ^(*)	Warsaw	6,618	Completed
Naturalis I, III & III ^(*)	Warsaw	3,394	Completed
Panoramika I ^(*)	Szczecin	2,835	Completed
Constans ^(*)	Warsaw	3,107	Completed
Impressio I ^(*)	Wrocław	429	Completed
Chilli I & II ^(*)	Poznań	625	Completed
Subtotal completed projects		39,395	
Espresso I ^(**)	Warsaw	53,778	2014
Młody Grunwald I ^(**)	Poznań	17,711	2014
Chilli III ^(**)	Poznań	433	2014
Sakura III ^(**)	Warsaw	9,313	2015
Espresso II ^(**)	Warsaw	8,652	2015
Verdis III ^(**)	Warsaw	7,776	2015
Impressio II ^(**)	Wrocław	418	2015
Tamka ^(**)	Warsaw	10,503	2015
Subtotal projects under construction		108,584	
Total		147,979	

^(*) For information on the completed projects see "Business highlights during the year ended 31 December 2013 – B. Results breakdown by project" (pages 20 to 22).

^(**) For information on current projects under construction, see "Outlook for 2014 – B. Current projects under construction" (pages 32 to 34).

E. Main risks and uncertainties during 2014

While the improving market in 2013, that appeared to accelerate in the second half of the year, potentially bodes well for the Company in 2014 and in 2015, the overall economic situation in Europe and in Poland and the ongoing uncertainties in the housing market make it very difficult to predict results for 2014 precisely. The level of development of the Polish economy, the performance of the banking industry and consumers' interest in new housing projects, as well as increasing competition in the market are considered to be the most significant uncertainties for the financial year ending 31 December 2014.

Directors' Report

Additional information to the report

Major shareholders

To the best of the Company's knowledge, as of the date of publication of this annual report (5 March 2014), the following shareholders are entitled to exercise over 5% of the voting rights at the General Meeting of Shareholders in the Company:

	As of 5 March 2014 Number of shares / % of shares	Change in number of shares	As of 31 December 2013 Number of shares / % of shares	Change in number of shares	As of 31 December 2012 Number of shares / % of shares
Shares issued	272,360,000	-	272,360,000	-	272,360,000
Major shareholders:					
I.T.R. 2012 B.V. (*)	87,449,187 32.1%		87,449,187 32.1%	-	87,449,187 32.1%
I.T.R. Dori B.V. (*)	87,449,187 32.1%		87,449,187 32.1%	-	87,449,187 32.1%
GE Real Estate CE Residential B.V. (**)	41,800,000 15.3%		41,800,000 15.3%	-	41,800,000 15.3%
Amplico Otworthy Fundusz Emerytalny	N/A Between 5%-10%.	N/A	N/A Between 5%-10%.	N/A	N/A Between 5%-10%.
ING Otworthy Fundusz Emerytalny	N/A Between 5%-10%.	N/A	N/A Between 5%-10%.	N/A	N/A Between 5%-10%.

(*) In December 2012, I.T.R. 2012 B.V. and I.T.R. Dori B.V. entered into a partnership formed under Dutch law, which holds the voting rights attached to 174,898,374 shares in the Company representing 64.2% of the total number of shares in the Company, which were previously held by I.T.R. Dori B.V.

I.T.R. 2012 B.V. is an indirect subsidiary of Israel Theaters Ltd. and I.T.R. Dori B.V. is a subsidiary of U. Dori Group Ltd.

(**) On 14 November 2013, the shares in GE Real Estate CE Residential B.V. were (indirectly, through the acquisition of the shares of RN Development Holding B.V.) acquired by I.T.R. 2012 B.V. and U. Dori Group Ltd., which due to this transaction increased indirect shareholding in Ronson by 7.67% each. As a result of this transaction Israel Theaters Ltd. indirectly controls 39.78% of the Company's shares and U. Dori Group Ltd. indirectly controls 39.78% of the Company's shares.

Changes in ownership of shares and rights to shares by Management Board members in the year ended 31 December 2013 and until the date of publication of the report

Shares

The following members of the Management Board own shares in the Company:

- Mr Ronen Ashkenazi as at 31 December 2013 and as at the day of publishing this report indirectly held 5.1% interest in the Company.
- Mr Israel Greidinger, as at 31 December 2013 and as at the day of publishing this report, indirectly held 8.03% of the shares and 8.63% of the voting rights in the Company.

Additional information to the report (cont'd)

Changes in ownership of shares and rights to shares by Supervisory Board members in the year ended 31 December 2013 and until the date of publication of the report

Shares

The following members of the Supervisory Board own shares in the Company:

- Mr Arie Mientkavich as at 31 December 2013 and as at the day of publishing this report indirectly held 0.007% interest in the Company.

Changes in the Management Board in the year ended 31 December 2013 and until the date of publication of the report

Mr Pierre Decla was appointed on 27 June 2013. He resigned on 25 November 2013, in connection with the sale of the shares in RN Development Holding B.V. (holding 100% of the shares in GE Real Estate CE Residential B.V.) by General Electric Capital Corporation ("GE"), as a result of which GE does no longer own (directly or indirectly) any shares in the Company. Mr Decla represented GE on the Management Board.

Changes in the Supervisory Board in the year ended 31 December 2013 and until the date of publication of the report

Mr Frank Roseen resigned on 25 November 2013, in connection with to the sale of the shares in RN Development Holding B.V. (holding 100% of the shares in GE Real Estate CE Residential B.V.) by General Electric Capital Corporation ("GE"), as a result of which GE does no longer own (directly or indirectly) any shares in the Company. Mr Roseen represented GE on the Supervisory Board.

Indemnity for Management Board members and Supervisory Board members

The Articles of Association of the Company provide for an indemnification for all directors of the Company (article 42). The members of the Supervisory Board and Management Board shall be reimbursed for (i) all reasonable costs of conducting a defense against claims based on acts or failures to act in the exercise of their duties, (ii) any damages or fines payable by them as a result of an act or failure to act in the exercise of their duties, and (iii) reasonable costs of appearing in other legal proceedings in which they are involved as current or former directors of the Company. No indemnification will be given to any director if it has been determined by a judgment which is no longer subject to appeal, that the act or failure to act is characterized as willful misconduct or gross negligence. Resolutions to award the indemnification in a specific case are to be disclosed in the Annual Accounts of the Company. Adoption of the Annual Accounts will be considered to be approval of such resolutions, unless the General Meeting of Shareholders decides otherwise.

Directors' Report

Additional information to the report (cont'd)

Overview of the results during the three months ended 31 December 2013

The Company's net income for the three months ended 31 December 2013 was PLN 1,192 thousand and can be summarized as follows:

For the three months ended 31 December	2013	2012
<i>In thousands of Polish Zlotys (PLN)</i>	<i>(Unaudited)</i>	<i>(Unaudited)</i>
Revenue	39,060	125,319
Cost of sales	(33,005)	(86,854)
Gross profit	6,055	38,465
Changes in the value of investment property	774	(970)
Selling and marketing expenses	(1,686)	(1,758)
Administrative expenses	(3,954)	(5,305)
Other expenses	(669)	(1,021)
Other income	251	38
Result from operating activities	771	29,449
Finance income	447	594
Finance expense	(708)	(543)
Net finance income/(expense)	(261)	51
Profit before taxation	510	29,500
Income tax benefit	432	1,781
Profit for the period before non-controlling interests	942	31,281
Non-controlling interests	250	75
Net profit for the period attributable to the equity holders of the parent	1,192	31,356

Other

As of 31 December 2013, the Company has issued guarantees for bank loans granted to subsidiaries amounting to a total of PLN 34,753 thousand.

As of 31 December 2013, the Group had no litigation claims or liabilities that in total exceed 10% of the Group's equity.

The following net movements in the Group's main provisions took place during the year ended 31 December 2013:

- a decrease in the provision for deferred tax liabilities of PLN 576 thousand (an increase of PLN 5,221 thousand during the year ended 31 December 2012).

Additional information to the report (cont'd)

Statement relating to the system of internal control

In line with best practice provision II.1.4 of the Dutch Code and bearing in mind the recommendations of the Monitoring Committee Corporate Governance Code, the Company issues a declaration about the effectiveness of the system of internal control of the processes on which the financial reporting is based.

In 2013, the Management Board assessed the effectiveness of the system of internal controls for financial reporting. During the investigation on which this assessment was based, no shortcomings were identified that might possibly have a material impact on the financial reporting. On the basis of the results of the above assessment and the risk analyses that were carried out at the Company within the framework of governance and compliance, the Management Board is of the opinion - after consulting with the Audit Committee and with the approval of the Supervisory Board - that the system of internal controls provides a reasonable degree of certainty that the financial reporting contains no inaccuracies of material importance. An inherent element in how people and organizations work together in a dynamic world is that systems of internal control cannot provide an absolute degree (though they can provide a reasonable degree) of certainty as regards the prevention of material inaccuracies in the financial reporting and the prevention of losses and fraud.

In our view the system of internal controls, focused on the financial reporting, functioned effectively over the past year. There are no indications that the system of internal controls will not function effectively in 2014.

Directors Representation statement

In conjunction with the EU Transparency Directive as incorporated in Chapter 5.3 of the Dutch Financial Markets Supervision Act (Wet op het financieel toezicht) the Management Board therefore confirms to the best of its knowledge that:

- the Annual Financial Statements for the year ended 31 December 2013 give a true and fair view of the assets, liabilities, financial position and profits and loss of the Company and its subsidiaries,
- the additional management information disclosed in the Annual Report gives a true and fair view of the Company and its subsidiaries as at 31 December 2013 and the state affairs during the financial year to which the report relates, and
- the annual report describes the principal risk facing the Company. These are described in detail in this Director's Report.

Representation concerning election of the Company's auditor

The Management Board confirms that the Company's auditor has been elected according to applicable rules and the audit firm and its registered accountants engaged in the audit of the financial statements of Ronson Europe N.V. meet the objectives to present an objective and independent report, the agreement with the auditors was signed on 25 July 2013. For information about agreed-upon engagements of the Company's auditor see Note 15 of the Company Financial Statements.

Additional information to the report (cont'd)

Financial risk management, objectives and policies

For information on the financial risk management, objectives and policies see Note 39 of the Consolidated Financial Statements.

The Management Board

Shraga Weisman
Chief Executive Officer

Tomasz Łapiński
Chief Financial Officer

Andrzej Gutowski
Sales and Marketing Director

Ronen Ashkenazi

Israel Greidinger

Rotterdam, 5 March 2014

To: The Annual General Meeting of Shareholders of Ronson Europe N.V.

Independent auditor's report

Report on the financial statements

We have audited the accompanying financial statements 2013 of Ronson Europe N.V., Rotterdam, as set out on pages 45 to 115. The financial statements consist of consolidated financial statements and the company financial statements. The consolidated financial statements comprise the consolidated statements of financial position as per 31 December 2013, the consolidated statements of profit or loss and other comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows of the year then ended and notes, comprising a summary of the significant accounting policies and other explanatory information. The company financial statements comprise the company statement of financial position as at 31 December 2013, the company statement of profit or loss for the year then ended, the company statement of changes in equity and company statement of cash flows for the year then ended and notes, comprising a summary of the accounting policies and other explanatory information.

Management's responsibility

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards as adopted by the European Union and with Part 9 of Book 2 of the Dutch Civil Code, and for the preparation of the Director's board report in accordance with Part 9 of Book 2 of the Dutch Civil Code. Furthermore management is responsible for such internal control as it determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Dutch law, including the Dutch Standards on Auditing and International Standards on Auditing. This requires that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error.

In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion with respect to the consolidated financial statements

In our opinion, the consolidated financial statements give a true and fair view of the financial position of Ronson Europe N.V. as at 31 December 2013 and of its result and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and with Part 9 of Book 2 of the Dutch Civil Code.

Auditor's Report

Opinion with respect to the company financial statements

In our opinion, the company financial statements give a true and fair view of the financial position of Ronson Europe N.V. as at 31 December 2013 and of its result and its cash flows for the year then ended in accordance with Part 9 of Book 2 of the Dutch Civil Code.

Report on other legal and regulatory requirements

Pursuant to the legal requirement under Section 2:393 sub 5 at e and f of the Dutch Civil Code, we have no deficiencies to report as a result of our examination whether the Director's report, to the extent we can assess, has been prepared in accordance with Part 9 of Book 2 of this Code, and whether the information as required under Section 2:392 sub 1 at b-h has been annexed. Further we report that the management board report, to the extent we can assess, is consistent with the financial statements as required by Section 2:391 sub 4 of the Dutch Civil Code.

Amsterdam, 5 March 2014

Ernst & Young Accountants LLP

Signed by J.H. de Prie

Consolidated Financial Statements for the year ended 31 December 2013**Consolidated Statement of Profit or Loss and Other Comprehensive Income**

For the year ended 31 December		2013	2012
<i>In thousands of Polish Zlotys (PLN)</i>	<i>Note</i>		
Revenue	6	207,025	198,759
Cost of sales	7	(164,460)	(148,352)
Gross profit		42,565	50,407
Changes in the value of investment property	16	774	(970)
Selling and marketing expenses	8	(6,821)	(6,200)
Administrative expenses	9	(15,905)	(15,972)
Other expenses	11	(2,608)	(1,953)
Other income	12	731	967
Result from operating activities		18,736	26,279
Finance income	13	1,876	3,433
Finance expense	13	(3,371)	(1,441)
Net finance income		(1,495)	1,992
Profit before taxation		17,241	28,271
Income tax benefit	14	1,181	3,040
Profit for the year		18,422	31,311
Other comprehensive income		-	-
Total comprehensive income for the year, net of tax		18,422	31,311
Total comprehensive income attributable to:			
equity holders of the parent		19,026	31,655
non-controlling interests		(604)	(344)
Total comprehensive income for the year, net of tax		18,422	31,311
Weighted average number of ordinary shares (basic and diluted)	27	272,360,000	272,360,000
<i>In Polish Zlotys (PLN)</i>			
Net earnings per share attributable to the equity holders of the parent (basic and diluted)	27	0.070	0.116

The notes on pages 50 to 105 are an integral part of these consolidated financial statements.

Consolidated Financial Statements for the year ended 31 December 2013**Consolidated Statement of Financial Position**

As at 31 December		2013	2012
<i>In thousands of Polish Zlotys (PLN)</i>	<i>Note</i>		
Assets			
Non-current assets			
Property and equipment	15	9,270	8,660
Investment property	16	9,840	8,279
Loans granted to third parties	17	629	1,043
Loans granted to related parties	18	8,536	7,704
Deferred tax assets	19	12,470	11,798
Total non-current assets		40,745	37,484
Current assets			
Inventory	20	620,330	668,080
Trade and other receivables and prepayments	21	38,027	30,661
Income tax receivable		524	2,422
Short-term bank deposits – collateralized	22	1,268	2,944
Loans granted to third parties	17	843	-
Other current financial assets	23	515	-
Cash and cash equivalents	24	52,204	44,928
Total current assets		713,711	749,035
Total assets		754,456	786,519

The notes on pages 50 to 105 are an integral part of these consolidated financial statements.

Consolidated Financial Statements for the year ended 31 December 2013

Consolidated Statement of Financial Position (cont'd)

As at 31 December		2013	2012
<i>In thousands of Polish Zlotys (PLN)</i>	<i>Note</i>		
Equity and liabilities			
Equity			
Shareholders' equity			
Share capital		20,762	20,762
Share premium		282,873	282,873
Retained earnings		161,551	152,223
Equity attributable to equity holders of the parent	25	465,186	455,858
Non-controlling interests	26	1,883	3,910
Total equity		467,069	459,768
Liabilities			
Non-current liabilities			
Floating rate bond loans	28, 29	113,759	86,756
Secured bank loans	28, 30	27,528	39,893
Loans from third parties	28, 31	11,192	13,932
Other payables		394	816
Deferred tax liability	19	10,954	11,530
Total non-current liabilities		163,827	152,927
Current liabilities			
Trade and other payables and accrued expenses	32	32,728	38,090
Floating rate bond loans	28, 29	5,607	1,657
Secured bank loans	28, 30	14,450	65,319
Advances received	33	70,565	68,492
Income tax payable		9	35
Provisions	34	201	231
Total current liabilities		123,560	173,824
Total liabilities		287,387	326,751
Total equity and liabilities		754,456	786,519

The notes on pages 50 to 105 are an integral part of these consolidated financial statements.

Consolidated Financial Statements for the year ended 31 December 2013

Consolidated Statement of Changes in Equity

For the years ended 31 December 2013 and 31 December 2012:

	<u>Attributable to the Equity holders of parent</u>			<u>Total</u>	<u>Non- controlling interests</u>	<u>Total equity</u>
	<u>Share capital</u>	<u>Share premium</u>	<u>Retained earnings</u>			
<i>In thousands of Polish Zlotys (PLN)</i>						
Balance at 1 January 2012	20,762	282,873	120,568	424,203	4,254	428,457
<i>Comprehensive income:</i>						
Profit for the year ended 31 December 2012	-	-	31,655	31,655	(344)	31,311
Other comprehensive income	-	-	-	-	-	-
Total comprehensive income	-	-	31,655	31,655	(344)	31,311
Balance at 31 December 2012	20,762	282,873	152,223	455,858	3,910	459,768
<i>Comprehensive income:</i>						
Profit for the year ended 31 December 2013	-	-	19,026	19,026	(604)	18,422
Other comprehensive income	-	-	-	-	-	-
Total comprehensive income	-	-	19,026	19,026	(604)	18,422
Dividend paid (see Note 25)	-	-	(8,171)	(8,171)	-	(8,171)
Acquisition of Non-controlling interest (see Note 26)	-	-	(1,527)	(1,527)	(1,423)	(2,950)
Balance at 31 December 2013	20,762	282,873	161,551	465,186	1,883	467,069

The notes on pages 50 to 105 are an integral part of these consolidated financial statements

Consolidated Financial Statements for the year ended 31 December 2013**Consolidated Statement of Cash Flows**

For the year ended 31 December		2013	2012
<i>In thousands of Polish Zlotys (PLN)</i>	<i>Note</i>		
Cash flows from/(used in) operating activities			
Profit for the period		18,422	31,311
Adjustments to reconcile profit for the period to net cash used in operating activities:			
Depreciation	9, 15	627	745
Decrease/(increase) in the value of investment property	16	(774)	970
Finance expense	13	3,371	1,441
Finance income	13	(1,876)	(3,433)
Profit on sale of property and equipment	12	(152)	(177)
Write-down of inventory	20	-	4,957
Income tax benefit	14	(1,181)	(3,040)
Subtotal		18,437	32,774
Decrease/(increase) in inventory	41	59,676	(23,749)
Decrease/(increase) in trade and other receivables and prepayments		(7,366)	(18,307)
Decrease/(increase) in other current financial assets		(515)	-
Increase/(decrease) in trade and other payables and accrued expenses		(5,784)	6,690
Increase/(decrease) in provisions	34	(30)	(30)
Increase/(decrease) in advances received		2,073	(18,899)
Subtotal		66,491	(21,521)
Interest paid		(15,796)	(18,068)
Interest received		1,253	3,295
Income tax received		1,805	63
Net cash from/(used in) operating activities		53,753	(36,231)
Cash flows from/(used in) investing activities			
Acquisition of property and equipment	15	(713)	(692)
Loans granted to third parties	17	(327)	-
Loans granted to related parties	18	(175)	(7,488)
Short-term bank deposits – collateralized		1,676	(432)
Proceeds from sale of property and equipment		658	779
Net cash from/(used in) investing activities		1,119	(7,833)
Cash flows from/(used in) financing activities			
Proceeds from bank loans, net of bank charges	30	26,438	35,324
Repayment of bank loans	30	(90,589)	(48,442)
Proceeds from bond loans, net of issue costs	29	113,322	-
Repayment of bond loans	29	(82,500)	-
Acquisition of Non-controlling interest	26	(2,950)	-
Dividends paid to equity holders of the parent	25	(8,171)	-
Loans received from third parties	31	1,193	7,488
Repayment of loans received from third parties	31	(4,339)	-
Net cash from/(used in) financing activities		(47,596)	(5,630)
Net change in cash and cash equivalents		7,276	(49,694)
Cash and cash equivalents at beginning of the year		44,928	94,622
Cash and cash equivalents at end of the year	24	52,204	44,928

The notes on pages 50 to 105 are an integral part of these consolidated financial statements

Notes to the Consolidated Financial Statements

1. Background and business of the Company

- (a) Ronson Europe N.V. ('the Company'), a Dutch public company with its statutory seat in Rotterdam, the Netherlands, was incorporated on 18 June 2007. The registered office is located at Weena 210-212, Rotterdam, the Netherlands. The Company (together with its Polish subsidiaries 'the Group'), is active in the development and sale of units, primarily apartments, in multi-family residential real-estate projects to individual customers in Poland.

The shares of the Company are traded on the Warsaw Stock Exchange since 5 November 2007. As at 31 December 2013, 39.78% of the outstanding shares are controlled by I.T.R. 2012 B.V., which is an indirect subsidiary of Israel Theaters Ltd. ('ITR 2012') (32.11% through a jointly controlled partnership formed under Dutch law between ITR 2012 and ITR Dori B.V. and 7.67% through a jointly controlled company formed under Dutch law between ITR 2012 and U. Dori Group) and 39.78% of the outstanding shares are controlled by U. Dori Group Ltd ('U Dori Group') (32.11% through a jointly controlled partnership formed under Dutch law between ITR 2012 and ITR Dori B.V. (of which it holds 50% of the shares) and 7.67% through a jointly controlled company formed under Dutch law between ITR 2012 and U. Dori Group). The remaining 20.44% of the outstanding shares are held by other investors including Amplico Otworthy Fundusz Emerytalny and ING Otworthy Fundusz Emerytalny each holding between 5% and 10% of the outstanding shares. The number of shares held by the investors is equal to the number of votes, as there are no privileged shares issued by the Company.

A list of the companies from which the financial data are included in these Consolidated Financial Statements and the extent of ownership and control are presented in Note 1(b).

- (b) The details of the Polish companies whose financial statements have been included in these Consolidated Financial Statements, the year of incorporation and the percentage of ownership and voting rights directly or indirectly held by the Company as at 31 December 2013, are presented on the following pages.

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

Notes to the Consolidated Financial Statements

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

Entity name	Year of incorporation	Share of ownership & voting rights at the end of	
		31 December 2013	31 December 2012
a. held directly by the Company :			
1. Ronson Development Management Sp. z o.o.	1999	100.0%	100.0%
2. Ronson Development 2000 Sp. z o.o.	2000	100.0%	100.0%
3. Ronson Development Warsaw Sp. z o.o.	2000	100.0%	100.0%
4. Ronson Development Investment Sp. z o.o.	2002	100.0%	100.0%
5. Ronson Development Metropol Sp. z o.o.	2002	100.0%	100.0%
6. Ronson Development Properties Sp. z o.o.	2002	100.0%	100.0%
7. Ronson Development Apartments Sp. z o.o.	2003	100.0%	100.0%
8. Ronson Development Enterprise Sp. z o.o.	2004	100.0%	100.0%
9. Ronson Development Company Sp. z o.o.	2005	100.0%	100.0%
10. Ronson Development Creations Sp. z o.o.	2005	100.0%	100.0%
11. Ronson Development Buildings Sp. z o.o.	2005	100.0%	100.0%
12. Ronson Development Structure Sp. z o.o.	2005	100.0%	100.0%
13. Ronson Development Poznań Sp. z o.o.	2005	100.0%	100.0%
14. E.E.E. Development Sp. z o.o.	2005	100.0%	100.0%
15. Ronson Development Innovation Sp. z o.o.	2006	100.0%	100.0%
16. Ronson Development Wrocław Sp. z o.o.	2006	100.0%	100.0%
17. Ronson Development Capital Sp. z o.o.	2006	100.0%	100.0%
18. Ronson Development Sp. z o.o.	2006	100.0%	100.0%
19. Ronson Development Construction Sp. z o.o.	2006	100.0%	100.0%
20. Ronson Development City Sp. z o.o.	2006	100.0%	100.0%
21. Ronson Development Village Sp. z o.o. ⁽¹⁾	2007	100.0%	100.0%
22. Ronson Development Conception Sp. z o.o.	2007	100.0%	100.0%
23. Ronson Development Architecture Sp. z o.o.	2007	100.0%	100.0%
24. Ronson Development Skyline Sp. z o.o.	2007	100.0%	100.0%
25. Ronson Development Continental Sp. z o.o.	2007	100.0%	100.0%
26. Ronson Development Universal Sp. z o.o. ⁽¹⁾	2007	100.0%	100.0%
27. Ronson Development Retreat Sp. z o.o.	2007	100.0%	100.0%
28. Ronson Development South Sp. z o.o.	2007	100.0%	100.0%
29. Ronson Development West Sp. z o.o. ⁽¹⁾	2007	100.0%	100.0%
30. Ronson Development East Sp. z o.o.	2007	100.0%	100.0%
31. Ronson Development North Sp. z o.o.	2007	100.0%	100.0%
32. Ronson Development Providence Sp. z o.o.	2007	100.0%	100.0%
33. Ronson Development Finco Sp. z o.o.	2009	100.0%	100.0%
34. Ronson Development Partner 2 sp. z o.o.	2010	100.0%	100.0%
35. Ronson Development Skyline 2010 Sp. z o.o.	2010	100.0%	100.0%
36. Ronson Development Partner 3 Sp. z o.o.	2012	100.0%	100.0%

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

Notes to the Consolidated Financial Statements

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

Entity name	Year of incorporation	Share of ownership & voting rights at the end of	
		31 December 2013	31 December 2012
b. held indirectly by the Company :			
37. AGRT Sp. z o.o.	2007	100.0%	100.0%
38. Ronson Development Partner 2 Sp. z o.o.- Panoramika Sp.k.	2007	100.0%	100.0%
39. Ronson Development Sp z o.o. – Estate Sp.k.	2007	100.0%	100.0%
40. Ronson Development Sp. z o.o. – Home Sp.k.	2007	100.0%	100.0%
41. Ronson Development Sp z o.o – Horizon Sp.k.	2007	100.0%	100.0%
42. Ronson Development Partner 3 Sp. z o.o- Sakura Sp.k.	2007	100.0%	100.0%
43. Ronson Development Sp z o.o –Town Sp.k.	2007	100.0%	100.0%
44. Ronson Development Destiny Sp. z o.o.	2007	100.0%	100.0%
45. Ronson Development Millenium Sp. z o.o.	2007	100.0%	100.0%
46. Ronson Development Sp. z o.o.-EEE 2011 Sp.k.	2009	100.0%	100.0%
47. Ronson Development Sp. z o.o.-Apartments 2011 Sp.k.	2009	100.0%	100.0%
48. Ronson Development Sp. z o.o.-Idea Sp.k	2009	100.0%	100.0%
49. Ronson Development Sp. z o.o.-Destiny 2011 Sp.k.	2009	100.0%	100.0%
50. Ronson Development Partner 2 Sp. z o.o. – Enterprise 2011 Sp.k.	2009	100.0%	100.0%
51. Ronson Development Partner 2 Sp. z o.o. – Retreat 2011 Sp.k.	2009	100.0%	100.0%
52. Ronson Development Sp. z o.o.-Wrocław 2011 Sp.k.	2009	100.0%	100.0%
53. Ronson Development Sp. z o.o. – 2011 Sp.k.	2009	100.0%	100.0%
54. Ronson Development Sp. z o.o. – Gemini 2 Sp.k.	2009	100.0%	100.0%
55. Ronson Development Sp. z o.o.- Verdis Sp.k.	2009	100.0%	100.0%
56. Ronson Espresso Sp. z o.o.	2006	82.0%	68.4%
57. Ronson Development Apartments 2010 Sp. z o.o.	2010	100.0%	100.0%
58. Ronson Development 2010 Sp. z o.o.	2010	100.0%	100.0%
59. Ronson Development Retreat 2010 Sp. z o.o.	2010	100.0%	100.0%
60. Ronson Development Enterprise 2010 Sp. z o.o.	2010	100.0%	100.0%
61. Ronson Development Wrocław 2010 Sp. z o.o.	2010	100.0%	100.0%
62. E.E.E. Development 2010 Sp. z o.o.	2010	100.0%	100.0%
63. Ronson Development Nautica 2010 Sp. z o.o.	2010	100.0%	100.0%
64. Ronson Development Gemini 2010 Sp. z o.o.	2010	100.0%	100.0%
65. Ronson IS sp. z o.o. ⁽²⁾	2010	50.0%	50.0%
66. Ronson Development Sp. z o.o. - Naturalis Sp.k.	2011	100.0%	100.0%
67. Ronson Development Sp. z o.o. - Impressio Sp.k.	2011	100.0%	100.0%
68. Ronson Development Sp. z o.o. - Continental 2011 Sp.k.	2011	100.0%	100.0%
69. Ronson Development Sp. z o.o. - Providence 2011 Sp.k.	2011	100.0%	100.0%
70. Ronson Development Partner 2 Sp. z o.o. – Capital 2011 Sp. k	2011	100.0%	100.0%
71. Ronson Development Sp. z o.o. - Architecture 2011 Sp.k.	2011	100.0%	100.0%
72. Ronson IS sp. z o.o. Sp.k. ⁽²⁾	2012	50.0%	50.0%
73. Ronson Development Sp. z o.o. - City 1 Sp.k.	2012	100.0%	100.0%
74. Ronson Development Sp. z o.o. - City 2 Sp.k.	2012	100.0%	100.0%
75. Ronson Development Sp. z o.o. - City 3 Sp.k.	2012	100.0%	100.0%

(2) The Group accounts for the investments in Ronson IS Sp. z o.o. and in Ronson IS Sp. z o.o. Sp.k. as an investment in a jointly controlled entity in accordance with IAS 31, i.e. the proportionate consolidation method is applied.

Notes to the Consolidated Financial Statements

2. Basis of preparation and measurement

(a) Basis of preparation and statement of compliance

These Consolidated Financial Statements have been prepared in accordance with International Financial Reporting Standards as adopted by the EU ('IFRS'). For the year ended 31 December 2013, in light of the current process of IFRS endorsement in the European Union and the nature of the Group's activities, there is no difference between the IFRSs applied by the Group and the IFRSs endorsed by the European Union. IFRSs comprise standards and interpretations accepted by the International Accounting Standards Board ("IASB") and the International Financial Reporting Interpretations Committee ("IFRIC"). The Company Financial Statements have been prepared in accordance with article 362.8 of the Netherlands Civil Code.

The Consolidated Financial Statements were authorized by the Boards of Directors of Ronson Europe N.V. on 5 March 2014.

These Consolidated Financial statements have been prepared on the assumption that the Group is a going concern, meaning it will continue in operation for the foreseeable future and will be able to realize assets and discharge liabilities in the normal course of its operations.

(b) Basis of measurement

The Consolidated Financial Statements have been prepared on the historical cost basis, except for investment property which was measured at fair value. The methods used to measure fair values for the purpose to prepare the Consolidated Financial Statements are discussed further in Note 35.

(c) Functional and presentation currency

Items included in the financial statements of each entity in the Group are measured using the currency of the primary economic environment in which the entity operates (the 'functional currency') being Polish Zloty ('PLN'). The Consolidated Financial Statements are presented in thousands of Polish Zloty, except when otherwise indicated, which is the parent company functional and presentation currency. Although the Company is Dutch, it operates mainly in Poland.

(d) Use of estimates and judgments

The preparation of financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of income and expenses during the reported period. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised.

In particular, information about significant areas of estimation, uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the financial statements, are described in the following notes:

- Note 16 – investment property
- Note 19 – utilization of tax losses
- Note 20 – inventory
- Note 21 – trade and other receivables and prepayments
- Note 34 – provisions
- Note 37 – commitments and contingencies

Estimation of net realizable value for inventory

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

Notes to the Consolidated Financial Statements

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

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

Valuation of investment property

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

Deferred tax asset recognition

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

Further details on taxes are disclosed in Note 14 and Note 19.

(e) Basis of consolidation

Subsidiaries are entities controlled by the Company.

Control exists when the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Intra-group balances and transactions, and any unrealized gains and losses arising from intra-group transactions, are eliminated during consolidation. Jointly controlled entities are those enterprises over whose activities the Company has joint control, established by contractual agreements. The Consolidated Financial Statements include the Company's proportionate share of the enterprises' assets, liabilities, revenues and expenses with items of similar nature on a line-by-line basis, from the date that joint control commences until the date that joint control ceases.

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

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

Notes to the Consolidated Financial Statements

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

(f) Changes in accounting policies and disclosures

The accounting policies adopted for the preparation of the current Consolidated Financial Statements are consistent with those of the previous financial year. The Group has adopted the following amendments to IFRS and IFRIC interpretations applicable to annual reporting periods beginning on or after 1 January 2013:

- Amendments to IAS 1 *Presentation of Financial Statements: Presentation of Items of Other Comprehensive Income*
- Amendments to IFRS 1 *First-time Adoption of International Financial Reporting Standards – Government Loans*
- Amendments to IFRS 7 *Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities- Amendments to IFRS 7*
- Amendments to IAS 12 *Income Taxes: Deferred Tax: Recovery of Underlying Assets*
- IFRS 13 *Fair Value Measurement*
- Amendments to IAS 19 *Employee Benefits*
- IFRIC 20 *Stripping Costs in the Production Phase of a Surface Mine*
- Improvements to IFRSs (issued in May 2012):
 - IAS 1 – Clarification of the requirement for comparative information
 - IAS 16 – Classification of servicing equipment
 - IAS 32 – Tax effects of distributions to holders of equity instruments
 - IAS 34 – Interim financial reporting and segment information for total assets and liabilities

Adoption of the above new standards and amendments to standards did not have impact on the financial position or performance of the Group.

The Group has not early adopted any other standard, interpretation or amendment that was issued but is not yet effective. The Adoption of: IFRS 10 Consolidated Financial Statements, restated IAS 27 Separate Financial Statements, IFRS 11 Joint Arrangements, restated IAS 28 Investments in Associates and Joint Ventures and IFRS 12 Disclosure of Interests in Other Entities was delayed as allowed till 2014. Based on the preliminary analyses performed, IFRS 10, IFRS 12, restated IAS 27 and restated IAS 28 are not expected to have any impact on the currently held investments of the Group.

The application of IFRS 11 will impact the financial position of the Group by eliminating proportionate consolidation of the joint venture in Ronson IS sp. z o.o. and in Ronson IS Sp. z o.o. Sp.k.. With the application of the new standard, these investments will be accounted for using the equity method of accounting.

Notes to the Consolidated Financial Statements

3. Significant accounting policies

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

(a) Foreign currency

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

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

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

(b) Revenue

Revenue from operations includes:

(i) Revenue from the sale of residential units

Revenues from the sale of residential units are recognized upon transfer to the buyer of the significant risks and rewards of ownership of the residential unit (i.e. upon signing of the protocol of technical acceptance and transfer of the key to the residential unit), after a valid building occupancy permit has been obtained by the Group.

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

(c) Financial instruments

Non-derivative financial instruments

Non-derivative financial instruments of the Group comprise loans granted, trade and other receivables, cash and cash equivalents, deposits, other current financial assets, loans and borrowings, and trade and other payables. All financial assets are recognized initially at fair value plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

Notes to the Consolidated Financial Statements

3. Significant accounting policies (cont'd)

(c) Financial instruments (cont'd)

A financial instrument is recognized if the Group becomes a party to the contractual provisions of the instrument. Financial assets are derecognized if the Group's contractual rights to the cash flows from the financial assets expire or if the Group transfers the financial asset to another party without retaining control or substantially all risks and rewards of the asset. Regular way purchases and sales of financial assets are accounted for at trade date, i.e. the date that the Group commits itself to purchase or sell the asset. Financial liabilities are derecognized if the Group's obligations specified in the contract expire, or are discharged or cancelled.

Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

Non-derivative financial instruments of the Group are classified into one of the following categories:

Category	Statement of financial position item	Measurement
Held for trading	Cash and cash equivalent	Fair value- through profit and loss
Loans and receivables	Short-term deposits	Amortized costs
	Other current financial assets	Amortized costs
	Loans granted to third parties	Amortized costs
	Loans granted to related parties	Amortized costs
	Trade and other receivables	Amortized costs
Other financial liabilities	Floating rate bonds	Amortized costs
	Loans from others	Amortized costs
	Trade and other payables and accrued expenses	Amortized costs
	Secured bank loans	Amortized costs

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. These are classified as current assets, provided their maturity does not exceed 12 months after the reporting date. Loans and receivables with maturities exceeding 12 months from the reporting date are classified under non-current assets. After initial measurement, loans and receivables are subsequently carried at amortized cost using the effective interest method less any allowance for impairment. Gains and losses are recognized in the statement of comprehensive income when the loans and receivables are derecognized or impaired, as well as, through the amortization process.

Other financial liabilities

Other financial liabilities are measured at amortized cost using the effective interest method.

Notes to the Consolidated Financial Statements

3. Significant accounting policies (cont'd)

(d) Property and equipment

(i) Recognition and measurement

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

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

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

(ii) Depreciation

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

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

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

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

(e) Leases

Finance leases – lessee accounting

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

Notes to the Consolidated Financial Statements

3. Significant accounting policies (cont'd)

(f) Investment property

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

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

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

(g) Inventories of residential units

Inventories consist of multi-family residential real estate projects to individual customers.

Inventories are measured at the lower of cost and net realizable value. The cost of inventories includes expenditure incurred relating to the construction of a project.

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

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

Project construction costs include:

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

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

Notes to the Consolidated Financial Statements

3. Significant accounting policies (cont'd)

(h) Trade and other receivables and prepayment

Trade and other receivables are stated at amortized cost less impairment losses.

(i) Equity

(i) Share capital

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

(ii) Share premium

Share premium includes the excess of proceeds received from the issue of shares over the nominal value of shares.

Shares issuance costs are deducted from share premium.

(j) Impairment

(i) Financial assets

A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

All impairment losses are recognized in the statement of comprehensive income.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognized. For financial assets measured at amortized cost the reversal is recognized in the statement of comprehensive income.

(ii) Non-financial assets

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

An impairment loss is recognized if the carrying amount of an asset exceeds its recoverable amount.

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

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

Notes to the Consolidated Financial Statements

3. Significant accounting policies (cont'd)

(k) Provisions

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

(l) Borrowing costs

Borrowing costs directly attributable to the inventory of properties which necessarily take a substantial period of time to get ready for their intended use or sale are capitalized as part of the cost of the respective assets, moreover the borrowing costs associated with the bonds issued by the Company are capitalized indirectly to the Company's inventory. All other borrowing costs are expensed in the period in which they occur. Borrowing costs consist of interest calculated using the effective interest method that an entity incurs in connection with the borrowing of funds.

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

(m) Income tax expense

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

Deferred income tax is provided, using the balance sheet method, for all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes, and for tax losses carried forward, except for the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. At each reporting date deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realized. Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

(n) Earnings per share

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

Notes to the Consolidated Financial Statements

3. Significant accounting policies (cont'd)

(o) Share options granted

Equity-settled transactions

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

Cash-settled transactions

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

(p) Cash and cash equivalents

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

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

(q) Employee benefits

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

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

(r) Jointly controlled entities

The Group has an interest in a joint venture which is a jointly controlled entity, whereby the venturers have a contractual arrangement that establishes joint control over the economic activities of the entity. The Group recognizes its interest in the joint venture using the proportionate consolidation method. The Group combines its proportionate share of each of the assets, liabilities, income and expenses of the joint venture with similar items, line by line, in its consolidated financial statements. The financial statements of the joint venture are prepared for the same reporting period as the parent company. Adjustments are made where necessary to bring the accounting policies in line with those of the Group.

Adjustments are made in the Group's consolidated financial statements to eliminate the Group's share of intragroup balances, income and expenses and unrealized gains and losses on transactions between the Group and its jointly controlled entity. Losses on transactions are recognized immediately if the loss provides evidence of a reduction in the net realizable value of current assets or an impairment loss. The joint venture is proportionately consolidated until the date on which the Group ceases to have joint control over the joint venture.

Upon loss of joint control and provided the former joint control entity does not become a subsidiary or associate, the Group measures and recognizes its remaining investment at its fair value. Any difference between the carrying amount of the former joint controlled entity upon loss of joint control and the fair value of the remaining investment and proceeds from disposal are recognized in profit or loss. When the remaining investment constitutes significant influence, it is accounted for as investment in an associate.

Notes to the Consolidated Financial Statements

3. Significant accounting policies (cont'd)

(s) Fair Value

The Group measures investment properties at fair value at each balance sheet date. In addition, fair values of financial instruments measured at amortized cost are disclosed in Note 35 and Note 36.

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

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

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

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

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

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

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

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

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

Notes to the Consolidated Financial Statements

4. Standards issued but not yet effective

A number of new standards, amendments to standards and interpretations, insofar endorsed by the European Union, are not yet effective for the year ended 31 December 2013, and have not been applied in preparing these consolidated financial statements:

- The first phase of IFRS 9 Financial Instruments: Classification and Measurement and subsequent amendments – effective date postponed by IASB without proposing potential deadline for endorsement,
- IFRS 10 Consolidated Financial Statements – effective for financial years beginning on or after 1 January 2013, – in EU effective at the latest for financial years beginning on or after 1 January 2014. Entity decided to apply IFRS for the periods beginning on 1 January 2014,
- IFRS 11 Joint Arrangements – effective for financial years beginning on or after 1 January 2013 – in EU effective at the latest for financial years beginning on or after 1 January 2014. Entity decided to apply IFRS for the periods beginning on 1 January 2014,
- IFRS 12 Disclosure of Interests in Other Entities – effective for financial years beginning on or after 1 January 2013 – in EU effective at the latest for financial years beginning on or after 1 January 2014,. Entity decided to apply IFRS for the periods beginning on 1 January 2014,
- Amendments to IFRS 10, IFRS 11 and IFRS 12 Transition Guidance - effective for financial years beginning on or after 1 January 2013 in EU effective at the latest for financial years beginning on or after 1 January 2014,
- IAS 27 Separate Financial Statements – effective for financial years beginning on or after 1 January 2013 – in EU effective at the latest for financial years beginning on or after 1 January 2014. Entity decided to apply IAS for the periods beginning on 1 January 2014,
- IAS 28 Investments in Associates and Joint Ventures – effective for financial years beginning on or after 1 January 2013 – in EU effective at the latest for financial years beginning on or after 1 January 2014. Entity decided to apply IAS for the periods beginning on 1 January 2014,
- Amendments to IAS 32 Financial Instruments – Presentation: Offsetting Financial Assets and Financial Liabilities- effective for financial years beginning on or after 1 January 2014,
- Amendments to IFRS 10, IFRS 12 and IAS 27 Investment Entities (issued on 31 October 2012) – effective for financial years beginning on or after 1 January 2014.
- IFRIC 21 Levies – effective for financial years beginning on or after 1 January 2014 – not endorsed by EU till the date of approval of these financial statements,
- Amendments to IAS 36 Recoverable Amounts Disclosures for Non-Financial Assets (issued on 29 May 2013) – effective for financial years beginning on or after 1 January 2014,
- Amendments to IAS 39 Novation of Derivatives and Continuation of Hedge Accounting (issued on 27 June 2013) – effective for financial years beginning on or after 1 January 2014,
- Amendments to IAS 19 Defined Benefit Plans: Employee Contributions (issued on 21 November 2013) – effective for financial years beginning on or after 1 July 2014 – not yet endorsed by EU till the date of approval of these financial statements,
- Annual Improvements to IFRSs 2010-2012 – some amendments effective for financial years beginning on or after 1 July 2014 and some effective prospectively for transactions occurring on or after 1 July 2014 – not yet endorsed by EU till the date of approval of these financial statements,
- Annual Improvements to IFRSs 2011-2013 – effective for financial years beginning on or after 1 July 2014 – not yet endorsed by EU till the date of approval of these financial statements,
- IFRS 14 Regulatory Deferral Accounts – effective for financial years beginning on or after 1 January 2016 – not yet endorsed by EU till the date of approval of these financial statements

The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

Notes to the Consolidated Financial Statements

5. Segment reporting

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

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

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

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

<i>In thousands of Polish Zlotys (PLN)</i>			As at 31 December 2013								
	Warsaw			Poznań		Wrocław		Szczecin		Unallocated	Total
	Apartments	Houses	Rental	Apartments	Houses	Apartments	Houses	Apartments	Houses		
Segment assets	375,915	40,161	9,840	133,607	-	75,327	2,585	60,301	7,688	-	705,424
Unallocated assets	-	-	-	-	-	-	-	-	-	49,032	49,032
Total assets	375,915	40,161	9,840	133,607	-	75,327	2,585	60,301	7,688	49,032	754,456
Segment liabilities	117,041	9,774	-	24,737	-	588	-	1,279	-	-	153,419
Unallocated liabilities	-	-	-	-	-	-	-	-	-	133,968	133,968
Total liabilities	117,041	9,774	-	24,737	-	588	-	1,279	-	133,968	287,387

<i>In thousands of Polish Zlotys (PLN)</i>			As at 31 December 2012								
	Warsaw			Poznań		Wrocław		Szczecin		Unallocated	Total
	Apartments	Houses	Rental	Apartments	Houses	Apartments	Houses	Apartments	Houses		
Segment assets	420,313	48,260	8,279	102,388	-	82,118	2,520	70,380	7,659	-	741,917
Unallocated assets	-	-	-	-	-	-	-	-	-	44,602	44,602
Total assets	420,313	48,260	8,279	102,388	-	82,118	2,520	70,380	7,659	44,602	786,519
Segment liabilities	181,446	11,451	-	17,514	-	821	1	10,716	-	-	221,949
Unallocated liabilities	-	-	-	-	-	-	-	-	-	104,802	104,802
Total liabilities	181,446	11,451	-	17,514	-	821	1	10,716	-	104,802	326,751

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Notes to the Consolidated Financial Statements

5. Segment reporting (cont'd)

	For the year ended 31 December 2013										
	Warsaw			Poznań		Wrocław		Szczecin		Unallocated	Total
	Apartments	Houses	Rental	Apartments	Houses	Apartments	Houses	Apartments	Houses		
Revenue	166,153	9,974	772	9,321	-	8,809	-	11,996	-	-	207,025
Segment result	35,809	(828)	1,203	(900)	-	(575)	(4)	301	(4)	-	35,002
Unallocated result	-	-	-	-	-	-	-	-	-	(16,266)	(16,266)
Result from operating activities	35,809	(828)	1,203	(900)	-	(575)	(4)	301	(4)	(16,266)	18,736
Net finance income	(533)	(22)	-	108	-	32	-	12	-	(1,092)	(1,495)
Profit before tax	35,276	(850)	1,203	(792)	-	(543)	(4)	313	(4)	(17,358)	17,241
Income tax benefit	-	-	-	-	-	-	-	-	-	-	1,181
Profit for the year											18,422
Capital expenditure	-	-	-	-	-	-	-	-	-	713	713

	For the year ended 31 December 2012										
	Warsaw			Poznań		Wrocław		Szczecin		Unallocated	Total
	Apartments	Houses	Rental	Apartments	Houses	Apartments	Houses	Apartments	Houses		
Revenue	159,132	9,863	583	5,117	-	17,689	-	6,375	-	-	198,759
Segment result	48,281	(4,697)	(697)	(796)	-	763	(4)	56	(4)	-	42,902
Unallocated result	-	-	-	-	-	-	-	-	-	(16,623)	(16,623)
Result from operating activities	48,281	(4,697)	(697)	(796)	-	763	(4)	56	(4)	(16,623)	26,279
Net finance income	199	(1)	-	42	-	33	(1)	5	-	1,715	1,992
Profit before tax	48,480	(4,698)	(697)	(754)	-	796	(5)	61	(4)	(14,908)	28,271
Income tax benefit	-	-	-	-	-	-	-	-	-	-	3,040
Profit for the year											31,311
Capital expenditure	-	-	-	-	-	-	-	-	-	692	692

Notes to the Consolidated Financial Statements

6. Revenue

For the year ended 31 December	2013	2012
<i>In thousands of Polish Zlotys (PLN)</i>		
Gemini II	45,395	68,655
Verdis I+II	40,481	29,166
Sakura I+II	62,410	42,853
Impressio I	8,809	17,689
Constans	9,974	8,106
Naturalis I+II+III	17,759	9,165
Imaginarium II+III	47	8,162
Panoramika I	11,996	6,375
Chilli I+II	9,276	4,221
Nautica I+II	60	1,662
Galileo	45	896
Gardenia	-	683
Other	773	1,126
Total revenue	207,025	198,759

7. Cost of sales

For the year ended 31 December	2013	2012
<i>In thousands of Polish Zlotys (PLN)</i>		
Gemini II	27,618	40,155
Verdis I+II	28,343	18,707
Sakura I+II	53,006	32,725
Impressio I	9,011	16,739
Constans	10,320	8,106
Naturalis I+II+III	15,555	7,870
Imaginarium II+III	37	6,089
Panoramika I	11,354	6,124
Chilli I+II	8,785	3,871
Nautica I+II	60	1,448
Galileo	29	591
Gardenia	-	680
Write-down of inventory	-	4,957
Other	342	290
Total cost of sales	164,460	148,352

Consolidated Financial Statements for the year ended 31 December 2013

Notes to the Consolidated Financial Statements

8. Selling and marketing expenses

For the year ended 31 December	2013	2012
<i>In thousands of Polish Zlotys (PLN)</i>		
Advertising	5,308	5,265
Brokerage fees	1,100	417
Other	413	518
Total selling and marketing expenses	6,821	6,200

9. Administrative expenses

For the year ended 31 December	Note	2013	2012
<i>In thousands of Polish Zlotys (PLN)</i>			
Personnel expenses	10	11,152	11,053
External services		2,632	2,610
Materials and energy		674	612
Depreciation		627	745
Taxes and charges		176	178
Other		644	774
Total administrative expenses		15,905	15,972

10. Personnel expenses

For the year ended 31 December	2013	2012
<i>In thousands of Polish Zlotys (PLN)</i>		
Wages and salaries	9,590	9,687
Social security and other benefits	1,562	1,366
Total personal expenses	11,152	11,053
Average number of personnel employed^(*)	66	60

(*) All employees are employed in the territory of Poland.

Notes to the Consolidated Financial Statements

11. Other expenses

For the year ended 31 December	2013	2012
<i>In thousands of Polish Zlotys (PLN)</i>		
Maintenance expense of unsold units	1,621	702
Cost of repairs and defects	314	623
Expense for contractual penalties and compensation	68	223
Group restructuring expense	100	109
Impairment of trade receivables ⁽¹⁾	36	10
Cost of research and due diligence of new projects	56	138
Other expense	413	148
Total other expense	2,608	1,953

(1) For additional information see Note 21.

12. Other income

For the year ended 31 December	2013	2012
<i>In thousands of Polish Zlotys (PLN)</i>		
Revenues from contractual penalties and compensation	159	179
Rental income from inventory	192	554
Net profit on sale of property and equipment	152	177
Other income	228	57
Total other income	731	967

Consolidated Financial Statements for the year ended 31 December 2013

Notes to the Consolidated Financial Statements

13. Finance income and expense

For the year ended 31 December 2013	Total	Amount	Recognized in the
<i>In thousands of Polish Zlotys (PLN)</i>	amount	capitalized	statement of
			comprehensive income
Interest on granted loans	759	-	759
Interest income on bank deposits	1,247	136	1,111
Other finance income	6	-	6
Finance income	2,012	136	1,876
Interest expense on financial liabilities	(13,935)	(11,831)	(2,104)
Foreign exchange loss	(6)	-	(6)
Commissions and fees	(3,264)	(2,048)	(1,216)
Other finance expense	(45)	-	(45)
Finance expense	(17,250)	(13,879)	(3,371)
Net finance expense	(15,238)	(13,743)	(1,495)
For the year ended 31 December 2012	Total	Amount	Recognized in the
<i>In thousands of Polish Zlotys (PLN)</i>	amount	capitalized	statement of
			comprehensive income
Interest on granted loans	331	-	331
Interest income on bank deposits	3,013	193	2,820
Foreign exchange gain	1	-	1
Other finance income	281	-	281
Finance income	3,626	193	3,433
Interest expense on financial liabilities	(18,070)	(16,994)	(1,076)
Foreign exchange loss	(12)	-	(12)
Commissions and fees	(1,785)	(1,536)	(249)
Other finance expense	(104)	-	(104)
Finance expense	(19,971)	(18,530)	(1,441)
Net finance income/(expense)	(16,345)	(18,337)	1,992

Notes to the Consolidated Financial Statements

14. Income tax

For the year ended 31 December	2013	2012
<i>In thousands of Polish Zlotys (PLN)</i>		
Current tax		
Current period	72	63
Taxation in respect of previous periods	(5)	(2,369)
Total current tax (benefit)/expense	67	(2,306)
Deferred tax		
Origination and reversal of temporary differences	(8,118)	5,825
Tax losses utilized/(recognized)	6,870	(6,559)
Total deferred tax benefit	(1,248)	(734)
Total income tax benefit	(1,181)	(3,040)
Reconciliation of effective tax rate		
<i>In thousands of Polish Zlotys (PLN)</i>		
For the year ended 31 December		
Profit for the year	18,422	31,311
Total income tax benefit	(1,181)	(3,040)
Profit before income tax	17,241	28,271
<i>Expected income tax using the Polish tax rate (19%)</i>	3,276	5,371
Tax effect of:		
Taxes in respect of previous periods	(5)	(2,369)
Non-deductible expenses, net	67	29
Movement in unrecognized deferred tax assets in Poland	(1,910)	8,223
Tax benefit in connection with the organizational restructuring of the Group	(3,017)	(14,655)
Other differences	408	361
Tax benefit for the period	(1,181)	(3,040)
Effective tax rate	- 6.85%	-10.75%

Notes to the Consolidated Financial Statements

15. Property and equipment

For the year ended 31 December 2013				
	Vehicles	Equipment	Building	Total
<i>In thousands of Polish Zlotys (PLN)</i>				
Cost or deemed cost				
Balance at 1 January	1,108	1,703	8,551	11,362
Additions	405	43	265	713
Transferred from inventory	-	-	1,030	1,030
Disposals	(215)	(132)	(1,201)	(1,548)
Closing balance	1,298	1,614	8,645	11,557
Depreciation and impairment losses				
Balance at 1 January	811	735	1,156	2,702
Depreciation for the period	87	228	312	627
Disposals	(200)	(74)	(768)	(1,042)
Closing balance	698	889	700	2,287
Carrying amounts				
At 1 January	297	968	7,395	8,660
Closing balance	600	725	7,945	9,270
For the year ended 31 December 2012				
	Vehicles	Equipment	Building	Total
<i>In thousands of Polish Zlotys (PLN)</i>				
Cost or deemed cost				
Balance at 1 January	1,097	1,767	8,575	11,439
Additions	94	429	169	692
Transferred from inventory	-	-	366	366
Disposals	(83)	(493)	(559)	(1,135)
Closing balance	1,108	1,703	8,551	11,362
Depreciation and impairment losses				
Balance at 1 January	733	783	974	2,490
Depreciation for the period	161	364	220	745
Disposals	(83)	(412)	(38)	(533)
Closing balance	811	735	1,156	2,702
Carrying amounts				
At 1 January	364	984	7,601	8,949
Closing balance	297	968	7,395	8,660

Impairment loss

In the years ended 31 December 2013 and 31 December 2012, the Group did not recognize any impairment loss with respect to Property and equipment.

Notes to the Consolidated Financial Statements

16. Investment property

For the year ended 31 December	2013	2012
<i>In thousands of Polish Zlotys (PLN)</i>		
Balance at 1 January	8,279	9,249
Transferred from inventory	787	-
Change in fair value during the year	774	(970)
Balance as at 31 December, including:	9,840	8,279
<i>Cost</i>	<i>4,434</i>	<i>3,647</i>
<i>Fair value adjustments</i>	<i>5,406</i>	<i>4,632</i>

As at 31 December 2013, the investment property included property held for long-term rental yields and capital appreciation, and were not occupied by the Group. The investment property consists of two real estate objects located in Warsaw:

- i) a plot of land (71, Gwiaździsta Street) and an office building with an aggregate usable floor space of 1,318 m² located on this plot that is leased to third parties under lease agreements with an indefinite term subject to a three-month notice period for termination (“Bielany IP”),
- ii) two commercial (office) units located at 57, KEN Avenue (in the Gemini I project), with a total aggregate usable floor space of 178 m² leased to third parties with an indefinite term (“Ursynów IP”).

Investment property is valued at fair value determined as at 31 December 2013 and as at 31 December 2012 by the Management. The investment property has been also valued by an independent appraiser, having an appropriate recognized professional qualification, based on current prices on an active market. Both valuations came up with similar results.

The Bielany IP was valued based on the discounted cash flow approach, including the assumption as to an annual discount rate of 8.0% (during a 6 year forecast period), a capitalization exit yield of 6.0%, a monthly rate of PLN 35/ m² and a long term vacancy rate of 10%. The assumptions as at the end of 2012 included: an annual discount rate of 9.0%, a capitalization exit yield of 7.0%, a monthly rent of PLN 38/ m² and a long term vacancy rate of 10%.

The Ursynów IP was valued on the basis of the most recent comparable transactions, involving sales of similar units in the Gemini I and II projects.

The fair value of completed investment properties has been determined on a market value basis in accordance with International Valuation Standards (IVS), as set out by the IVSC. The valuations were prepared on an aggregated non-leveraged basis. The valuations were performed by an accredited independent valuator with a recognized and relevant professional qualification and with recent experience in the local market and the specific category of the investment properties valued.

If the yields used for the appraisals of investment property on 31 December 2013, had been 100 basis points higher than was the case at that time, the value of the investments would have been 13% lower (31 December 2012: 12% lower). In this situation, the Company’s shareholders’ equity would have been PLN 1.3 million lower (31 December 2012: PLN 1.0 million lower).

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

The investment property is currently occupied.

Notes to the Consolidated Financial Statements

17. Loans granted to third parties

The table below presents the movement in Loans granted to third parties:

For the year ended 31 December	2013	2012
<i>In thousands of Polish Zlotys (PLN)</i>		
Opening balance	1,043	928
Loans granted	627	-
Loans repaid	(300)	-
Accrued interest/(interest repayment), net	102	115
Total closing balance	1,472	1,043
Closing balance includes:		
Current assets	843	-
Non-current assets	629	1,043
Total closing balance	1,472	1,043

The loans are granted to one of the shareholders of Ronson Espresso Sp. z o.o. As at 31 December 2012 and as at 31 December 2013 the loans bear a fixed interest rate of 15% and a variable rate of 12.2% (variable interest is charged based on the latest interest rate as charged on the construction credit/loan granted by the banks to the Group and increased by 7%, and updated at the beginning of each quarter), respectively.

For securing the repayment of the loan, the Company holds a pledge on the partner's share in Ronson Espresso Sp. z o.o. as well as on a part of the loans granted by the partner to Ronson Espresso Sp. z o.o.

18. Loans granted to related parties

The table below presents the movement in Loans granted to related parties:

For the year ended 31 December	2013	2012
<i>In thousands of Polish Zlotys (PLN)</i>		
Opening balance	7,704	-
Loans granted	250	7,488
Loans repaid	(75)	-
Accrued interest/(interest repayment), net	657	216
Total closing balance	8,536	7,704
Closing balance includes:		
Current assets	-	-
Non-current assets	8,536	7,704
Total closing balance	8,536	7,704

These loans are granted to the joint venture (Ronson IS sp. z o.o. Sp.k., that was established during 2012). The loans mature in 2017. As at 31 December 2012 and as at 31 December 2013 the loans bear a variable rate of 9.2% and a variable rate of 8.6% (variable interest is charged based on the latest interest rate as charged on the construction credit/loan granted by the banks to the Group and increased by 2%, and updated at beginning of each calendar year), respectively.

Notes to the Consolidated Financial Statements

19. Deferred tax assets and liabilities

Recognized deferred tax assets and liabilities

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

<i>In thousands of Polish Zlotys (PLN)</i>	Opening balance 1 January 2013	Recognized in the statement of comprehensive income	Closing balance 31 December 2013
Deferred tax assets			
Tax loss carry forward	21,613	(6,870)	14,743
Accrued interest	2,881	2,145	5,026
Accrued expense	225	(46)	179
Other	454	-	454
Total deferred tax assets	25,173	(4,771)	20,402
Deferred tax liabilities			
Difference between tax base and carrying value of inventory	22,797	(6,433)	16,364
Accrued interest	640	243	883
Fair value gain on investment property	880	147	1,027
Other	588	24	612
Total deferred tax liabilities	24,905	(6,019)	18,886
Total deferred tax benefit (see Note 14)		(1,248)	
Deferred tax assets	25,173		20,402
Deferred tax liabilities	24,905		18,886
Offset of deferred tax assets and liabilities for individual companies	(13,375)		(7,932)
Deferred tax assets reported in the statement of financial position	11,798		12,470
Deferred tax liabilities reported in the statement of financial position	11,530		10,954

Notes to the Consolidated Financial Statements

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

<i>In thousands of Polish Zlotys (PLN)</i>	Opening balance 1 January 2012	Recognized in the statement of comprehensive income	Closing balance 31 December 2012
Deferred tax assets			
Tax loss carry forward	15,054	6,559	21,613
Accrued interest	740	2,141	2,881
Accrued expense	280	(55)	225
Other	454	-	454
Total deferred tax assets	16,528	8,645	25,173
Deferred tax liabilities			
Difference between tax base and carrying value of inventory	15,045	7,752	22,797
Accrued interest	300	340	640
Fair value gain on investment property	1,064	(184)	880
Other	585	3	588
Total deferred tax liabilities	16,994	7,911	24,905
Total deferred tax benefit (see Note 14)		(734)	
Deferred tax assets	16,528		25,173
Deferred tax liabilities	16,994		24,905
Offset of deferred tax assets and liabilities for individual companies	(10,685)		(13,375)
Deferred tax assets reported in the statement of financial position	5,843		11,798
Deferred tax liabilities reported in the statement of financial position	6,309		11,530

The tax losses carried forward expire in the following years:

<i>In thousands of Polish Zlotys (PLN)</i>	As at 31 December 2013
2014	1,766
2015	5,400
2016	4,541
2017	2,482
2018	554
After 2018	-
Total deferred tax asset in respect of tax losses carried forward	14,743

Unrecognized deferred tax liabilities

There are no unrecognized deferred tax liabilities.

Unrecognized deferred tax assets

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

The Company did not recognize entire deferred tax asset on consolidation level resulting from contributions as the recoverability of such assets is uncertain.

Notes to the Consolidated Financial Statements

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

Realization of deferred tax assets

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income, and tax planning strategies in making this assessment. In order to fully realize the deferred tax asset (before offsetting against deferred tax liability), the Group will need to generate future taxable income of approximately PLN 107,379 thousand. Based upon the level of historical taxable income and projections for future taxable income over the periods in which the deferred tax assets are deductible, management believes it is more likely than not that the Group will realize the benefits of these deductible differences. The amount of the deferred tax asset which is considered realizable, could however be reduced in the near term if estimates of future taxable income during the tax loss carry-forward period are reduced.

Tax losses in Poland are required to be utilized within 5 years following the period in which they originated, subject to the limitation that a maximum of 50% of the loss carry-forward can be used in one year. Tax losses in the Netherlands are required to be utilized within 9 years following the period in which they originated.

Movement in unrecognized deferred tax assets

Unrecognized deferred tax assets in Poland

<i>In thousands of Polish Zlotys (PLN)</i>	Balance 01 January 2012	Tax losses expired	Additions/ (Realizations)	Balance 31 December 2012	Tax losses expired	Additions/ (Realizations)	Balance 31 December 2013
Tax losses	2,363	(3,083)	8,223	7,503	(355)	(1,910)	5,238
Total	2,363	(3,083)	8,223	7,503	(355)	(1,910)	5,238

Tax losses carry forward

As at 31 December	2013			2012		
	Recognized tax losses	Unrecognized tax losses	Total tax losses	Recognized tax losses	Unrecognized tax losses	Total tax losses
<i>In thousands of Polish Zlotys (PLN)</i>						
Tax loss 2008 carried forward	-	-	-	14,563	388	14,951
Tax loss 2009 carried forward	5,690	5,799	11,489	11,715	11,605	23,320
Tax loss 2010 carried forward	25,361	11,475	36,836	37,129	16,538	53,667
Tax loss 2011 carried forward	24,228	7,746	31,974	32,450	8,030	40,480
Tax loss 2012 carried forward	16,482	2,147	18,629	17,893	2,930	20,823
Tax loss 2013 carried forward	5,834	404	6,238	-	-	-
Total tax losses carried forward	77,595	27,571	105,166	113,750	39,491	153,241

Moreover the Company is not recognizing deferred tax assets on tax losses carried forward in the Netherlands. The accumulated Dutch tax losses available for carry forward as per 31 December 2013 are estimated to be EUR 1,509 thousand (2012: EUR 1,851 thousand).

Consolidated Financial Statements for the year ended 31 December 2013

Notes to the Consolidated Financial Statements

20. Inventory

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

For the year ended 31 December 2013:

<i>In thousands of Polish Zlotys (PLN)</i>	Opening balance 01 January 2013	Transferred to finished units	Additions	Closing balance 31 December 2013
Land and related expense	369,211	(21,377)	3,411	351,245
Construction costs	64,598	(67,883)	90,226	86,941
Planning and permits	20,300	(3,095)	7,238	24,443
Borrowing costs ⁽¹⁾	69,839	(5,835)	13,743	77,747
Other	3,144	(1,406)	2,302	4,040
Work in progress	527,092	(99,596)	116,920	544,416

<i>In thousands of Polish Zlotys (PLN)</i>	Opening balance 01 January 2013	Transferred to property and equipment	Transferred to investment property	Transferred from work in progress	Recognized in the statement of comprehensive income	Closing balance 31 December 2013
Finished goods	142,557	(1,030)	(787)	99,596	(163,897)	76,439

<i>In thousands of Polish Zlotys (PLN)</i>	Opening balance 01 January 2013	Revaluation write down recognized in statement of comprehensive income		Closing balance 31 December 2013
		Increase	Utilization	
Write-down	(1,569)	-	1,044	(525)
Total inventories at the lower of cost or net realizable value	668,080			620,330

(1) Borrowing costs are capitalized to the value of inventory with 8.6% average effective capitalization interest rate.

Consolidated Financial Statements for the year ended 31 December 2013

Notes to the Consolidated Financial Statements

20. Inventory (cont'd)

For the year ended 31 December 2012:

<i>In thousands of Polish Zlotys (PLN)</i>	Opening balance 01 January 2012	Transferred to property and equipment	Transferred to finished goods	Additions	Closing balance 31 December 2012
Land and related expense	399,143	(84)	(51,210)	21,362	369,211
Construction costs	104,839	(246)	(175,180)	135,185	64,598
Planning and permits	21,872	(10)	(7,454)	5,892	20,300
Borrowing costs ⁽¹⁾	61,438	(22)	(9,914)	18,337	69,839
Other	3,627	(4)	(4,360)	3,881	3,144
Work in progress	590,919	(366)	(248,118)	184,657	527,092

<i>In thousands of Polish Zlotys (PLN)</i>	Opening balance 01 January 2012	Transferred from work in progress	Recognized in the statement of comprehensive income	Closing balance 31 December 2012
Finished goods	40,497	248,118	(146,058)	142,557

<i>In thousands of Polish Zlotys (PLN)</i>	Opening balance 01 January 2012	Revaluation write down recognized in statement of comprehensive income		Closing balance 31 December 2012
		Increase	Utilization	
Write-down	(99)	(4,957)	3,487	(1,569)
Total inventories at the lower of cost or net realizable value	631,317			668,080

(1) Borrowing costs are capitalized to the value of inventory with 9.2% average effective capitalization interest rate.

Write-down revaluating the inventory:

The company assessed internally the net realizable value of the inventory and decreased the value when the net realizable value was lower than the cost. In view of the market situation in the property market in which the Group operates, during the year ended 31 December 2013 and 2012 the Group took a particularly conservative approach to the inventory review with regard to its valuation to net realizable value. As a result, during the years ended 31 December 2013 and 31 December 2012, the Group made a write-down adjustment of nil and a write-down adjustment in the total amount of PLN 4,957 thousand, respectively, which amount is included as part of cost of sales in the Consolidated Statement of Comprehensive Income. Management examined possible impairment on inventory for each project separately, according to the projection of revenues net from cost of sales. For the net realizable value calculation the Company used the average effective capitalization interest rate.

The valuation of Inventory is as follows:

As at 31 December	2013	2012
<i>In thousands of Polish Zlotys (PLN)</i>		
Valued at cost	615,255	652,768
Valued at net realizable value	5,075	15,312
Total inventory	620,330	668,080

Notes to the Consolidated Financial Statements

20. Inventory (cont'd)

For information about future commitments to the general contractor for construction services related to inventory construction, see Note 37.

For information about the balance sheet value of inventory used to secure banks loans and floating rate bonds series C, see Note 28.

21. Trade and other receivables and prepayments

As at 31 December	2013	2012
<i>In thousands of Polish Zlotys (PLN)</i>		
Value added tax (VAT) receivables	4,361	4,774
Trade and other receivables	3,393	2,884
Prepayments	1,334	1,464
Advances for land purchase	28,939	21,539
Total trade and other receivables and prepayments	38,027	30,661

As at 31 December 2013 and 31 December 2012, the Group had no allowance for doubtful debts.

During the year ended 31 December 2013 and 31 December 2012, the Group wrote down an amount of PLN 36 thousand and PLN 10 thousand, respectively as irrecoverable debts included in trade and other receivables.

22. Short-term bank deposits – collateralized

As at 31 December	2013	2012
<i>In thousands of Polish Zlotys (PLN)</i>		
Deposits collateralized for securing the repayment of interest related to the credit facilities provided to the Group	768	2,097
Other deposits collateralized	500	847
Total short-term bank deposits – collateralized	1,268	2,944

The interest rates earned on these deposits vary from 2% to 2.5% on an annual basis.

For information about the fair value of short-term bank deposits - collateralized see Note 35.

For information about the pledge over short term bank deposits see Note 30.

Notes to the Consolidated Financial Statements

23. Other current financial assets

The new regulations related to the activity of the residential developers, which came into force on 29 April 2012, imposed on all residential developers in Poland an obligation to open an escrow account for all customers purchasing residential units during the construction period. According to these regulations, all amounts paid by the customers have to be paid directly to the escrow account. The developer is entitled to receive the money only once certain conditions – related mainly to progress of the construction process – are met or the upon the transfer of ownership of the apartment to the customer.

As long as the money is kept in the escrow account, the Company is neither entitled to any benefits, nor can it dispose of the cash in any way.

The obligation relates only to the new projects which were offered for sale after 29 April 2012. As at 31 December 2013, the Company operates three projects (Chilli III, Impressio II and Tamka) under the new regulation (as at 31 December 2012 the Company did not operate any project under new regulation).

24. Cash and cash equivalents

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

As at 31 December	2013	2012
<i>In thousands of Polish Zlotys (PLN)</i>		
Cash at bank and in hand	24,211	16,429
Short-term deposit	27,993	28,499
Total cash and cash equivalents	52,204	44,928

Cash at bank earns interest at floating rates based on daily bank deposit rates. As at 31 December 2013 and 31 December 2012 the Group held overnight deposits and in saving accounts amounting to PLN 17,990 thousand and PLN 12,588 thousand, respectively. As at 31 December 2013 and 31 December 2012 the overnight deposits and in saving accounts that earn interest rates varying between 2% - 2.8% and 2% - 4.3%, respectively.

Short-term deposits have a duration varying between one day and three months depending on the immediate cash requirements of the Group. As at 31 December 2013 and 31 December 2012, they earn interest at the respective short-term deposit rates varying between 2% - 2.8% and 4% - 4.4%, respectively.

For information about the fair value of cash and cash equivalents see Note 35.

For information about the pledge over cash and cash equivalents see Note 30.

25. Shareholders' equity

1) Share capital

The authorized share capital of the Company consists of 800,000,000 shares of EUR 0.02 par value each. The number of issued and outstanding ordinary shares as at 31 December 2013 and as at 31 December 2012 amounted to 272,360,000. The number issued shares equals the number of votes, as there are no privileged shares issued by the Company.

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

Notes to the Consolidated Financial Statements

25. Shareholders' equity (cont'd)

2) Dividend

On 27 June 2013, the General Meeting of Shareholders approved the distribution of a dividend for the financial year 2012 amounting to PLN 8,170,800 in total or PLN 0.03 per ordinary share. The dividend day was determined as 1 August 2013, and the dividend was paid on 20 August 2013.

26. Non-controlling interests

Movements in non-controlling interests during the year ended 31 December 2013 and 31 December 2012 are as follows:

As at 31 December	2013	2012
<i>In thousands of Polish Zlotys (PLN)</i>		
Opening balance	3,910	4,254
Acquisition of additional stake in consolidated subsidiary ⁽¹⁾	(1,423)	-
Comprehensive income (loss) attributable to non-controlling interests	(604)	(344)
Closing balance	1,883	3,910

(1) On 18 December 2013, the Group acquired an additional 13.6% of the equity of Ronson Espresso Sp. z o.o. (hereinafter "Espresso") for PLN 2,950 thousand in cash, thereby increasing its ownership to 82.0%. As at 17 December 2013, before the transaction, the book value of the non-controlling interest in Espresso amounted to PLN 3,306 thousand. As a result of the transaction, Non-controlling interests decreased by PLN 1,423 thousand. The difference with the acquisition price, amounting to PLN 1,527 thousand was charged to Retained earnings.

27. Net earnings per share

Basic and diluted earnings per share

Basic earnings per share amounts are calculated by dividing net profit for the year by the weighted average number of ordinary shares outstanding during the year. Diluted earnings per share amounts are calculated by dividing the net profit for the year by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on conversion of all the dilutive instruments into ordinary shares.

Weighted average number of ordinary shares (basic):

For the year ended 31 December	2013	2012
Net profit attributable to equity holders of the parent company (PLN thousands)	19,026	31,655
Balance at beginning of the period	272,360,000	272,360,000
Weighted average number of ordinary shares (basic)	272,360,000	272,360,000
Basic earnings per share	0.070	0.116

There have been no other transactions involving ordinary shares between the reporting date and the date of completion of these consolidated financial statements.

Consolidated Financial Statements for the year ended 31 December 2013

Notes to the Consolidated Financial Statements

28. Loans and borrowings

As at 31 December		2013	2012
<i>In thousands of Polish Zlotys (PLN)</i>	<i>Note</i>		
Floating rate bonds	29	119,366	88,413
Secured bank loans	30	41,978	105,212
Loans from third parties	31	11,192	13,932
Total loans and borrowings		172,536	207,557

Information about the contractual terms of the Group's interest-bearing loans and borrowings is presented in the table below. For more information about the Group's exposure to interest rate and foreign currency risk, see Note 39.

Loans as at 31 December 2013:

<i>In thousands of Polish Zlotys (PLN)</i>	Currency	Nominal interest rate	Year of maturity	Capital	Accrued interest	Charges and fees	Carrying value
Floating rate bonds series A	PLN	Wibor 6M + 4.25%	2014	5,000	70	(65)	5,005
Floating rate bonds series C	PLN	Wibor 6M + 3.75%	2017	83,500	221	(1,944)	81,777
Floating rate bonds series D	PLN	Wibor 6M + 4.55%	2016	23,550	70	(519)	23,101
Floating rate bonds series E	PLN	Wibor 6M + 4.55%	2016	9,250	311	(78)	9,483
Subtotal (floating rate bonds)				121,300	672	(2,606)	119,366
Bank Loans	PLN	Wibor 1M + Bank's margin	2014	6,557	-	(37)	6,520
Bank Loans	PLN	Wibor 3M + Bank's margin	2014	7,994	-	(64)	7,930
Bank Loans	PLN	Wibor 3M + Bank's margin	2015	28,352	-	(824)	27,528
Subtotal (Bank)				42,903	-	(925)	41,978
Loans from partner in jointly controlled entity	PLN	8.6% ⁽¹⁾	2017	7,663	872	-	8,535
Loans from non-controlling interest granted to consolidated subsidiary	PLN	7.2% ⁽²⁾	2016	1,924	733	-	2,657
Subtotal (third parties)				9,587	1,605	-	11,192
Total				173,790	2,277	(3,531)	172,536

(1) Interest based on the latest interest rate as charged on the construction credit/loan granted by the banks to the Group and increased by 2%, and updated at the beginning of each calendar year.

(2) Interest based on the latest interest rate as charged on the construction credit/loan granted by the banks to the Group and increased by 2%, and updated at the beginning of each quarter.

Notes to the Consolidated Financial Statements

28. Loans and borrowings (cont'd)

Loans as at 31 December 2012:

<i>In thousands of Polish Zlotys (PLN)</i>	Currency	Nominal interest rate	Year of maturity	Capital	Accrued interest	Charges and fees	Carrying value
Floating rate bonds series A	PLN	Wibor 6M + 4.25%	2014	51,340	942	(437)	51,845
Floating rate bonds series B	PLN	Wibor 6M + 4.95%	2014	36,160	715	(307)	36,568
Subtotal (floating rate bonds)				87,500	1,657	(744)	88,413
Bank Loans	PLN	Wibor 1M + Bank's margin	2013	10,001	-	(64)	9,937
Bank Loans	PLN	Wibor 3M + Bank's margin	2013	55,515	134	(270)	55,379
Bank Loans	PLN	Wibor 1M + Bank's margin	2014	12,698	3	(252)	12,449
Bank Loans	PLN	Wibor 3M + Bank's margin	2014	10,021	-	(33)	9,988
Bank Loans	PLN	Wibor 1M + Bank's margin	2015	5,572	-	(217)	5,355
Bank Loans	PLN	Wibor 3M + Bank's margin	2015	12,257	-	(153)	12,104
Subtotal (bank)				106,064	137	(989)	105,212
Loans from partner in jointly controlled entity	PLN	9.2% ⁽¹⁾	2017	7,488	216	-	7,704
Loans from non-controlling interest granted to consolidated subsidiary	PLN	9.3% ⁽²⁾	2016	5,245	983	-	6,228
Subtotal (third parties)				12,733	1,199	-	13,932
Total				206,297	2,993	(1,733)	207,557

(1) Interest based on the latest interest rate as charged on the construction credit/loan granted by the banks to the Group and increased by 2%, and updated at the beginning of each calendar year.

(2) Interest based on the latest interest rate as charged on the construction credit/loan granted by the banks to the Group and increased by 2%, and updated at the beginning of each quarter.

Balance sheet value of assets used to secure loans received from banks and floating rate bonds series C:

As at 31 December	2013	2012
<i>In thousands of Polish Zlotys (PLN)</i>		
Inventory	350,925	338,837
Other	16,306	-
Balance sheet value of pledged assets	367,231	338,837
Amount of loans and borrowings	123,755	105,212

Notes to the Consolidated Financial Statements

29. Floating rate bonds

The table below presents the movement in Floating rate bond loans:

For the year ended 31 December	2013	2012
<i>In thousands of Polish Zlotys (PLN)</i>		
Opening balance	88,413	87,847
Repayment of bond loans (series A and B)	(82,500)	-
Proceeds from bond loans (series C, D and E)	116,300	-
Issue cost	(2,978)	-
Issue cost amortization	1,116	576
Accrued interest	8,352	8,262
Interest repayment	(9,337)	(8,272)
Total closing balance	119,366	88,413
Closing balance includes:		
Current liabilities	5,607	1,657
Non-current liabilities	113,759	86,756
Total closing balance	119,366	88,413

As at 31 December 2013 and as at 31 December 2012 all covenants on floating rate bonds are met.

Series A and B:

The 5,134 series A bonds and 3,616 series B bonds, each with a nominal value of PLN 10 thousand per bond, were issued in April 2011. On 14 June 2013, the Company purchased 4,634 series A bonds and 2,050 series B bonds, thus redeeming an aggregate amount of PLN 66,840 thousand. On 18 October 2013, the Company repurchased all remaining outstanding 1,566 series B bonds, utilizing its right of earlier repurchase.

The maturity dates of the remaining 500 series A floating rate bonds loans is 18 April 2014. The bonds carry an interest rate composed of a base rate equal to 6 months Wibor plus a margin of 4.25%.

Series C and D:

On 14 June 2013, the Company issued 83,500 series C bonds and 23,550 series D bonds, together with an aggregate nominal value of PLN 107,050 thousand. The nominal value of one bond amounts to PLN 1 thousand and is equal to its issue price. The series C bonds shall be redeemed on 14 June 2017, whereas the series D bonds shall be redeemed on 14 June 2016 at nominal value, respectively. The bonds carry an interest rate composed of a base rate equal to 6 months Wibor plus a margin of 3.75% and 4.55%, respectively. Interest is payable semi-annually in June and December until redemption date.

The terms and conditions of the issuance of the bonds include provisions regarding early redemption at a bondholder's request to be made prior to 14 June 2017 (series C bonds) or 14 June 2016 (series D bonds), respectively, in case of the occurrence of certain events covering a number of obligations and restrictions applicable to the Company, including the obligation to maintain its financial ratios at certain levels, restrictions on investments in land having an unregulated status and restrictions on related party transactions.

The series D bonds are not secured, whereas the series C bonds are secured by joint mortgage up to PLN 100,200 thousand established by the Company's Polish subsidiaries. Moreover, the ratio between the value of the pledged properties and the total nominal value of the Bonds issued shall not decrease below 90%.

Notes to the Consolidated Financial Statements

29. Floating rate bonds (cont'd)

Series E:

On 15 July 2013, the Company issued 9,250 series E bonds with a total nominal value of PLN 9,250 thousand. The nominal value of one bond amounts to PLN 1 thousand and is equal to its issue price. The series E bonds shall be redeemed on 15 July 2016. The bonds carry an interest rate composed of a base rate equal to 6 months Wibor plus a margin of 4.55%. Interest is payable semi-annually in January and July until redemption date.

The terms and conditions of the issuance of the bonds include provisions regarding early redemption at a bondholder's request to be made prior to 15 July 2016, in case of the occurrence of certain events covering a number of obligations and restrictions applicable to the Company, including the obligation to maintain its financial ratios at certain levels, restrictions on investments in land having an unregulated status and restrictions on related party transactions.

Financial ratio covenants for series C, D and E:

Based on the bonds conditions, in each reporting period the Company shall test the ratio between Net debt to Equity (hereinafter "Ratio" or "Net Indebtedness Ratio"). The Ratio shall not exceed 60% however if during the Reporting Period the Company paid dividend or performed any buy-out of its treasury shares then the Ratio shall not exceed 50%.

Net debt - shall mean the total consolidated balance sheet value of loans and borrowings less the consolidated value of cash and cash equivalents and short-term bank deposits - collateralized.

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

Reporting period - starting from the second quarter of 2013 – means the quarterly reporting period with respect to which the Group Net Indebtedness Ratio will be tested, while a "Reporting period" shall mean a single reporting period, i.e. each calendar quarter.

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

As at	31 December 2013
<i>In thousands of Polish Zlotys (PLN)</i>	
Net debt	119,064
Equity	463,670
Net Indebtedness Ratio	25.7%

Notes to the Consolidated Financial Statements

30. Secured bank loans

The table below presents the movement in Secured bank loans:

For the year ended 31 December	2013	2012
<i>In thousands of Polish Zlotys (PLN)</i>		
Opening balance	105,212	117,711
New bank loan drawdown	27,428	36,750
Bank loans repayments	(90,589)	(48,442)
Bank charges	(990)	(1,426)
Bank charges amortization	1,054	778
Accrued interest/(interest repayment) on bank loans, net	(137)	(159)
Total closing balance	41,978	105,212
Closing balance includes:		
Current liabilities	14,450	65,319
Non-current liabilities	27,528	39,893
Total closing balance	41,978	105,212

For information related to unutilized bank loan facilities see Note 37.

Covenants on secured bank loans:

As at 31 December 2013 and 2012, the Company has not breached any loan covenant, which would expose the Company for risk of obligatory and immediate repayment of any loan and has been able to extend all expiring loan facilities.

For the bank loans the following collateral was given:

- Ordinary and floating mortgages on Inventory (of real estate units), see Note 28.
- Pledge over bank accounts which are presented in the Consolidated Statement of Financial Position as Cash and cash equivalents up to the amounts/installments due amounting to PLN 9,953 thousand and PLN 10,147 thousand as at 31 December 2013 and 31 December 2012, respectively.
- Deposits guarantee for interests on credits, see Note 22.
- Assignment of receivables arising from insurance agreement and from the agreements concluded with clients.
- Subordination agreement on loans from related parties.
- Blank promissory note drawn by particular subsidiary companies with a promissory note declaration up to the amount of the loan plus interest.
- Advance payments of dividends by the borrowers until full repayment of loans are not allowed.

Notes to the Consolidated Financial Statements

31. Loans from third parties

The table below presents the movement in Loans from third parties:

For the year ended 31 December	2013	2012
<i>In thousands of Polish Zlotys (PLN)</i>		
Opening balance	13,932	5,726
Proceeds	1,193	7,488
Repayments	(4,339)	-
Interest repayment	(589)	-
Accrued interest	995	718
Total closing balance	11,192	13,932
Closing balance includes:		
Current liabilities	-	-
Non-current liabilities	11,192	13,932
Total Closing balance	11,192	13,932

For additional information, see Note 28.

32. Trade and other payables and accrued expenses

As at 31 December	2013	2012
<i>In thousands of Polish Zlotys (PLN)</i>		
Trade payables	19,212	18,305
Guarantees for construction work ⁽¹⁾	4,694	4,603
Accrued expenses	6,180	12,222
Value added tax (VAT) and other tax payables	807	1,503
Non-trade payables	1,835	1,457
Total trade and other payables and accrued expenses	32,728	38,090

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

(1) The long-term part of guarantees for construction works is presented in non-current liabilities.

Notes to the Consolidated Financial Statements

33. Advances received

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

As at 31 December	2013	2012
<i>In thousands of Polish Zlotys (PLN)</i>		
Gemini II	112	27,401
Verdis I+II	10,832	15,379
Verdis III	1,636	-
Sakura I+II	1,715	9,874
Sakura III	1,773	-
Espresso I	40,477	9,081
Espresso II	1,715	-
Naturalis I+II+III	1,016	4,211
Panoramika I	777	1,000
Młody Grunwald I	7,109	550
Constans	2,138	203
Impressio I	94	101
Impressio II	67	-
Chilli II	85	593
Tamka	861	-
Other	158	99
Total	70,565	68,492

For information about contingent receivables from signed contracts with clients, see Note 37.

34. Provisions

For the year ended 31 December	2013	2012
<i>In thousands of Polish Zlotys (PLN)</i>		
Balance at the beginning of the year	231	261
Increase/(decrease)	(30)	(30)
Balance at the end of the year	201	231

As at 31 December 2013, the provision included expected necessary costs of guarantees for construction works amounting to PLN 201 thousand, whereas as at 31 December 2012, the provision included expected necessary costs of guarantees for construction works amounting to PLN 231 thousand.

Notes to the Consolidated Financial Statements

35. Fair value estimation of financial assets and liabilities

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

<i>In thousands of Polish Zlotys (PLN)</i>	<i>Category</i>	<i>Note</i>	As at 31 December 2013	
			Carrying amount	Fair value
Assets:				
Trade and other receivables	<i>Loans and receivables</i>	21	32,332	32,332
Short-term bank deposits – collateralized	<i>Loans and receivables</i>	22	1,268	1,261
Loans granted to third parties	<i>Loans and receivables</i>	17	1,472	1,216
Loans granted to related parties	<i>Loans and receivables</i>	18	8,536	8,128
Other current financial assets	<i>Loans and receivables</i>	23	515	515
Cash and cash equivalents	<i>Held for trading</i>	24	52,204	52,204
Liabilities:				
Floating rate bonds	<i>Other financial liabilities</i>	28	119,366	119,274
Secured bank loans	<i>Other financial liabilities</i>	28	41,978	42,000
Loans from third parties	<i>Other financial liabilities</i>	28	11,192	10,503
Trade and other payables and accrued expenses	<i>Other financial liabilities</i>	32	31,921	31,921
Unrecognized gain				88

<i>In thousands of Polish Zlotys (PLN)</i>	<i>Category</i>	<i>Note</i>	As at 31 December 2012	
			Carrying amount	Fair value
Assets:				
Trade and other receivables	<i>Loans and receivables</i>	21	24,423	24,423
Short-term bank deposits – collateralized	<i>Loans and receivables</i>	22	2,944	2,928
Loans granted to third parties	<i>Loans and receivables</i>	17	1,043	1,072
Loans granted to related parties	<i>Loans and receivables</i>	18	7,704	7,364
Cash and cash equivalents	<i>Held for trading</i>	24	44,928	44,928
Liabilities:				
Floating rate bonds	<i>Other financial liabilities</i>	28	88,413	89,177
Secured bank loans	<i>Other financial liabilities</i>	28	105,212	105,051
Loans from third parties	<i>Other financial liabilities</i>	28	13,932	13,152
Trade and other payables and accrued expenses	<i>Other financial liabilities</i>	32	36,587	36,587
Unrecognized gain				(150)

Estimation of fair values

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

- trade and other receivables, cash and cash equivalents, other current financial assets and trade and other payables: the carrying amounts approximate fair value because of the short maturity of these instruments;
- short-term bank deposit – collateralized : the fair value is estimated by discounting the future cash flows of each instrument using discount rates offered to the Group for similar instruments of comparable maturities by the Group's bankers;
- loans and borrowings: the fair value is estimated by discounting the future cash flows of each instrument using discount rates offered to the Group for similar instruments of comparable maturities by the Group's bankers. The own non-performance risk as at December 31, 2013 was assessed as insignificant.

Notes to the Consolidated Financial Statements

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

Interest rates used for determining fair value

The interest rates used to discount estimated cash flows (PLN denominated), where applicable, are based on WIBOR plus/minus margin as at 31 December 2013 and 31 December 2012 and are as follows:

As at 31 December	2013	2012
Loans and borrowings	5.6%-7.3%	7.0%-9.0%
Short-term bank deposits – collateralized	2.7%	4.1%

36. Fair value measurement hierarchy

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

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

Quantitative disclosures fair value hierarchy for assets as at 31 December 2013:

<i>In thousands of Polish Zlotys (PLN)</i>	<i>Date of valuation</i>	Fair value measurement using:		
		Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Assets measured at fair value:				
Investment property	31-Dec-13	-	-	9,840
Assets for which fair values are disclosed:				
Loans granted to third parties	31-Dec-13	-	1,216	-
Loans granted to related parties	31-Dec-13	-	8,128	-
Short-term bank deposits – collateralized	31-Dec-13	-	1,261	-
Liabilities for which fair values are disclosed:				
Floating rate bonds	31-Dec-13	-	119,274	-
Secured bank loans	31-Dec-13	-	42,000	-
Loans from third parties	31-Dec-13	-	10,503	-

During 2013, there have been no transfers between Level 1 and Level 2.

Notes to the Consolidated Financial Statements

37. Commitments and contingencies

Investment commitments:

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

For the year ended 31 December	2013	2012
<i>In thousands of Polish Zlotys (PLN)</i>		
Chilli III	4,471	-
Espresso I	1,941	25,514
Espresso II	25,047	-
Młody Grunwald I	1,811	24,995
Sakura III	19,515	-
Tamka	26,837	-
Verdis III	23,219	-
Chilli II	-	2,201
Naturalis III	-	2,972
Sakura II	-	4,206
Gemini II	-	1,916
Verdis I	-	1,668
Panoramika I	-	1,388
Naturalis I	-	491
Verdis II	-	13,889
Total	102,841	79,240

Contingent liabilities:

As at 31 December 2013, the Group did not have any contingents liabilities.

Investment commitments -land purchase:

In June 2012, the Group entered into preliminary purchase agreements with private individuals for plots of land with an area of 118,400 m² located in Warsaw, district Mokotów at Jaśminowa Street. Conclusion of the final purchase agreements and transferring of the ownership of the properties is expected to be finalized during the first half of 2014. The final payment will amount to PLN 62 million.

Notes to the Consolidated Financial Statements

37. Commitments and contingencies (cont'd)

Contingent receivables - contracted sales not yet recognized:

The table below presents amounts to be received from the customers having bought apartments from Ronson subsidiary companies and which are based on the value of the sale and purchase agreements signed with the clients until 31 December 2013 after deduction of payments received at reporting date (such payments being presented in the Consolidated Statement of Financial Position as Advances received):

For the year ended 31 December	2013	2012
<i>In thousands of Polish Zlotys (PLN)</i>		
Chilli I & II	568	1,430
Chilli III	413	-
Constans	969	1,831
Espresso I	13,316	16,950
Espresso II	6,937	-
Gemini II	640	8,663
Impressio I	335	1,458
Impressio II	358	-
Młody Grunwald I	10,629	5,868
Naturalis I, II & III	2,378	3,257
Panoramika I	2,058	1,864
Sakura I & II	4,902	12,002
Sakura III	7,546	-
Tamka	9,672	-
Verdis I & II	10,844	11,643
Verdis III	6,155	-
Total	77,720	64,966

Unutilized construction loans:

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

For the year ended 31 December	2013	2012
<i>In thousands of Polish Zlotys (PLN)</i>		
Espresso I	4,491	31,509
Espresso II	35,000	-
Sakura II	-	13,515
Sakura III	33,103	-
Sakura IV	28,025	-
Tamka	33,186	-
Impressio II	34,750	-
Moko	57,450	-
Młody Grunwald	-	17,752
Total	226,005	62,776

Notes to the Consolidated Financial Statements

38. Related parties

Parent company

The Company enters into various transactions with its subsidiaries and with its directors and executive officers. The interest in the Company held (indirectly) by two leading shareholders, (1) Israel Theaters Ltd. and (2) U. Dori Group Ltd. each holding (indirectly) 39.8% of the Company's share capital and votes. The Company's immediate shareholders are I.T.R. 2012 B.V., I.T.R. Dori B.V. and GE Real Estate CE Residential B.V. (controlled since November 2013 by U. Dori Group Ltd. and I.T.R. 2012 B.V.), with an interest in shares in the Company's capital of 32.1%, 32.1% and 15.3%, respectively, as at 31 December 2013. For a list of subsidiaries reference is made to Note 1(b).

The main related parties' transactions arise on:

- transactions with key management personnel,
- loans granted to related parties,
- other.

Outstanding balances with related parties as at 31 December 2013 and as at 31 December 2012 are unsecured, interest free (except for loans granted to the joint venture (Ronson IS sp. z o.o. Sp.k.) and settlement occurs in cash. The Group did not record any impairment of receivables relating to amounts owed by related parties in either year. This assessment is undertaken each financial year through examining the financial position of the related party and the market in which the related party operates. All transactions with related parties were performed based on market conditions.

Transactions with key management personnel

As at 31 December 2013, key management personnel of the Company include:

Shraga Weisman	-	President of the Management Board, Chief Executive Officer
Tomasz Łapiński	-	Member of the Management Board, Chief Financial Officer
Andrzej Gutowski	-	Member of the Management Board, Sales and Marketing Director
Israel Greidinger	-	Member of the Management Board
Ronen Ashkenazi	-	Member of the Management Board

Key Management Board personnel compensation

Apart from the compensation listed below, there were no further benefits, including share based payments granted to key management personnel in the periods ended 31 December 2013 and 31 December 2012. Key management personnel compensation can be presented as follows:

As at 31 December	2013	2012
<i>In thousands of Polish Zlotys (PLN)</i>		
Salary and other short term employee benefits	1,534	1,562
Management bonus	582	935
Subtotal - Mr Shraga Weisman	2,116	2,497
Salary and other short term employee benefits	522	522
Management bonus	131	211
Subtotal - Mr Tomasz Łapiński	653	733
Salary and other short term employee benefits	311	311
Management bonus	222	144
Subtotal - Mr Andrzej Gutowski	533	455
Total	3,302	3,685

Notes to the Consolidated Financial Statements

38. Related parties (cont'd)

Loans to directors

As at 31 December 2013 and 31 December 2012, there were no loans granted to directors.

Supervisory Board remuneration

The supervisory directors are entitled to an annual fee of EUR 8,900 plus an amount of EUR 1,500 per board meeting (EUR 750 if attendance is by telephone). During the major part of the year, the Supervisory Board consisted of 6 member; as at 31 December 2013 the Board consists of 5 members. Two Supervisory Board members have waived their remuneration and thus did not receive any payment from the Company. The total amount due in respect of Supervisory Board fees during 2013 is PLN 281 thousand (EUR 67 thousand; 2012: PLN 242 thousand (EUR 58 thousand)).

Residential units purchased by key management

During the year ended 31 December 2013, the Group sold residential one unit including one parking place and one storage to Mr Shraga Weisman for a total net amount (excluding VAT) of PLN 890 thousand. These transactions were executed at arm's length and were in adherence to the Group's policy in respect of related-party transactions. During the year ended 31 December 2012, similar transactions did not occur.

Loans granted to related parties

The loans are granted to the joint venture, Ronson IS sp. z o.o. Sp.k.. For additional information see Note 18.

Other

As a result of requirements pertaining to U. Dori Group Ltd., one of the Company's larger (indirect) shareholders, whose shares are listed on the Tel Aviv stock exchange, the first quarter reports, semi-annual reports and third quarter reports are subject to a full scope review by the Company's auditors. For the Company itself, being domiciled in the Netherlands and listed on the Warsaw Stock Exchange, only the semi-annual report is subject to an audit review. The Company has agreed with U. Dori Group that the costs for the first and third quarter audit review will be fully reimbursed to the Company. The additional audit review started as of the third quarter ended 30 September 2012. The reimbursement of audit review costs is disclosed in Note 15 to the Company Financial Statements.

Notes to the Consolidated Financial Statements

39. Financial risk management, objectives and policies

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

The Group does not use derivative financial instruments to hedge currency or interest rate risks arising from the Group's operations and its sources of finance. It is, and has been throughout the year ended 31 December 2013 and 2012, the Group's policy that no trading in (derivative) financial instruments shall be undertaken.

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

Credit risk

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

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

<i>In thousands of Polish Zloty (PLN)</i>	As at 31 December 2013	As at 31 December 2012
Trade and other receivables	4,727	4,348
Short-term bank deposits – collateralized	1,268	2,944
Cash and cash equivalents	52,204	44,928
Total	58,199	52,220

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

<i>In thousands of Polish Zloty (PLN)</i>	As at 31 December 2013	As at 31 December 2012
Rating		
AAA	16	13
A	40,261	26,076
BBB	11,927	17,521
No available information	-	1,318
Total cash at banks and short-term bank deposits	52,204	44,928

Notes to the Consolidated Financial Statements

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

Market risk

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

(i) Foreign currency risk

The Group is exposed to foreign currency risk on receivables and payables denominated in a currency other than PLN to a limited extent only. As at 31 December 2013 and 2012, trade receivables and payables denominated in foreign currencies were insignificant.

(ii) Price risk

The Group's exposure to marketable and non-marketable securities price risk does not exist because the Group has not invested in securities as at 31 December 2013 and 2012.

(iii) Interest rate risk

The Group didn't enter into any fixed-rate borrowings transaction. The Group's variable-rate borrowings are exposed to a risk of change in cash flows due to changes in interest rates. Short-term receivables and payables are not exposed to interest rate risk.

Liquidity risk

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

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

Consolidated Financial Statements for the year ended 31 December 2013

Notes to the Consolidated Financial Statements

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

Interest rate risk and liquidity risk analyzed

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

As at 31 December 2013								
<i>In thousands of Polish Zlotys (PLN)</i>	Note	Average effective interest rate	Total	6 months or less	6-12 months	1-2 years	2-5 years	More than 5 years
Fixed rate instruments								
Cash and cash equivalents	24	0.05%-0.2%	5,236	5,236	-	-	-	-
Short-term bank deposits - collateralized	22	1.5%-2.5%	1,268	1,268	-	-	-	-
Variable rate instruments								
Loans granted to third parties	17	12.2% ⁽¹⁾	1,472	843	-	-	629	-
Loans granted to related parties	18	8.6% ⁽²⁾	8,536	-	-	-	8,536	-
Cash and cash equivalents	24	Wibor + 0.1% - 0.5%	46,968	46,968	-	-	-	-
Secured bank loans	28	Wibor + Bank's margin	41,978	157	14,293	27,528	-	-
Loans from others	28	7.2%-8.6% ⁽³⁾	11,192	-	-	-	11,192	-
Floating rate bonds	28	Wibor 6M + 3.75%-4.95%	119,366	5,005	-	-	114,361	-

⁽¹⁾ The interest rate is calculated based on the latest interest rate calculated on the construction credit/loan granted by bank to the Group increased by 7%, and updated at the beginning of every quarter.

⁽²⁾ The interest rate is calculated based on the latest interest rate calculated on the construction credit/loan granted by bank to the Group increased by 2%, and updated at the beginning of calendar year.

⁽³⁾ The interest rate is calculated based on the latest interest rate calculated on the construction credit/loan granted by bank to the Group increased by 2%, and updated at the beginning of every calendar year /quarter.

As at 31 December 2012								
<i>In thousands of Polish Zlotys (PLN)</i>	Note	Average effective interest rate	Total	6 months or less	6-12 months	1-2 years	2-5 years	More than 5 years
Fixed rate instruments								
Cash and cash equivalents	24	0.05%-0.3%	3,841	3,841	-	-	-	-
Loans granted to third parties	17	13.50%	1,043	-	-	1,043	-	-
Short-term bank deposits - collateralized	22	2.5%-4.5%	2,944	2,944	-	-	-	-
Variable rate instruments								
Loans granted to related parties	18	9.2% ⁽¹⁾	7,704	-	-	-	7,704	-
Cash and cash equivalents	24	Wibor + 0.1% - 0.5%	41,087	41,087	-	-	-	-
Secured bank loans	28	Wibor + Bank's margin	105,212	137	65,182	22,434	17,459	-
Loans from others	28	9.3% ⁽²⁾	13,932	-	-	-	13,932	-
Floating rate bonds	28	Wibor 6M + 4.25%-4.95%	88,413	1,657	-	86,756	-	-

⁽¹⁾ The interest rate is calculated based on the latest interest rate calculated on the construction credit/loan granted by bank to the Group increased by 2%, and updated at the beginning of calendar year.

⁽²⁾ The interest rate is calculated based on the latest interest rate calculated on the construction credit/loan granted by bank to the Group increased by 2%, and updated at the beginning of every calendar year /quarter.

Notes to the Consolidated Financial Statements

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

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

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

<i>In thousands of Polish Zlotys (PLN)</i>	As at 31 December 2013		As at 31 December 2012	
	Increase by 1%	Decrease by 1%	Increase by 1%	Decrease by 1%
Statement of comprehensive income				
Variable interest rate assets	190	(190)	162	(162)
Variable interest rate liabilities *	(575)	575	(688)	688
Total	(385)	385	(526)	526
Net assets				
Variable interest rate assets	190	(190)	162	(162)
Variable interest rate liabilities *	(575)	575	(688)	688
Total	(385)	385	(526)	526

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

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

<i>In thousands of Polish Zlotys (PLN)</i>	As at 31 December 2013			
	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Loans and borrowings	30,044	36,148	138,839	-
Trade and other payables	31,921	-	-	-
Total	61,965	36,148	138,839	-
<i>In thousands of Polish Zlotys (PLN)</i>	As at 31 December 2012			
	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Loans and borrowings	80,354	114,945	36,568	-
Trade and other payables	36,587	-	-	-
Total	116,941	114,945	36,568	-

Notes to the Consolidated Financial Statements

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

Real-estate risk

Management believes that the residential market as a whole in Poland is less saturated than in any other country within the European Union, including also the developing countries in Central and Eastern Europe, which in general provides for many opportunities for residential developers. However, due to the fact that the Polish economy is still experiencing many dynamic changes, it may be sensitive to potential up and down-turns. These market conditions form an important and significant risk factor for the Company and for other residential developers, as the development process (including stages such as the purchase of land, the preparation of land for construction works, the construction process itself and, finally, also the sale of apartments) may take several years from start until completion. It is important to understand that decisions taken by the Company must assume a relatively long-term time horizon for each project as well as a significant volatility of land prices, construction cost levels and sales prices of apartments during the duration of projects which may have a material impact on the Company's profitability and financing needs.

Another specific risk is associated with the rapid development of many Polish cities, which very often involves a lack of stability of development plans which could substantially impact the likelihood that projects on particular sites are realized as initially desired or planned. Quite often, residential developers are interested in buying land parcels without zoning conditions or without a valid master plan for the area, which would allow for a better assessment of the ultimate value of the plot. Pursuing such market opportunities may result in relatively low prices of the land parcels. However, this strategy may result in increasing operational and financial risks for the developer. Moreover, changing development plans of the cities could also impact the planned development and realization of utility infrastructure (including water, gas, sewage and electricity connections), which is critical factor for the Company and other developers. However, for a vast majority of land parcels, the Company has already obtained zoning approvals, which reduces this risk to the Company significantly.

Another operating risk lies within the construction process itself. The Company does not operate a construction business, but, instead, it hires third party general contractors, who are responsible for running the construction and for the finalization of the project including obtaining all permits necessary for safe use of the apartments. Important selection criteria when hiring a general contractor include experience, professionalism and financial strength of the contractor as well as the quality of the insurance policy covering all risks associated with the construction process.

Recent turbulence in the financial markets has resulted in a lack of stability in the manner in which financing institutions (banks) have approached both real estate companies and individual customers when applying for a mortgage loan. As the real estate business is very capital consuming, the role of the banking sector and its lending abilities are crucial for the Company leveraging not only when land parcels are acquired but also during the later stages of development, especially during the construction phase. Moreover, the availability of external financing is a crucial element driving the demand for apartments, as the vast majority of our customers are using mortgage secured loans to finance the purchase of apartments.

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

Notes to the Consolidated Financial Statements

40. Capital management

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

Banking covenants vary according to each loan agreement, but typically are not related directly to the gearing ratio of the Company but to the proportion of loan to value of the mortgage collateral which usually is required not to cross the limit of 50% or 60%. Moreover the Company is obliged to monitor its indebtedness according to the conditions of the bond issuance, which require, amongst others, that in each reporting period the Company shall test the ratio between Net debt to Equity. The Ratio shall not exceed 60% however if during the Reporting Period the Company paid dividend or performed any buy-out of its treasury shares then the Ratio shall not exceed 50% (for additional information see Note 29).

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

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

The gearing ratios and leverage at 31 December 2013 and 31 December 2012 were as follows:

As at 31 December	2013	2012
<i>In thousands of Polish Zlotys (PLN)</i>		
Loan and borrowings, including current portion	172,536	207,557
Less: cash and cash equivalents	(52,204)	(44,928)
Net debt	120,332	162,629
Total equity	467,069	459,768
Total capital employed	587,401	622,397
Gearing ratio	25.8%	35.4%
Leverage	20.5%	26.1%

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

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

Notes to the Consolidated Financial Statements

41. Cash flow reconciliation

Inventory

For the year ended 31 December	2013	2012
<i>In thousands of Polish Zlotys (PLN)</i>		
Balance sheet change in inventory	47,750	(36,763)
Finance expense, net capitalized into inventories	13,743	18,337
Write-down of inventory	-	(4,957)
Inventory transferred into investment property	(787)	-
Inventory transferred into fixed assets	(1,030)	(366)
Change in inventory in the consolidated statement of cash flows	59,676	(23,749)

42. Events during the financial year

Dividend

On 27 June 2013, the General Meeting of Shareholders approved the distribution of a dividend for the financial year 2012 amounting to PLN 8,170,800 in total or PLN 0.03 per ordinary share. The dividend day was determined as 1 August 2013, and the dividend was paid on 20 August 2013.

Land purchase

During the year ended 31 December 2013, the Company purchased no land.

Bank loans

Between June and December 2013, the Company entered into annexes to loan facilities with Bank BZWBK S.A. with an aggregate initial value of PLN 39.7 million, which were granted in the past to refinance the costs of the land purchase in a few projects in Warsaw, Wrocław, Poznań and in Szczecin. In July and December, the Company repaid PLN 11.4 million and PLN 2.0 million respectively, reducing its total indebtedness related to these loans to the aggregated amount of PLN 26.3 million and releasing mortgage in two projects. Based on the final annexes signed in December 2013, the repayment date of the loan of PLN 18.3 million has been extended to January 2015 and the repayment date of the loan (dedicated to project Tamka) of PLN 8.0 million has been extended to March 2014.

In August 2013, the Company entered into an annex to the loan facility with Bank Millennium with an aggregate value of PLN 8.8 million. Based on the signed annex, a part of the loan equal to PLN 2.4 million has been repaid and the repayment date of the remaining loan balance (PLN 6.4 million) has been extended until July 2014.

In August 2013, the Company executed loan agreements with Alior Bank S.A. related to the housing development project at Magazynowa Street in Warsaw. Under these loan agreements Alior Bank S.A. is to provide financing to cover the costs of construction and to partially refinance costs of land acquisition up to the total amount of PLN 57.5 million. Under the loan agreements the final repayment date of the loan facilities is established for 31 May 2016.

Notes to the Consolidated Financial Statements

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

Bank loans (cont'd)

In November 2013, the Company executed a loan agreement with Bank BZWBK S.A. related to the housing development project Tamka in Warsaw. Under the loan agreement BZWBK S.A. is to provide financing to refinance the previously granted loan to refinance the costs of the land purchase (in the amount of PLN 8.0 million) as well as to cover the costs of construction up to the total amount of PLN 41.2 million (including refinancing PLN 8.0 million). Under the loan agreement the final repayment date of the loan facilities is established for 19 February 2017.

In December 2013, the Company entered into an annex to the land loan facility with the Bank BZWBK S.A. related to refinancing of the purchase costs of land in project Młody Grunwald in Poznan. Based on this annex the loan was prepaid in the amount of PLN 2.1 million and the repayment date of the outstanding amount of PLN 10.0 million was extended until January 2015. At the same time the Company and the Bank BZWBK S.A. decided to cancel the construction loan which was dedicated to secure financing of the construction costs of the first.

In December 2013, the Company executed a loan agreement related to the Company's performance of the next stages of the housing development project named Sakura at Kłobucka Street in Warsaw. Under the loan agreement the Bank PEKAO S.A. is to provide financing to cover the costs of construction and development of the project up to the total amount of PLN 61.13 million. The final date of repayment of the loan facility was established for 30 September 2016.

In December 2013, the Company executed loan agreements with Alior Bank S.A. related to the housing development project named Impressio II in Wrocław. Under these loan agreements Alior Bank S.A. is to provide financing to cover the costs of construction up to the total amount of PLN 34.75 million. Under the loan agreements the final repayment date of the loan facilities is established for 19 December 2016.

Bond loans

On 14 June 2013, the Company issued 83,500 series C bonds and 23,550 series D bonds, together with an aggregate nominal value of PLN 107,050 thousand, and purchased 4,634 series A bonds with nominal value of PLN 10 thousand each, and 2,050 series B bonds together with an aggregate amount of PLN 66,840 thousand. Reference is made to Note 29.

On 15 July 2013, the Company issued 9,250 series E bonds with a total nominal value of PLN 9,250 thousand. The nominal value of one bond amounts to PLN 1 thousand and is equal to its issue price. The series E bonds shall be redeemed on 15 July 2016. The bonds carry an interest rate composed of a base rate equal to 6 months Wibor plus a margin. Interest is payable semi-annually in January and July until redemption date.

The terms and conditions of the issuance of the bonds include provisions regarding early redemption at a bondholder's request to be made prior to 15 July 2016, in case of the occurrence of certain events covering a number of obligations and restrictions applicable to the Company, including the obligation to maintain its financial ratios at certain levels, restrictions on investments in land having an unregulated status and restrictions on related party transactions.

On 18 October 2013, the Company repurchased all outstanding 1,566 series B bonds, utilizing its right of earlier repurchase.

Notes to the Consolidated Financial Statements

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

Completions of projects

In May 2013, the Group completed the construction of the Sakura II project comprising 136 units with a total area of 8,300 m².

In July 2013, the Group completed the construction of the Chilli II project comprising 20 units with a total area of 1,600 m².

In August 2013, the Group completed the construction of the Naturalis III project comprising 60 units with a total area of 3,400 m².

In December 2013, the Group completed the construction of the Verdis II project comprising 72 apartments and 6 commercial units and an aggregate area of 4,900 m².

Commencements of new projects

In June 2013, the Company commenced the sales of units of the Sakura III project, with the construction work commenced in October 2013. The Sakura III project will comprise 145 units with an aggregate floor space of 7,300 m².

In June 2013, the Company commenced the sales of units of the Verdis III project, with the construction works commenced in October 2013. The Verdis III project will comprise 146 units with an aggregate floor space of 7,700 m².

In June 2013, the Company commenced the sales of units of the Espresso II project, with the construction work commenced in August 2013. The Espresso II project will comprise 152 units with an aggregate floor space of 7,600 m².

In September 2013, the Company commenced the construction and the sales of units of the Chilli III project. The Chilli III project will comprise 38 units with an aggregate floor space of 2,300 m².

In September 2013, the Company commenced the sales of units of the Impressio II project, with the construction works commenced November 2013. The Impressio II project will comprise 142 units with an aggregate floor space of 8,400 m².

In November 2013, the Company commenced the construction and the sales of units of the Tamka project. Tamka project will comprise 65 units with an aggregate floor space of 5,500 m².

43. Subsequent events

Incentive plan

On 3 February 2014 the Supervisory Board of the Company adopted an incentive plan, addressed to selected key employees, which is based on the price performance of the Company's shares (the "Phantom Stock Plan"). The Phantom Stock Plan, which does not assume any new issue of shares and which will not result in any new shares supply, is based on the following key assumptions and includes the settlement mechanism as described below:

- i. the exercise price of one option under the Phantom Stock Plan is PLN 1.6;
- ii. the total number of options is 2,705,000 (which is the equivalent of approximately 1% of the Company's total number of shares), and the allocation of options to particular employees shall be made by way of a separate decision of the remuneration committee of the Remuneration Committee;

Notes to the Consolidated Financial Statements

43. Subsequent events (cont'd)

Incentive plan (cont'd)

iii. benefits will be aggregated among the selected employees (of the Company or of its subsidiaries) who join the Phantom Stock Plan through the end of 2015, of which (a) 50% is awarded as of the date of the decision of the Remuneration Committee approving the Phantom Stock Plan, (b) 25% as of the end of 2014, and (c) 25% by the end of 2015;

iv. employees participating in the Phantom Stock Plan maintain the right to exercise their options until the end of 2017 (or a maximum of two years from the date they are no longer employed by the Ronson Group);

v. upon the exercise of the options, the Company will pay the option holder the amount in cash equal to the difference between PLN 1.6 and the current market price of the shares in the Company ("Current Market Price") allocated to a particular employee (option holder);

vi. the Current Market Price will be calculated as the average trading price of the shares during the preceding calendar month, whereby the average trading price shall be determined by calculating the total turnover value in PLN of all of the shares in the Company traded during that period divided by the total number of shares traded during such period (however, if the total value of the overall turnover in any particular month is lower than PLN 100 thousand, then the Current Market Price shall be calculated on the basis of the most recent two-month market average);

vii. in the event that the free float is less than 10% of all the outstanding shares in the Company, the Current Market Price will be established by a reputable valuation company based on a comparable valuation of Ronson's peer companies listed on the Warsaw Stock Exchange (based on P/E and P/BV multiples);

viii. an option holder shall be entitled to submit a payment request during the first five working days of each calendar month, provided that all employees must observe any trading restrictions related to the sale/purchase of the Company's shares by Management and Supervisory Board members and key management under applicable regulations, especially with respect to the observance of closed periods.

Based on the Remuneration Committee decision, out of the total 2,705,000 options, 950,000 options were allocated to Tomasz Łapiński, and 675,000 options were allocated to Andrzej Gutowski while the remaining 1,080,000 options were allocated to other key employees of the Company.

Company Financial Statements for the year ended 31 December 2013

Company Statement of Profit or Loss

For the year ended 31 December		2013	2012
<i>In thousands of Polish Zlotys (PLN)</i>	<i>Note</i>		
Revenues from consulting services		5,402	3,729
General and administrative expense	3	(3,395)	(3,942)
Operating profit/(loss)		2,007	(213)
Finance income	5	9,656	9,945
Finance expense	5	(10,226)	(8,867)
Net finance income/(expense)		(570)	1,078
Profit before taxation		1,437	865
Income tax	6	-	-
Profit before result from subsidiaries		1,437	865
Result from subsidiaries after taxation	8	17,589	30,790
Profit for the year		19,026	31,655

The notes on pages 110 to 115 are an integral part of these Company financial statements.

Company Statement of Financial Position

After profit appropriation

As at 31 December		2013	2012
<i>In thousands of Polish Zlotys (PLN)</i>	<i>Note</i>		
Assets			
Investment in subsidiaries	8	455,258	439,196
Loan granted to subsidiaries	9	105,054	97,170
Total non-current assets		560,312	536,366
Trade and other receivables and prepayments		475	456
Receivable from subsidiaries		4,558	1,127
Loan granted to subsidiaries	9	21,574	9,862
Cash and cash equivalents		1,403	1,293
Total current assets		28,010	12,738
Total assets		588,322	549,104
Equity			
Shareholders' equity	10		
Share capital		20,762	20,762
Share premium reserve		282,873	282,873
Revaluation reserve		4,096	3,474
Retained earnings		157,455	148,749
Total shareholders' equity		465,186	455,858
Liabilities			
Long-term liabilities			
Floating rate bond loans	11	113,759	86,756
Total long-term liabilities		113,759	86,756
Current liabilities			
Floating rate bond loans	11	5,607	1,657
Accrued interest on loans from subsidiaries		3,310	3,310
Trade and other payables and accrued expenses		460	1,523
Total current liabilities		9,377	6,490
Total liabilities		123,136	93,246
Total shareholders' equity and liabilities		588,322	549,104

The notes on pages 110 to 115 are an integral part of these Company financial statements.

Company Financial Statements for the year ended 31 December 2013

Company Statement of Changes in Equity

For the years ended 31 December 2013 and 31 December 2012:

<i>In thousands of Polish Zlotys (PLN)</i>	<u>Share capital</u>	<u>Share premium</u>	<u>Revaluation reserve</u>	<u>Retained earnings</u>	<u>Total equity</u>
Balance at 1 January 2012	20,762	282,873	4,173	116,395	424,203
Net profit for the year ended 31 December 2012	-	-	(699)	32,354	31,655
Balance at 31 December 2012	20,762	282,873	3,474	148,749	455,858
Payment of dividends (see Note 10)	-	-	-	(8,171)	(8,171)
Net profit for the year ended 31 December 2013	-	-	622	18,404	19,026
Acquisition of non-controlling interest (see Note 26 to the Consolidated Financial Statements)	-	-	-	(1,527)	(1,527)
Balance at 31 December 2013	20,762	282,873	4,096	157,455	465,186

The notes on pages 110 to 115 are an integral part of these Company financial statements.

Company Financial Statements for the year ended 31 December 2013

Company Statement of Cash Flows

For the year ended 31 December	2013	2012
<i>In thousands of Polish Zlotys (PLN)</i>	<i>Note</i>	
Cash flows from operating activities		
Profit for the year	19,026	31,655
<i>Adjustments to reconcile profit for the period to net cash (used in)/from operating activities:</i>		
Net finance income/(expense), net	5	570
Net results subsidiaries during the year	8	(17,589)
Subtotal	2,007	(213)
Decrease/(increase) in trade and other receivables and prepayments	(19)	(187)
Decrease/(increase) in receivable from subsidiaries	(3,431)	2,867
Increase/(decrease) in trade and other payable and accrued expense	(1,063)	838
Subtotal	(2,506)	3,305
Interest paid, net	(3,747)	(8,203)
Net cash used in operating activities	(6,253)	(4,898)
Cash flows from investing activities		
Loans granted to subsidiaries, net of issue cost	(18,788)	-
Repayment of loans granted to subsidiaries	2,500	5,990
Dividend from subsidiary	8	6,100
Investment in subsidiaries	8	(11,003)
Net cash used in investing activities	(16,288)	1,087
Cash flows from financing activities		
Dividend payment	(8,171)	-
Proceeds from bond loans, net of issue costs	113,322	-
Repayment of bond loans	(82,500)	-
Net cash from financing activities	22,651	-
Net change in cash and cash equivalents	110	(3,811)
Cash and cash equivalents at 1 January	1,293	5,104
Cash and cash equivalents at 31 December	1,403	1,293

The notes on pages 110 to 115 are an integral part of these Company financial statements.

Notes to the Company Financial Statements

1. General

Ronson Europe N.V. ('the Company'), is a Netherlands limited liability company with its statutory seat in Rotterdam, the Netherlands, and was incorporated on 18 June 2007.

The shares of the Company are traded on the Warsaw Stock Exchange since 5 November 2007. As at 31 December 2013, 39.78% of the outstanding shares are controlled by I.T.R. 2012 B.V. , which is an indirect subsidiary of Israel Theaters Ltd. ('ITR 2012') (32.11% through a jointly controlled partnership formed under Dutch law between ITR 2012 and ITR Dori B.V. and 7.67% through a jointly controlled company formed under Dutch law between ITR 2012 and U. Dori Group) and 39.78% of the outstanding shares are controlled by U. Dori Group Ltd ('U Dori Group') (32.11% through a jointly controlled partnership formed under Dutch law between ITR 2012 and ITR Dori B.V. (of which it holds 50% of the shares) and 7.67% through a jointly controlled company formed under Dutch law between ITR 2012 and U. Dori Group). The remaining 20.44% of the outstanding shares are held by the public.

The Company holds and owns (directly and indirectly) 75 Polish companies. These companies are active in the development and sale of units, primarily apartments, in multi-family residential real-estate projects to individual customers in Poland and lease real estate to third parties. For additional information see Note 1.b to the Consolidated Financial Statements.

2. Accounting principles

The Company's financial statements have been prepared under the option of clause 362.8 of Part 9 of Book 2 of the Netherlands Civil Code, meaning that the accounting principles and measurement basis of the Company's financial statements are similar to those applied with respect to the Consolidated Financial Statements (see Notes 2 and 3 to the Consolidated Financial Statements), except for the valuation of subsidiaries which are valued using the net asset value method. The Company Financial Statements have been prepared in conformity with generally accepted accounting principles in the Netherlands ('Dutch GAAP'), whereas the Consolidated Financial Statements have been prepared in accordance with International Financial Reporting Standards ('IFRS') as adopted by the EU as described in Note 3 to the Consolidated Financial Statements.

Revenue from consulting services represents fees charged by the Company to its subsidiaries; this income is eliminated upon consolidation.

Notes to the Company Financial Statements

3. General and administrative expense

For the year ended 31 December	2013	2012
<i>In thousands of Polish Zlotys (PLN)</i>		
External services	793	909
Remuneration fees	2,499	2,869
Other	103	164
Total	3,395	3,942

4. Directors' remuneration

Key Management Board personnel compensation

Apart from the compensation listed below, there were no further benefits, in the periods ended 31 December 2013 and 31 December 2012. Key Management Board personnel compensation, payable by the Group, can be presented as follows:

As at 31 December	2013	2012
<i>In thousands of Polish Zlotys (PLN)</i>		
Salary and other short term employee benefits	1,534	1,562
Management bonus	582	935
Subtotal - Mr Shraga Weisman	2,116	2,497
Salary and other short term employee benefits	522	522
Management bonus	131	211
Subtotal - Mr Tomasz Łapiński	653	733
Salary and other short term employee benefits	311	311
Management bonus	222	144
Subtotal - Mr Andrzej Gutowski	533	455
Total	3,302	3,685

According to the conditions of the termination agreement concluded in 2008 with Mr Kerem, former President of the Management Board and former Chief Executive Officer of the Company, the consulting agreement between him and the Company and its subsidiary expired as of end of March 2009 ('Expiration Date'). Mr Kerem is entitled to a bonus equal to 0.5% of the pre-tax profits generated by projects that were owned by the Company as at the Expiration Date. This concerns however only those projects which are based on the plots of land with validated zoning conditions or with the valid master plans. Moreover, Mr Kerem is entitled to an additional bonus equal to 2.5% of the pre-tax profit generated by the projects that were in construction or were completed as at the Expiration Date.

Notes to the Company Financial Statements

4. Directors' remuneration (cont'd)

Supervisory Board remuneration

The supervisory directors are entitled to an annual fee of EUR 8,900 plus an amount of EUR 1,500 per board meeting (EUR 750 if attendance is by telephone). During the major part of the year, the Supervisory Board consisted of 6 member; as at 31 December 2013 the Board consists of 5 members. Two Supervisory Board members (Mr Arie Mientkavich and Mr Frank Roseen) have waived their remuneration and thus did not receive any payment from the Company. The total amount due in respect of Supervisory Board fees during 2013 is PLN 281 thousand (EUR 67 thousand; 2012: PLN 242 thousand (EUR 58 thousand)) and can be presented as follows:

As at 31 December	2013	2012
<i>In thousands of Polish Zlotys (PLN)</i>		
<i>Mr Mark Segall</i>	72	65
<i>Mr Yair Shilhav</i>	81	65
<i>Mr Reuven Sharoni</i>	78	65
<i>Mr Przemyslaw Kowalczyk</i>	50	47
Total	281	242

(*) The amounts above were translated from EUR into Polish Zlotys (PLN) using the average exchange rate Published by the NBP.

5. Net finance income and expense

For the year ended 31 December	2013	2012
<i>In thousands of Polish Zlotys (PLN)</i>		
Interests and fees on granted loans to subsidiaries	9,402	9,847
Interest income on bank deposits	254	98
Finance income	9,656	9,945
Interest expense on bonds measured at amortized cost	(8,352)	(8,262)
Foreign exchange loss	-	(9)
Commissions and fees	(1,874)	(596)
Finance expense	(10,226)	(8,867)
Net finance income/(expense)	(570)	1,078

6. Income tax

No Dutch income taxes have been recorded, primarily because current year's tax charge has been offset against the carry forward of taxable losses from the past. Realizations of these carry forward tax losses are dependent upon generating sufficient taxable income in the period that the carry forward tax losses are realized. Based on all available information, it is not probable that the carry forward tax losses are realizable and therefore no deferred tax asset is recognized.

The Company is not recognizing deferred tax assets on tax losses carried forward in the Netherlands. The accumulated Dutch tax losses available for carry forward as per 31 December 2013 are estimated to be EUR 1,509 thousand (2012: EUR 1,851 thousand).

Company Financial Statements for the year ended 31 December 2013

Notes to the Company Financial Statements

7. Personnel

The Company did not employ any personnel during the financial years ended 31 December 2013 and 31 December 2012. The new law crisis levy that was introduced in the Netherlands during 2012 have no impact on the company.

8. Investment in subsidiaries

The subsidiaries of the Company are valued at their net asset value.

The movements in subsidiaries are as follows:

For the year ended 31 December	2013	2012
<i>In thousands of Polish Zlotys (PLN)</i>		
Balance at beginning of the year	439,196	403,503
Investments in subsidiaries	-	11,003
Net result subsidiaries during the year	17,589	30,790
Dividends received during the year	-	(6,100)
Acquisition of non-controlling interest	(1,527)	-
Balance at end of the year	455,258	439,196

The Company holds and owns (directly and indirectly) 75 Polish companies. These companies are active in the development and sale of units, primarily apartments, in multi-family residential real-estate projects to individual customers in Poland and lease real estate to third parties. For additional information see Note 1.b to the Consolidated Financial Statements.

9. Loan granted to subsidiaries

Loans as at 31 December 2013:

<i>In thousands of Polish Zlotys (PLN)</i>	Currency	Nominal interest rate	Year of maturity	Capital	Accrued interest	Charges and fees	Carrying value
Ronson Development Finco	PLN	6% ^(*)	2014	7,360	2,944	-	10,304
Ronson Development Finco	PLN	Wibor 6M + 4.75%	2014	2,500	4,814	-	7,314
Ronson Development Finco	PLN	Wibor 6M + 5.45%	2014	-	3,956	-	3,956
Ronson Development Finco	PLN	Wibor 6M + 4.25%	2017	79,805	2,502	(1,413)	80,894
Ronson Development Finco	PLN	Wibor 6M + 5.05%	2016	23,550	995	(385)	24,160
Total loans granted to subsidiaries				113,215	15,211	(1,798)	126,628

Notes to the Company Financial Statements

9. Loan granted to subsidiaries (cont'd)

Loans as at 31 December 2012:

<i>In thousands of Polish Zlotys (PLN)</i>	Currency	Nominal interest rate	Year of maturity	Capital	Accrued interest	Charges and fees	Carrying value
Ronson Development Finco	PLN	6% ^(*)	2013	7,360	2,502	-	9,862
Ronson Development Finco	PLN	Wibor 6M + 4.75%	2014	51,340	5,970	(465)	56,845
Ronson Development Finco	PLN	Wibor 6M + 5.45%	2014	36,160	4,510	(345)	40,325
Total loans granted to subsidiaries				94,860	12,982	(810)	107,032

(*) The borrower may redeem the loan at any time starting one year from the loan agreement date.

The loans are not secured.

10. Shareholders' equity

The authorized share capital of the Company consists of 800,000,000 shares of EUR 0.02 par value each. The number of issued and outstanding ordinary shares as at 31 December 2013 amounted to 272,360,000 (as at 31 December 2012: 272,360,000 shares).

According to Dutch Law, the Company has an amount (net of tax) of PLN 4,096 thousand (2012: PLN 3,474 thousand) as legal reserve relating to unrealized results of changes in fair value of an investment property owned by one of the Company's subsidiaries. This legal reserve is not available for dividend distribution.

On 27 June 2013, the General Meeting of Shareholders approved the distribution of a dividend for the financial year 2012 amounting to PLN 8,170,800 in total or PLN 0.03 per ordinary share. The dividend day was determined as 1 August 2013, and the dividend was paid on 20 August 2013.

11. Floating rate bond loans

As at 31 December 2013, the floating rate bonds loan comprise a loan principal amount of PLN 121,300 thousand plus accrued interest of PLN 672 thousand minus costs directly attributed to the bond issuance (which are amortized based on the effective interest method) amounting to PLN 2,606 thousand. As 31 December 2013 all covenants were met.

For additional information see Notes 28 and 29 to the Consolidated Financial Statements.

12. Commitments and contingencies

As at 31 December 2013, the Company had no commitments and contingencies.

13. Related party transactions

During the financial years ended 31 December 2013 and 31 December 2012, respectively, there were no transactions between the Company on the one hand, and its shareholders, their affiliates and other related parties which would qualify as not being at arm's length.

14. Financial risk management, objectives and policies

For a description of the Company's financial risk management, objectives and policies reference is made to Note 39 to the Consolidated Financial Statements.

Notes to the Company Financial Statements

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

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

For the year ended 31 December	2013	2012
<i>In thousands of Polish Zlotys (PLN)</i>		
Audit remuneration ⁽¹⁾	630	562
Reimbursed audit review costs ⁽²⁾	(192)	(101)
Total audit remuneration for the expense of the Company	438	461

⁽¹⁾ Audit remuneration includes amounts paid and due to the Company's auditors worldwide for professional services related to the audit and review of unconsolidated and consolidated financial statements of the Company and its subsidiaries for the relevant year (excluding fees for tax advisory services). The part of the audit fee related to the Dutch auditor amounted to PLN 195 thousand (EUR 47 thousand) for 2013 and PLN 170 thousand (EUR 41 thousand) for 2012.

⁽²⁾ Costs in respect of the audit review of the Company's first and third quarter reports have been reimbursed by one of the Company's shareholders. For an explanation reference is made to Note 38 to the Consolidated Financial Statements (under 'Other').

16. Subsequent events

For a description of the Company's subsequent events, reference is made to Note 43 to the Consolidated Financial Statements.

**Rotterdam,
5 March 2014**

The Management Board

Shraga Weisman
Chief Executive Officer

Tomasz Łapiński
Chief Financial Officer

Andrzej Gutowski
Sales and Marketing Director

Ronen Ashkenazi

Israel Greidinger

The Supervisory Board

Mark Segall

Arie Mientkavich

Przemyslaw Kowalczyk

Reuven Sharoni

Yair Shilhav

Other information

Articles of Association rules regarding profit appropriation

In accordance with Article 30 of the Articles of Association,

- 1) the Management Board, with prior approval of the Supervisory Board, shall determine which portion of the profits – the positive balance of the income statement – shall be reserved. The profit remaining shall be at the disposal of the general meeting;
- 2) profit distributions may only be made to the extent the equity exceeds the paid and called up part of the capital increased with the reserves which must be maintained pursuant to the law;
- 3) Dividends shall be paid after the adoption of the Annual Accounts evidencing that the payment of dividends is lawful. The General Meeting shall, upon a proposal of the Management Board, which proposal must be approved by the Supervisory Board, at least determine (i) the method of payment in case payments are made in cash (ii) the date and (iii) the address or addresses on which the dividends shall be payable;
- 4) the Management Board, with prior approval of the Supervisory Board, may resolve to pay an interim dividend provided the requirement of the second paragraph has been complied with as shown by interim accounts drawn up in accordance with the provision of the law;
- 5) the General meeting may, subject to due observance of the provision of paragraph 2 and upon a proposal by the Management Board, which proposal has been approved by the Supervisory Board, resolve to make distributions out of a reserve which need not to be maintained by virtue of the law;
- 6) cash payments in relation to shares if and in as far as the distributions are payable outside the Netherlands, shall be made in the currency of the country where the shares are listed and in accordance with the applicable rules of the country in which the shares of the Company have been admitted to an official listing on a regulated stock exchange. If such currency is not the same as the legal tender in the Netherlands the amount shall be calculated against the exchange rate determined by the Management Board at the end of the day prior to the day on which the General meeting shall resolve to make the distributions in accordance with paragraph.1 above. If and in as far as the Company on the first day on which the distribution is payable, pursuant to governmental measures or other extraordinary circumstances beyond its control, is not able to pay on the place outside the Netherlands or in the relevant foreign currency, the Management Board is authorized to determine to that extent that the payments shall be made in euros and on one or more places in the Netherlands. In such case the provisions of the first sentence of this paragraph shall not apply.
- 7) the General meeting may, upon a proposal by the Managing Directors, which proposal was approved by the Supervisory Board, resolve to pay dividends, or make distributions out of a reserve which need not to be maintained by virtue of the law, wholly or partially in the form of shares in the capital of the Company;
- 8) a claim of a shareholder to receive a distribution expires after 5 years;
- 9) for the calculation of the amount of profit distribution, the shares held by the Company shall be excluded.

Proposed profit appropriation

For the year ended 31 December 2013, as at the date of this report, Management proposes to allocate the net profit for the year 2013 amounting to PLN 19,026 thousand to Retained earnings. This proposal has been reflected in the Company's Statement of Financial Position per 31 December 2013. However, in line with the prevailing dividend policy, management and the Board of Supervisory Directors will be evaluating the possibility of declaring a dividend for financial year 2013 in light of the Company's financial position, taking into account (i) the current and expected balance sheet of the Company, with close observance of the all balance-sheet linked debt covenants, (ii) the financial needs of the Company aiming to be ranked amongst leading residential developers in Poland and (iii) changing market environment. This evaluation may or may not result in changing the proposed profit appropriation for financial year 2013. The boards intend to take a final decision ultimately before the date of the publication of the agenda for the Annual General Meeting of Shareholders to be held before the end of June 2014. Such agenda will reflect the final proposal for profit appropriation.

Subsequent events – other information

Refer to Note 43 of the Consolidated Financial Statements (pages 104 and 105).

Auditor's report

The auditor's report is set up on pages 43 and 44.