

Ronson Europe N.V.

Annual Report
for the year ended
31 December 2012

General Information

Management Board

Shraga Weisman
Tomasz Łapiński
Andrzej Gutowski
Israel Greidinger
Ronen Ashkenazi

Supervisory Board

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

Company Secretary

Rami Geris

Registered office

Weena 210-212
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The Netherlands

Auditors

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

Letter from the CEO

To our shareholders

2012 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 the Euro crisis dominating Europe, the Polish economy continued to generate slow growth and general stability. In 2012, the Polish economy grew by 2%, while unemployment increased to approximately 13%, with many of the larger Polish cities maintaining rates under 7%. The Polish economy is expected to grow by another 1.5% to 2.0% in 2013.

During 2012, the residential market in Poland showed signs of stability on the demand side, yet a continuing surplus on the supply side, which resulted in increased competition amongst developers and a decrease in the number of new projects. In 2012, construction commenced on 142,000 new residential units in Poland, which is a decrease of 12% compared to 2011. The total number of building permits granted during 2012 amounted to 165,000, which was 10% 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 to purchase decreased compared to the second quarter 2012. We believe that this trend of reduced supply will finally result in a decrease of pricing pressure in the near future.

The Company's highlights for 2012 include:

- pre-sale of 380 units which, while below the Company's plans for 2012, was the highest yearly output in Ronson's history;
- delivery of 394 units to our customers, which was also the best annual result in Ronson's history;
- completion of construction works on 7 projects (Sakura, Naturalis 1 and 2, Chilli, Impressio, Panoramika, Verdis and Gemini 2), resulting in receipt of permits for occupancy for 743 units (another annual record for the Company);
- commencement of construction of 4 projects (Espresso, Verdis 2, Młody Grunwald and Chilli 2), representing a total of 456 units;
- securing two new development locations in Warsaw: at Skierniewicka Street (for more than 500 units) and at Jaśminowa Street (for around 700 units);
- a further strengthening of Ronson's brand name, and
- adapting Company operations to comply with the new Polish Developers' Law.

During 2012, in an environment of poor market conditions and increased competition, the Company sold 380 units with a total value of PLN 153.0 million while in 2011 the Company sold 358 units with the total value of PLN 191.9 million. Net profit for 2012 amounted to PLN 31.7 million while in 2011 it amounted to PLN 6.8 million. The substantial increase of net profit in 2012 reflected an increasing number of units delivered by the Company to its clients, due to the completion in 2012 of a number of projects commenced in previous years.

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 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 140,000-160,000 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 exploit 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

Supervisory Board report

We are pleased to present the Financial Statements of Ronson Europe N.V. for the financial year 2012, 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 102 to allocate the net profit for the year 2012 amounting to PLN 31,655 thousand to retained earnings.

Supervision

During 2012, there were frequent Supervisory Board and Management Board meetings, during which, among other topics, the following items were discussed:

- the Company's business strategy, including the responses by the Company to the changed market environment resulting from the euro crisis;
- the strengthening of the Company's financial position;
- potential sources of long term capital;
- 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 seven 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 2012 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 evaluates the performance of the external auditors and related costs. 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.

Financial statements

The Management Board has prepared the 2012 financial statements. These financial statements were discussed at a Supervisory Board meeting attended by the auditors.

Composition of the Supervisory Board

During the Annual General Meeting of Shareholders held on 28 June 2012, Mr Sharoni was reappointed as member of the Supervisory Board for a term of four years.

With a view to the expiration of his four year term as Supervisory Director in 2013, the reappointment of Mr Roseen will be scheduled for the upcoming General Meeting of Shareholders.

Supervisory Board Report

Composition of the Management Board

During the Annual General Meeting of Shareholders held on 28 June 2012, Messrs Weisman, Łapiński and Gutowski were reappointed members of the Management Board and managing directors A for a term of four years. During the same meeting, Mr Pilniewicz was reappointed member of the Management Board and managing director B for a term of four years.

On 31 October 2012, Mr Pilniewicz stepped down as managing director B. It is envisaged that he will be replaced by a new candidate during the upcoming General Meeting of Shareholders.

5 March 2013
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 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 December 2011.

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 they do not apply, 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 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 2008.

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. The topic of corporate governance has been scheduled for each general meeting of shareholders since 2007.

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.

The currently outstanding options have been granted unconditionally and independent on the achievement of targets. The Company shall not amend these existing agreements. Considering that the Company is still in a relatively early stage of development and that the setting of credible predetermined performance criteria at a term of at least three years is not practical at this stage, the Company shall not apply this provision.

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 six members, of which three are independent within the meaning of the Dutch Corporate Governance Code. Three leading shareholders, i.e. I.T.R. 2012 B.V. and ITR Dori B.V. cooperating jointly in the general partnership Vennootschap onder firma ITRD ("ITRD Partnership") which holds in total a shareholding and voting rights of 64.2%, and GE with a shareholding and voting rights of 15.3% have agreed to use their voting rights in such a manner to procure that the ITRD Partnership 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.

Governance structure (cont'd)

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 2012, 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 with these 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 by three leading shareholders, (1) I.T.R. 2012 B.V., (2) ITR Dori B.V. (cooperating under the general partnership Vennootschap onder firma ITRD) and controlling jointly 64.2% of the Company's share capital and votes in the General Meeting of Shareholders of the Company and (3) GE Real Estate CE Residential B.V. controlling 15.3% of the Company's share capital and votes, the change of control over the Company is not possible without their consent and involvement. 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 recognises 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 from 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 50, US citizen, male), Chairman

Mark Segall was appointed 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 Bel Fuse Inc., Integrated Asset Management plc., Temco Services 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 70, Israeli citizen, male), Vice-Chairman

Arie Mientkavich was appointed a member of the Supervisory Board of the Company on 30 June 2011, and he is Chairman of the Remuneration Committee. He is Deputy Chairman of the Management Board of Gazit Globe Ltd (since 2005). Mr Mientkavich is Chairman of the board of the following companies: U. Dori Group Ltd (since 2012) Gazit Globe Israel (Development) Ltd (since 2006), Elron Electronic Industries Ltd (since 2007) and Rafael Development Corporation Ltd (since 2007). He is Vice-Chairman of IDB Holding Corporation Ltd (since 2007) and he is also a director in Given Imagining Ltd and in Nulens Ltd. From 1997 to 2006, Mr Mientkavich was Chairman of the board of Israel Discount Bank Ltd and from 1987 to 1997 he served as Active Chairman of the Israel Securities Board, he also was 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 the Company and other business activities of Mr Mientkavich.

Yair Shilhav (age 54, Israeli citizen, male)

Yair Shilhav was appointed 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. 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.

Frank Roseen (age 50, Swedish citizen, male)

Frank Roseen was appointed a member of the Supervisory Board of the Company on 29 May 2009. Mr Roseen joined GE Capital in 2002, and has 11 years of real estate experience. Mr Roseen is a managing director in GE Capital Real Estate's operations for Germany, Central and Eastern Europe based in Frankfurt since April 2012. His previous roles were managing director in GE Capital Real Estate's operations for Central and Eastern Europe based in Prague and Managing Director - Asset Management for Asia Pacific. Prior to that, Mr Roseen was CFO for GE Commercial Finance Real Estate Asia Pacific and GE Real Estate Nordic. Before joining GE, he was Finance Director for Xerox Nordic. His current term as Supervisory Director expires in May 2013. There is no conflict of interest between the Company and other business activities of Mr Roseen.

Reuven Sharoni (age 75, Israeli citizen, male)

Reuven Sharoni was appointed 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 Arie 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 Arie 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.

Composition of the Supervisory Board (cont'd)

Przemyslaw Kowalczyk (age 43, Polish citizen, male)

Przemyslaw Kowalczyk was appointed 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 enterprise 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.

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 chairman 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 61, 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. Mr Weisman does not perform any activities other than for the Company.

Composition of the Management Board (cont'd)

Tomasz Łapiński (age 36, 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 43, 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 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 51, 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 Financial Officer and member of the Management Board of Cinema City International N.V. since 1995. 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 51, 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 26 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 (5% or more) in the Company: I.T.R. 2012 B.V., ITR Dori B.V., GE Real Estate CE Residential B.V., Amplico Otwarty Fundusz Emerytalny and ING Otwarty 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 the so-called Relationship Agreement between its three largest shareholders, ITR Dori, ITR 2012 and GE Real Estate CE Residential B.V. which sets forth certain rights and obligations of the three largest shareholders with respect to each other. For a description of the Relation Agreement reference is made to pages 75 to 77 of the Company's Prospectus dated 10 October 2007 as available from the Company's website: www.ronson.pl.

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 same General Meeting approved a long-term incentive plan for members of the Management Board and other key personnel of the Company and its subsidiaries. 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 at 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. In addition, he is entitled to an annual bonus set at 0.75% of the consolidated annual pre-tax profit of the Group.

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. Mr Gutowski is also entitled to quarterly bonus based on the value of the apartments sold by the Company in the particular quarter. His bonus is linked to the value of Group's sales and amounts to 0.1% of the value of sales.

Remuneration Report

Remuneration of the Management Board (cont'd)

Israel Greidinger

Mr Israel Greidinger is not entitled to any remuneration from Ronson Europe nor from any of the Company's subsidiaries except for a reimbursement of out-of-pocket expenses related to services provided to the Company (mainly comprising travel and accommodation expenses).

Ronen Ashkenazi

Mr Ronen Ashkenazi is not entitled to any remuneration from Ronson Europe nor from any of the Company's subsidiaries except for a reimbursement of out-of-pocket expenses related to services provided to the Company (mainly comprising travel and accommodation expenses).

Karol Pilniewicz

Mr Karol Pilniewicz, previous member of the Management Board, was not entitled to any remuneration from Ronson Europe nor from any of the Company's subsidiaries except for a reimbursement of out-of-pocket expenses related to services provided to the Company (mainly comprising travel and accommodation expenses).

Remuneration of the Management Board in 2012

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 3,685 thousand, of which the compensation of:

- Mr Shraga Weisman amounted to PLN 2,497 thousand,
- Mr Tomasz Łapiński amounted to PLN 733 thousand,
- Mr Andrzej Gutowski amounted to PLN 455 thousand.

Long-term incentive plan

Towards the end of 2007, an employee stock incentive plan (the 'Employee Stock Incentive Plan') was implemented. The Employee Stock Incentive Plan comprises a maximum of 4,000,000 shares for members of the Management Board and key employees of the Company. The General Meeting of Shareholders has resolved to authorize the Supervisory Board to determine, with the participation of at least one independent member of the Supervisory Board, the exact terms of any stock or stock-based incentive scheme, and the persons entitled to participate therein, upon the recommendation of the Management Board. In addition, under such resolution, the Company may purchase its shares in the open market to satisfy any share entitlements upon exercise of any options issued or granted under its Employee Stock Incentive Plan. The actual granting and exercising of share options are disclosed in the Notes to the Consolidated Financial Statements (Note 26 B).

On 5 November 2007, the Company issued 1,900,000 options with an exercise price of PLN 5.75 each, of which 336,000 options are still outstanding and exercisable as at 31 December 2012. During the year ended 31 December 2012, the employees that joined the option program had not exercised any of their options.

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 (Mr Arie Mientkavich and Mr Frank Roseen) 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 2012 amounted to PLN 242 thousand (EUR 58 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 most recent government program, which has expired at the end of 2012, was called Rodzina na Swoim (Family on its Own) and was subsidising the costs of mortgage loans. A new program called Mieszkanie dla Młodych (Apartment for the Young) is expected to be 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. Moreover, the timeframe of a new program may additionally impact the situation in the residential market as clients may be motivated to accelerate their decision to buy (until some program expires) or to delay such (until a new program is starting).

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 36 of the Consolidated Financial Statements.

Risk Profile and Risk Management

Risk Management

As part of its risk management measures, the Company is 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, which include, for instance, a stipulation that any acquisition of land requires unanimous approval of the Management Board of the Company. Moreover, in response to the recent increasing market instability, 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 2013 assume the possibility of commencing the construction of three new projects and five further stages of projects that are currently under construction comprising some 420 and 580 units respectively, which means that the average scale of each new project, i.e. stage of completion, will be on average around 120 units. The Company is further mitigating the risks related to the construction process by selecting and hiring experienced construction companies with good reputations and proven track-records 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 2012, the proper operation of the new internal risk management and control system has been monitored. The evaluation was discussed with the members of the Audit Committee and the Supervisory Board. Also, the Company has a set 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 increased 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 36 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 2012, 32.1% of the outstanding shares are held by I.T.R. 2012 B.V., 32.1% of the outstanding shares are held by ITR Dori B.V. (both cooperating in ITRD Partnership), whereas 15.3% of the outstanding shares are held by GE Real Estate CE Residential B.V. ('GE Real Estate') and the remaining 20.5% of the outstanding shares are held by other investors including Amplico Otworthy Fundusz Emerytalny and ING Otworthy Fundusz Emerytalny whereby each party is holding an interest of between 5% and 10% of the outstanding shares. On 5 March 2013, the market price was PLN 0.93 per share giving the Company a market capitalization of PLN 253.3 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 debt and euro crises, which continue to play out in much of Europe, and with increasing volatility in recent months, 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 2012, the Group is in the midst of developing six projects comprising a total of 652 units, with a total area of 36,200 m². The construction of 294 units, with a total area of 18,200 m², is expected to be completed during 2013. Moreover the Group operates eight completed projects, in which 244 units with a total usable area of 19,500 m² were still available for sale as at 31 December 2012.

In addition, the Group has a pipeline of 22 projects in different stages of preparation, representing approximately 5,600 residential units with a total area of approximately 362,300 m² for future development in Warsaw, Poznań, Wrocław and Szczecin. The Group is considering commencement of five new stages of projects that are currently under construction comprising 583 units with a total area of 31,400 m² and three new projects comprising 422 units with a total area of 25,200 m² to be delivered during 2013.

During the financial year ended 31 December 2012, the Company signed one preliminary agreement and one final agreement for purchasing two plots of land in Warsaw, which will allow the Group to develop two new projects that will comprise approximately 1,200 units with the total area of 74,500 m². For additional information, see "Business highlights during the year ended 31 December 2012 - E. Land purchase" (page 21).

During the year ended 31 December 2012 net sales amounted to 380 units with the total value PLN 153.0 million compared to net sales of 358 units with a total value of PLN 191.9 million during the year ended 31 December 2011 which reflects deteriorating market conditions and increasing competition during 2012.

Market overview

The Polish economy has proven to be relatively strong even in the recent turbulent times, 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 four years. Management believes the Company is well positioned to adapt to changing market conditions and is preparing new projects for development, which will be distinguished in the market by their location, quality and attractive pricing. The Company's sales results during 2010, 2011 and 2012 seem to confirm that the Company continues to adapt positively to the changing market environment.

In 2012, the construction of 142,000 new apartments was commenced, a decrease of 12% compared to 2011. 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, changed in 2012, as many developers faced difficulties in finding customers for their products. Simultaneously, competition among real estate developers significantly 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. Such trend resulted also from changing regulations, which limited the amount of mortgage offered to customers by the banking sector in Poland (so called "Recommendation T" implemented by the Polish Financial Supervision Authority imposing, among others, new criteria of evaluating customers) as well as from the governmental program supporting families buying their first apartment (by subsidizing costs of the mortgage loans). The purchasing power of the customers using the mortgage loans also diminished in 2012, as customers were offered fewer mortgage loans. It is estimated that the total amount of new mortgage loans granted in 2012 was 8% lower than during 2011 and shall still go down during 2013, which may be the source of additional pricing pressure on the residential market.

Another unique factor affecting the Polish residential market is related to the governmental plans supporting and subsidizing young couples purchasing their first apartments. The most recent program called "Rodzina na Swoim" ("Family on its own") expired as end of 2012, whereas the next program prepared by the government is expected to go into effect no earlier than 2014. Taking into consideration all those circumstances, various real estate advisors estimate that the sale of the total number of dwellings in major Polish metropolitan areas will fall during 2013 by 15% to 20%, while in Warsaw the market is expected to shrink by 10% to 15%. It is anticipated, however, that any limitation on demand during 2013 will relate mainly to the cheaper more economical apartments, as potential purchasers may postpone their decisions until new government support measures take force. Such trends expected in 2013 may result in increasing market pressure on certain developers offering mainly low priced, economic apartments, while others (offering apartments not qualifying for government subsidy programs) may find it as a new opportunity because their offer may become relatively more competitive.

Simultaneously, 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 banking guarantees increasing security of customers' deposits, if such deposits are being used for financing the construction. The Company's management is aware of these shifting trends as well as increasing demands by the Company's customers and has implemented internal processes aimed at improving customer service and responding positively to new customer requirements.

In addition, to further minimize market risk, the Company is taking a very selective approach when initiating new projects. In the preparation phase of all projects, great emphasis is put on splitting the projects into smaller parts. Management is also cognizant of the tightened credit markets. 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 2012

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 2012:

Project name	Location	Number of units	Area of units (m ²)
Sakura I ^(*)	Warsaw	120	8,100
Impressio I ^(*)	Wrocław	70	4,400
Naturalis I ^(*)	Warsaw	52	2,900
Naturalis II ^(*)	Warsaw	60	3,400
Chilli I ^(*)	Poznań	30	2,100
Verdis I ^(*)	Warsaw	139	9,400
Panoramika I ^(*)	Szczecin	90	5,300
Gemini II ^(*)	Warsaw	182	13,900
Total		743	49,500

(*) 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 2012 amounted to PLN 198.8 million, whereas cost of sales before write-down adjustment (related to the Constans project) amounted to PLN 143.4 million and after write-down adjustment amounted to PLN 148.4 million, which resulted in a gross profit before write-down adjustment amounting to PLN 55.4 million with a gross margin of 27.9% and a gross profit after write-down adjustment amounting to PLN 50.4 million with a gross margin of 25.4%.

The following table specifies revenue, cost of sales and gross profit in 2012 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 (thousand)	%	PLN (thousand)	%	PLN (thousand)	%
Gemini II	106	7,899	68,655	34.5%	40,155	28.0%	28,500	41.5%
Verdis I	67	3,972	29,166	14.7%	18,707	13.0%	10,459	35.9%
Sakura I	86	5,498	42,853	21.6%	32,725	22.8%	10,128	23.6%
Impressio I	43	2,791	17,689	8.9%	16,739	11.7%	950	5.4%
Constans	7	1,905	8,106	4.1%	8,106	5.7%	-	0.0%
Naturalis I	7	265	1,535	0.8%	1,326	0.9%	209	13.6%
Naturalis II	26	1,339	7,630	3.8%	6,544	4.6%	1,086	14.2%
Imaginarium II	1	73	749	0.4%	573	0.4%	176	23.5%
Imaginarium III	9	750	7,413	3.7%	5,516	3.8%	1,897	25.6%
Panoramika I	23	937	6,375	3.2%	6,124	4.3%	251	3.9%
Chilli I	14	926	4,221	2.1%	3,871	2.7%	350	8.3%
Nautica I	1	72	588	0.3%	520	0.4%	68	11.6%
Nautica II	1	201	1,074	0.5%	928	0.6%	146	13.6%
Galileo	2	139	896	0.5%	591	0.4%	305	34.0%
Gardenia	1	172	683	0.3%	680	0.5%	3	0.4%
Other	N.A.	N.A.	1,126	0.6%	290	0.2%	836	74.2%
Total / Average	394	26,939	198,759	100.0%	143,395	100.0%	55,364	27.9%
Write-down adjustment	N.A.	N.A.	N.A.	N.A.	4,957	N.A.	(4,957)	N.A.
Results after write-down adjustment	394	26,939	198,759	100.0%	148,352	100.0%	50,407	25.4%

(*) 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 2012 (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 project is a continuation of Gemini I, which was completed in 2010. 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

The construction of the Verdis I was completed in December 2012. The Verdis I project was developed on a part of a land strip of 16,300 m² located in the Wola district in Warsaw (Sowińskiego Street). The Verdis I project comprises 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.

Sakura I

The construction of the Sakura I project was completed in May 2012. The Sakura I project was developed on a part of a land strip of 21,000 m² located in the Mokotów district in Warsaw (Kłobucka Street). The Sakura I project comprises 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.

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 4,400 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 and II

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

Imaginarium II and III

The construction of the Imaginarium II and III housing estate was completed in August 2009 and November 2011, respectively. The Imaginarium II and III project was developed on a land strip of 7,600 m² located in the Bielany district in Warsaw (Gwiaździsta Street). The Imaginarium II and III housing estate comprises 3 four-storey, multi-family buildings with total 65 apartments with an aggregate usable floor space of 4,700 m² and 2 four-storey, multi-family buildings with total 45 apartments with an aggregate usable floor space of 3,800 m², respectively.

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.

Business highlights during the year ended 31 December 2012 (cont'd)

B. Results breakdown by project (cont'd)

Chilli I

The construction of the Chilli I project was completed in July 2012. The Chilli I project was developed on a part of a land strip of 39,604 m² located in Tulce near Poznań. The Chilli I project comprises 30 units with an aggregate floor space of 2,100 m².

Nautica I

The construction of the Nautica I project was completed in June 2010. The Nautica I project was developed on a land strip of 9,698 m² located in the Ursynów district in Warsaw (Stryjeńskich Street). The project comprises 4 five-storey, multi-family residential buildings with a total of 148 apartments and 1 commercial unit and an aggregate floor space of 10,648 m².

Nautica II

The construction of the Nautica II project was completed in August 2011. The Nautica II project was developed on a land strip of 1,051 m² located in the Ursynów district in Warsaw (Stryjeńskich Street). The project comprises one semi-detached unit and one house (in total 3 units) with an aggregate floor space of 622 m².

Galileo

The construction of the Galileo project was completed in March 2009. The Galileo project was developed on a land strip of 8,598 m² located in the city centre district of Poznań. The Galileo housing project comprises 5 six-storey, multi-family residential buildings with a total of 226 apartments and 6 commercial units with an aggregate floor space of 16,700 m².

Gardenia

The Gardenia project was completed in December 2010. The project was developed on a land strip of 7,129 m² located in Józefosław near Warsaw. The Gardenia project, a single family housing (houses in a row) project, comprise 22 units with an aggregate floor space of 3,683 m².

Other

Other revenues and cost of sales 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.

Write-down adjustment

During the year ended 31 December 2012, as a result of Net Realizable Value (NRV) analyses and reviews, a write-down adjustment for the Constans project was made in the amount of PLN 4,957 thousand.

Directors' Report

Business highlights during the year ended 31 December 2012 (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 2012:

Project name	Location	Units sold until 31 December 2011	Units sold during the year ended 31 December 2012	Units for sale as at 31 December 2012	Total
Gemini I ^(*)	Warsaw	154	-	2	156
Galileo ^(*)	Poznań	229	-	2	231
Imaginarium II ^(*)	Warsaw	64	1	-	65
Imaginarium III ^(*)	Warsaw	43	2	-	45
Constans ^(*)	Warsaw	13	8	13	34
Sakura I ^(*)	Warsaw	57	37	26	120
Impressio I ^(*)	Wrocław	22	26	22	70
Chilli I ^(*)	Poznań	11	8	11	30
Naturalis II ^(*)	Warsaw	16	11	33	60
Gemini II ^(*)	Warsaw	137	29	16	182
Naturalis I ^(*)	Warsaw	13	7	32	52
Verdis I ^(*)	Warsaw	60	45	34	139
Panoramika I ^(*)	Szczecin	9	24	57	90
Naturalis III ^(**)	Warsaw	-	14	46	60
Sakura II ^(**)	Warsaw	-	47	89	136
Chilli II ^(**)	Poznań	-	2	18	20
Espresso I ^(**)	Warsaw	21	75	114	210
Verdis II ^(**)	Warsaw	-	19	59	78
Młody Grunwald I ^(**)	Poznań	-	25	123	148
Total		849	380	697	1,926

(*) For information on the completed projects see "Business highlights during the year ended 31 December 2012 – B. Results breakdown by project" (pages 17 to 19).

(**) For information on current projects under construction, see "Outlook for 2013 – B. Current projects under construction" (pages 28 to 29).

D. Commencements of new projects

The table below presents information on the four new projects/stages for which the construction and/or sales process commenced during the year ended 31 December 2012:

Project name	Location	Number of units	Area of units (m ²)
Espresso I ^(*)	Warsaw	210	9,500
Chilli II ^(*)	Poznań	20	1,600
Młody Grunwald I ^(*)	Poznań	148	8,500
Verdis II ^(*)	Warsaw	78	4,900
Total		456	24,500

(*) For additional information see section "Outlook for 2013 – B. Current projects under construction" (pages 28 to 29).

Business highlights during the year ended 31 December 2011 (cont'd)***E. Land purchase***

In March 2012, the Group acquired a parcel of land with an area of 2,600 m² located in Wrocław, Krzyki District, at Jutrzenki Street ("Land 2"). Land 2 is located nearby a plot of land with an area of 14,900 m² which the Group had purchased in the past ("Land 1"). In combination, Land 1 and Land 2 shall allow the Group to build multifamily buildings that will comprise 300 units with an aggregate floor space of 16,500 m².

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. It is assumed that the project planned on this plot shall comprise nearly 650 units with the total aggregate floor space of 50,000 m².

In August 2012, the Group, through a joint venture entity (Ronson IS Sp. z o.o. sp.sk.), in which the Group holds a 50% interest, signed the final purchase agreement for a plot of land with an area of 8,900 m² located in Warsaw, district Wola at Skierniewicka and Wolska Streets. It is assumed that the project planned in this plot shall comprise nearly 550 units with the total aggregate floor space of 24,500 m².

Directors' Report

Overview of results

The net profit attributable to the equity holders of the parent company for the year ended 31 December 2012 was PLN 31,655 thousand and can be summarized as follows:

	For year ended 31 December	
	2012	2011
	PLN	
	(thousands, except per share data)	
Revenue	198,759	96,674
Cost of sales	(148,352)	(73,986)
Gross profit	50,407	22,688
Changes in the value of investment property	(970)	-
Selling and marketing expenses	(6,200)	(5,058)
Administrative expenses	(15,972)	(15,161)
Other expense	(1,953)	(2,863)
Other income	967	1,218
Result from operating activities	26,279	824
Finance income	3,433	5,209
Finance expense	(1,441)	(602)
Net finance income	1,992	4,607
Profit before taxation	28,271	5,431
Income tax benefit	3,040	1,326
Net profit for the year before non-controlling interests	31,311	6,757
Non-controlling interests	344	69
Net profit for the year attributable to the equity holders of the parent	31,655	6,826
Net earnings per share attributable to the equity holders of the parent (basic and diluted)	0.116	0.025

Overview of results (cont'd)

Revenue

Total revenue increased by PLN 102.1 million (105.6%) from PLN 96.7 million during the year ended 31 December 2011 to PLN 198.8 million during the year ended 31 December 2012, which increase is primarily explained by an increase in apartments delivered to the customers in terms of area size (in m²), as well as a slight increase in the average selling price per m².

Cost of sales

Cost of sales increased by PLN 74.4 million (100.5%) from PLN 74.0 million during the year ended 31 December 2011 to PLN 148.4 million during the year ended 31 December 2012, which increase is primarily explained by an increase in apartments delivered to the customers in terms of area size (in m²), as well as a slight decrease in the average total cost of sales per m². Cost of sales was furthermore impacted by the write-down adjustment on the Constans project, which was recognized during the year ended 31 December 2012.

Gross margin

The gross margin during the year ended 31 December 2012 was 25.4% compared to the gross margin during the year ended 31 December 2011 of 23.5%. The increase in gross margin is explained by more favorable (more profitable) mix of projects delivered to customers by the Company during 2012, which on average enjoyed an increase in the average selling price per m² (around 200 PLN per m²) as well as decrease in the average total cost of sales per m² (around 150 PLN per m²). The increase in the gross profit was offset in part by the impact of the write-down adjustment on the Constans project, which was recognized during the year ended 31 December 2012.

Selling and marketing expenses

Selling and marketing expenses increased by PLN 1.1 million (22.6%) from PLN 5.1 million for the year ended 31 December 2011 to PLN 6.2 million for the year ended 31 December 2012. 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.

Administrative expenses

Administrative expenses increased by PLN 0.8 million (5.3%) from PLN 15.2 million for the year ended 31 December 2011 to PLN 16.0 million for the year ended 31 December 2012. The increase is primarily explained by an increase in the Management Board bonus by PLN 1 million which is calculated in proportion to the profit before tax.

Other expenses

Other expenses decreased by PLN 0.9 million (31.8%) from PLN 2.9 million for the year ended 31 December 2011 to PLN 2.0 million for the year ended 31 December 2012, which is primarily explained by a decrease in expense for contractual penalties and compensation, civil activity taxes on contributions expenses and impairment of trade receivables. The decrease is offset in part by an increase in cost of repairs and defects.

Other income

Other income decreased by PLN 0.2 million (20.6%) from PLN 1.2 million for the year ended 31 December 2011 to PLN 1.0 million for the year ended 31 December 2012, which is primarily explained by a decrease in revenues from contractual penalties and compensation.

Result from operating activities

As a result of the factors described above, the Company's operating result increased by PLN 25.5 million, from an operating profit of PLN 0.8 million for the year ended 31 December 2011 to an operating profit of PLN 26.3 million for the year ended 31 December 2012.

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 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

	For the year ended 31 December 2011		
	PLN (thousands)		
	<u>Total amount</u>	<u>Amount capitalized</u>	<u>Recognized as profit or loss</u>
Finance income	5,375	(166)	5,209
Finance expense	(17,450)	16,848	(602)
Net finance (expense)/income	(12,075)	16,682	4,607

Net finance expenses before capitalization increased by PLN 4.3 million (35.4%) from PLN 12.1 million during the year ended 31 December 2011 to PLN 16.4 million during the year ended 31 December 2012, which was a result of an increase in finance expense due to an increase in loans and borrowing that related mainly to the issuance of the bonds during April 2011, as well as a decrease in finance income due to a decrease in short-term deposits kept by the Company in bank accounts.

Income tax benefit/(expense)

During the year ended 31 December 2012 the Group realized a tax benefit of PLN 3.0 million, in comparison to a tax benefit of PLN 1.3 million for the year ended 31 December 2011. The tax benefit during financial years ended 31 December 2012 and 31 December 2011 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 minority shareholders in profit and losses from subsidiaries that are not 100% owned by the Company and amounted to PLN 344 thousand (positive) for the year ended 31 December 2012 as compared to PLN 69 thousand (positive) for the year ended 31 December 2011.

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
2012 (12 months)	4.185	4.047	4.514	4.088
2011 (12 months)	4.120	3.840	4.564	4.417

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			
	2012	2011	2012	2011
Revenues	47,493	23,465	198,759	96,674
Gross profit	12,045	5,507	50,407	22,688
Profit before taxation	6,755	1,318	28,271	5,431
Net profit for the year attributable to the equity holders of the parent	7,564	1,657	31,655	6,826
Cash flows from/(used in) operating activities	(8,657)	(3,616)	(36,231)	(14,897)
Cash flows from/(used in) investing activities	(1,872)	(2,195)	(7,833)	(9,044)
Cash flows from/(used in) financing activities	(1,345)	5,746	(5,630)	23,675
Increase/(decrease) in cash and cash equivalents	(11,874)	(65)	(49,694)	(266)
Inventory	163,425	142,929	668,080	631,317
Total assets	192,397	173,412	786,519	765,961
Advances received	16,754	19,785	68,492	87,391
Long term liabilities	37,409	27,246	152,927	120,345
Short term liabilities (including advances received)	42,521	49,164	173,824	217,159
Equity attributable to the equity holders of the parent	111,511	96,039	455,858	424,203
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)	0.0277	0.006	0.116	0.025

* 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 2012 comparing to 2011, 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.

Financial condition

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, as described below, has enabled the Company not only to proceed with the development of its residential projects and purchasing new plots of lands but also to redeem its loans from related parties significantly during the year ended 31 December 2011 whilst at the same time maintaining sufficient liquidity for its day-to-day operations.

Cash flow used in operating activities

The Company's net cash outflow used in operating activities for the year ended 31 December 2012 amounted to PLN 36.2 million which compares to a net cash outflow used in operating activities during the year ended 31 December 2011 of PLN 14.9 million. The increase in cash outflow is principally explained by:

- a net cash outflow during the year ended 31 December 2012 from advances received from clients regarding sales of residential units in the amount of PLN 179.3 million, which were more than offset by revenue recognized for a total amount of PLN 198.2 million compared to a net cash inflow during the year ended 31 December 2011 from advances received in the amount of PLN 139.7 million, which were only partly offset by revenue recognized for a total amount of PLN 96.7 million;
- a net cash outflow used in trade and other receivables and prepayments amounting to PLN 18.3 million during the year ended 31 December 2012 compared to a net cash inflow from trade and other receivables and prepayments amounting to PLN 1.4 million during the year ended 31 December 2011. The increase is mainly explained by the advance payment for a land purchase (plot at Jaśminowa Street in Warsaw).

This above effects were offset in part by the net cash outflow used in inventory, which decreased to PLN 23.7 million during the year ended 31 December 2012 from a net cash outflow to PLN 57.8 million during the year ended 31 December 2011. The decrease is mainly explained by an increase in cost of sale recognized due to a larger number of units delivered to clients. On the other hand, the decrease is offset in part by an increase in the number and volume of projects under construction as well as the increasing expenses for purchase of new land (which during the year ended 31 December 2012 include plots at Skierniewicka Street in Warsaw and at Jutrzenki Street in Wrocław).

Notwithstanding to the above, total cash outflow for purchasing new plots of land (including prepayments) amounted to PLN 37.0 million during 2012 in comparison to PLN 14.6 million during 2011.

Cash flow used in investing activities

The Company's net cash outflow used in investing activities amounted to PLN 7.9 million during the year ended 31 December 2012 which compares to a net cash outflow used in investing activities amounting to PLN 9.0 million during the year ended 31 December 2011.

Cash flow used in financing activities

The Company's net cash outflow used in financing activities totalled PLN 5.6 million during the year ended 31 December 2012 compared to a net cash inflow totalling PLN 23.7 million in the year ended 31 December 2011. The decrease is primarily due to:

- the proceeds from the bonds issued during the year ended 31 December 2011 amounting to PLN 85.7 million (net of costs) whereas during the year ended 31 December 2012 no bonds were issued, and
- a repayment of secured bank loans amounting to PLN 48.5 million during the year ended 31 December 2012 compared to a repayment of secured bank loans amounting to PLN 8.2 million during the year ended 31 December 2011.

The above effect was offset in part by the repayment of related parties loans amounting to PLN 52.9 million during the year ended 31 December 2011 compared to nil during the year ended 31 December 2012, as well as the proceeds from new bank loans amounting to PLN 2.0 million during the year ended 31 December 2011 compared to PLN 36.7 million during the year ended 31 December 2012.

Financial condition (cont'd)

Debt and net debt position

As of 31 December 2012, the Company's total debt to banks, bonds and third parties amounted to PLN 207.6 million (31 December 2011: PLN 211.3 million). Taking into account the Company's available cash position at 31 December 2012 amounting to PLN 44.9 million (31 December 2011: PLN 94.6 million), the net debt position of the Company amounted to PLN 162.6 million as at 31 December 2012 (31 December 2011: PLN 116.7 million).

Employees

The average number of personnel employed by the Company and its subsidiaries – on a fulltime equivalent basis – increased from 55 in 2011 to 60 in 2012. The increase in the number of employees resulted from the Company's growing 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 (indirectly) pertaining to I.T.R. Dori B.V., one of the Company's larger shareholders, whose ultimate parent company is 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 the ultimate parent company of I.T.R. Dori B.V. 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 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 2013

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 2011	During the period ended 31 December 2012	Total units delivered	Sold until 31 December 2012	Not sold as at 31 December 2012	Total units expected to be delivered	
Gemini II (**)	Warsaw	-	106	106	60	16	76	182
Verdis I (**)	Warsaw	-	67	67	38	34	72	139
Panoramika I (**)	Szczecin	-	23	23	10	57	67	90
Naturalis I (**)	Warsaw	-	7	7	13	32	45	52
Naturalis II (**)	Warsaw	-	26	26	1	33	34	60
Sakura I (**)	Warsaw	-	86	86	8	26	34	120
Impressio I (**)	Wrocław	-	43	43	5	22	27	70
Chilli I (**)	Poznań	-	14	14	5	11	16	30
Constans (**)	Warsaw	12	7	19	2	13	15	34
Total		12	379	391	142	244	386	777

(*) 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 2012 – B. Results breakdown by project" (pages 17 to 19).

B. Current projects under construction

The table below presents information on projects for which completion is scheduled in 2013 and 2014. 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 2012	Expected completion of construction
Naturalis III	Warsaw	3,400	60	14	2013
Sakura II	Warsaw	8,300	136	47	2013
Chilli II	Poznań	1,600	20	2	2013
Verdis II	Warsaw	4,900	78	19	2013
Espresso I	Warsaw	9,500	210	96	2014
Młody Grunwald I	Poznań	8,500	148	25	2014
Total		36,200	652	203	

Naturalis III

Description of project

The Naturalis III project is being developed on a part of a land strip of 31,800 m² located in Łomianki near Warsaw and is a continuation of Naturalis I and II, which were completed during 2012. The Naturalis III project will comprise 1 four-storey, multi-family residential building with a total of 60 apartments and an aggregate floor space of 3,400 m². In total, the Naturalis project shall comprise approximately 490 units with a total estimated flat usable area of 30,200 m².

Stage of development

The construction of the Naturalis III project commenced in December 2011, while completion is expected in the second quarter of 2013.

Outlook for 2013 (cont'd)

B. Current projects under construction (cont'd)

Sakura II

Description of project

The second 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 (Kłobucka Street) and is a continuation of Sakura I, which was completed in May 2012. The second phase of this project will comprise 1 seven and eleven-storey, multi-family residential building with a total of 136 apartments and an aggregate floor space of 8,300 m². In total, the Sakura project shall comprise around 514 units with a total estimated flat usable area of 30,800 m².

Stage of development

The construction of the Sakura II project commenced in October 2011, while completion is expected in the second quarter of 2013.

Verdis II

Description of project

The second 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 (Sowińskiego Street). The second phase of this project will comprise 2 seven-storey, multi-family residential buildings with a total of 78 apartments and an aggregate floor space of 4,900 m². In total, the Verdis project shall comprise around 442 units with a total estimated flat usable area of 26,000 m².

Stage of development

The construction of the Verdis II project commenced in August 2012, while completion is expected in the fourth quarter of 2013.

Chilli II

Description of project

The second 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, which was completed in July 2012. The second phase of this project will comprise 20 units with an aggregate floor space of 1,600 m². In total, the Chilli project shall comprise around 274 units with a total estimated usable area of 17,800 m².

Stage of development

The construction of the Chilli II project commenced in May 2012, while completion is expected in the third quarter of 2013.

Espresso I

Description of project

The first phase of the Espresso project is being developed on a part of a land strip of 16,192 m² located in Warszawa at Jana Kazimierza Street. The first phase of this project will comprise 1 seven, eight, nine and ten-storey, multi-family residential building with a total of 202 apartments and 8 commercial units and an aggregate floor space of 9,500 m². In total, the Espresso project shall comprise around 670 units with a total estimated usable area of 34,600 m².

Stage of development

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

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 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. In total, the Młody Grunwald project shall comprise around 428 units with a total estimated usable area of 25,000 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.

Outlook for 2013 (cont'd)

C. Projects for which construction work is planned to commence during 2013

As the Company is aware of 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 2013, the Company is considering the commencement of development on another five stages of currently run projects and three 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

Magellan

The Magellan project will be developed on a land strip of 12,150 m² located in Warsaw at Magazynowa Street. The project will comprise 381 units with an aggregate floor space of 23,100 m² and will be divided into 2 or more phases. The first stage is to comprise 176 units with an aggregate floor space of 11,000 m². The Company is considering commencing construction of the first phase of this project during 2013.

Tamka

The Tamka project will be developed on a land strip of 2,515 m² located in Warsaw city centre at Tamka Street. The project will comprise around 64 units with an aggregate floor space of 5,600 m². The Company is considering commencing construction of the project before the end of 2013.

Copernicus

The Copernicus project will be developed on a land strip of 5,605 m² located in Poznań at Kościelna Street. The project will comprise 320 units with an aggregate floor space of 15,400 m². The first stage is to comprise 182 units with an aggregate floor space of 8,600 m². The Company is considering commencing construction of the first phase of this project during 2013.

b) New stages of running projects

Sakura III

The Sakura III project is a continuation of Sakura I and II projects. The project will comprise 145 units with an aggregate floor space of 7,400 m². The Company is considering commencing construction of this project during 2013.

Verdis III

The Verdis III project is a continuation of Verdis I and II. 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 2013.

Espresso II

The Espresso II project is continuation of Espresso I. The project will comprise 152 units with an aggregate floor space of 7,700 m². The Company is considering commencing construction of this project during 2013.

Impressio II

The Impressio II project is continuation of Impressio I. The project will comprise 147 units with an aggregate floor space of 8,100 m². The Company is considering commencing construction of this project during 2013.

Panoramika II

The Panoramika II project is continuation of Panoramika I. The project will comprise 61 units with an aggregate floor space of 4,200 m². The Company is considering commencing construction of this project during 2013.

Outlook for 2013 (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 2012

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 28). 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	35,823	Completed
Verdis I ^(*)	Warsaw	19,520	Completed
Sakura I ^(*)	Warsaw	4,270	Completed
Naturalis I ^(*)	Warsaw	3,544	Completed
Panoramika I ^(*)	Szczecin	2,858	Completed
Constans ^(*)	Warsaw	2,034	Completed
Impressio I ^(*)	Wrocław	1,559	Completed
Chilli I ^(*)	Poznań	1,398	Completed
Naturalis II ^(*)	Warsaw	357	Completed
Gemini I ^(*)	Warsaw	72	Completed
Subtotal completed projects		71,435	
Sakura II ^(**)	Warsaw	17,591	2013
Verdis II ^(**)	Warsaw	7,473	2013
Naturalis III ^(**)	Warsaw	3,567	2013
Chilli II ^(**)	Warsaw	620	2013
Espresso I ^(**)	Warsaw	26,031	2014
Młody Grunwald I ^(**)	Poznań	6,403	2014
Subtotal projects under construction		61,685	
Total		133,120	

^(*) For information on the completed projects see "Business highlights during the year ended 31 December 2012 – B. Results breakdown by project" (pages 17 to 19).

^(**) For information on current projects under construction, see "Outlook for 2013 – B. Current projects under construction" (pages 28 to 29).

E. Main risks and uncertainties during 2013

The economic situation in Europe and in Poland and the ongoing uncertainties in the housing market make it very difficult to predict results for 2013. 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 2013.

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 2013), 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 2013 Number of shares / % of shares	Change in number of shares	As of 31 December 2012 Number of shares / % of shares	Change in number of shares	As of 31 December 2011 Number of shares / % of shares
<i>Shares issued</i>	<i>272,360,000</i>	-	<i>272,360,000</i>	-	<i>272,360,000</i>
<i>Major shareholders:</i>					
I.T.R. 2012 B.V. (*)	87,449,187 32.1%	-	87,449,187 32.1%	87,449,187	-
I.T.R. Dori B.V. (*)	87,449,187 32.1%	-	87,449,187 32.1%	(87,449,187)	174,898,374 64.2%
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, the ITRD Partnership, 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 voting rights were previously held by I.T.R. Dori B.V.

Changes in ownership of shares and rights to shares by Management Board members in the year ended 31 December 2012 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 2012 and as at the day of publishing this report indirectly held 5.9% interest in the Company.
- Mr Israel Greidinger, as at 31 December 2012 and as at the day of publishing this report, indirectly held 7.06% of the shares and 7.59% of the voting rights in the Company.

Changes in ownership of shares and rights to shares by Supervisory Board members in the year ended 31 December 2012 and until the date of publication of the report

The members of the Supervisory Board did not individually own any shares and/or rights to shares in the Company during the period from 1 January 2012 until 5 March 2013.

Changes in the Management Board in the year ended 31 December 2012 and until the date of publication of the report

Karol Pilniewicz stepped down as managing director B effective on the day of 31 October 2012.

Changes in the Supervisory Board in the year ended 31 December 2012 and until the date of publication of the report

None

Directors' Report

Additional information to the report (cont'd)

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 defence 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 wilful 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.

Overview of the results during the three months ended 31 December 2012

The Company's net income for the three months ended 31 December 2012 was PLN 31,356 thousand and can be summarized as follows:

For the three months ended 31 December	2012	2011
<i>In thousands of Polish Zlotys (PLN)</i>	(Unaudited)	(Unaudited)
Revenue	125,319	35,412
Cost of sales	(86,854)	(23,799)
Gross profit	38,465	11,613
Changes in the value of investment property	(970)	
Selling and marketing expenses	(1,758)	(1,408)
Administrative expenses	(5,305)	(4,600)
Other expenses	(1,021)	(1,496)
Other income	38	266
Result from operating activities	29,449	4,375
Finance income	594	1,346
Finance expense	(543)	(158)
Net finance income	51	1,188
Profit before taxation	29,500	5,563
Income tax benefit	1,781	311
Profit for the period before non-controlling interests	31,281	5,874
Non-controlling interests	75	37
Net profit for the period attributable to the equity holders of the parent	31,356	5,911

Other

As of 31 December 2012, the Company has issued guarantees for bank loans granted to subsidiaries amounting to a total of PLN 32,719 thousand.

As of 31 December 2012, 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 2012:

- an increase in the provision for deferred tax liabilities of PLN 5,221 thousand (an increase of PLN 978 thousand during the year ended 31 December 2011).

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 2012, 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 2013.

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 2012 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 2012 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 16 July 2012. For information about agreed-upon engagements of the Company's auditor see note 15 of the Company Financial Statements.

Financial risk management, objectives and policies

For information on the financial risk management, objectives and policies see note 36 of the Consolidated Financial Statements.

The Management Board

Shraga Weisman
 Chief Executive Officer

Tomasz Łapiński
 Chief Financial Officer

Andrzej Gutowski
 Sales and Marketing Director

Israel Greidinger

Ronen Ashkenazi

Rotterdam, 5 March 2013

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 2012 of Ronson Europe N.V., Rotterdam as set out on pages 37 to 101. The financial statements include the consolidated financial statements and the company financial statements. The consolidated financial statements comprise the consolidated statement of financial position as at 31 December 2012, the consolidated statements of comprehensive income, changes in equity and cash flows for 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 balance sheet as at 31 December 2012, the company profit and loss account for the year then ended and the 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 Directors' 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. 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 2012 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.

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 2012 and of its result for the year then ended in accordance with Part 9 of Book 2 of the Dutch Civil Code.

Auditor's Report

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 2013

Ernst & Young Accountants LLP

Signed by J.H. de Prie

Consolidated Financial Statements for the year ended 31 December 2012**Consolidated Statement of Comprehensive Income**

For the year ended 31 December		2012	2011
<i>In thousands of Polish Zlotys (PLN)</i>	<i>Note</i>		
Revenue	7	198,759	96,674
Cost of sales	8	(148,352)	(73,986)
Gross profit		50,407	22,688
Changes in the value of investment property	17	(970)	-
Selling and marketing expenses	9	(6,200)	(5,058)
Administrative expenses	10	(15,972)	(15,161)
Other expenses	12	(1,953)	(2,863)
Other income	13	967	1,218
Result from operating activities		26,279	824
Finance income	14	3,433	5,209
Finance expense	14	(1,441)	(602)
Net finance income		1,992	4,607
Profit before taxation		28,271	5,431
Income tax benefit	15	3,040	1,326
Profit for the year		31,311	6,757
Other comprehensive income		-	-
Total comprehensive income for the year, net of tax before attributable		31,311	6,757
Total comprehensive income attributable to:			
equity holders of the parent		31,655	6,826
non-controlling interests		(344)	(69)
Total comprehensive income for the year, net of tax		31,311	6,757
Weighted average number of ordinary shares (basic and diluted)	28	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)	28	0.116	0.025

The notes on pages 42 to 90 are an integral part of these consolidated financial statements.

Consolidated Financial Statements for the year ended 31 December 2012

Consolidated Statement of Financial Position

As at 31 December		2012	2011
<i>In thousands of Polish Zlotys (PLN)</i>	<i>Note</i>		
Assets			
Non-current assets			
Property and equipment	16	8,660	8,949
Investment property	17	8,279	9,249
Loans granted to third parties	18	1,043	928
Loans granted to related parties	19	7,704	-
Deferred tax assets	20	11,798	5,843
Total non-current assets		37,484	24,969
Current assets			
Inventory	21	668,080	631,317
Trade and other receivables and prepayments	22	30,661	12,354
Income tax receivable		2,422	187
Short-term bank deposits – collateralized	24	2,944	2,512
Cash and cash equivalents	25	44,928	94,622
Total current assets		749,035	740,992
Total assets		786,519	765,961

The notes on pages 42 to 90 are an integral part of these consolidated financial statements.

Consolidated Financial Statements for the year ended 31 December 2012

Consolidated Statement of Financial Position (cont'd)

As at 31 December		2012	2011
<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		152,223	120,568
Equity attributable to equity holders of the parent	26	455,858	424,203
Non-controlling interests	27	3,910	4,254
Total equity		459,768	428,457
Liabilities			
Non-current liabilities			
Floating rate bond loans	29	86,756	86,180
Secured bank loans	29	39,893	21,746
Loans from third parties	29	13,932	5,726
Other payables		816	384
Deferred tax liability	20	11,530	6,309
Total non-current liabilities		152,927	120,345
Current liabilities			
Trade and other payables and accrued expenses	30	38,090	31,832
Floating rate bond loans	29	1,657	1,667
Secured bank loans	29	65,319	95,965
Advances received	31	68,492	87,391
Income tax payable		35	43
Provisions	32	231	261
Total current liabilities		173,824	217,159
Total liabilities		326,751	337,504
Total equity and liabilities		786,519	765,961

The notes on pages 42 to 90 are an integral part of these consolidated financial statements.

Consolidated Financial Statements for the year ended 31 December 2012

Consolidated Statement of Changes in Equity

For the years ended 31 December 2012 and 31 December 2011:

	<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 2011	20,762	282,873	113,742	417,377	-	417,377
Non-controlling interest arising on acquisition of newly consolidated subsidiary (see note 27)	-	-	-	-	4,323	4,323
<i>Comprehensive income:</i>						
Profit for the year ended 31 December 2011	-	-	6,826	6,826	(69)	6,757
Other comprehensive income	-	-	-	-	-	-
Total comprehensive income	-	-	6,826	6,826	(69)	6,757
Balance at 31 December 2011	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

The notes on pages 42 to 90 are an integral part of these consolidated financial statements

Consolidated Financial Statements for the year ended 31 December 2012

Consolidated Statement of Cash Flows

For the year ended 31 December		2012	2011
<i>In thousands of Polish Zlotys (PLN)</i>	<i>Note</i>		
Cash flows from/(used in) operating activities			
Profit for the period		31,311	6,757
<i>Adjustments to reconcile profit for the period to net cash used in operating activities:</i>			
Depreciation	10,16	745	622
Decrease in the value of investment property	17	970	-
Finance expense	14	1,441	602
Finance income	14	(3,433)	(5,209)
Profit on sale of property and equipment	13	(177)	(18)
Write-down of inventory	21	4,957	-
Income tax benefit	15	(3,040)	(1,326)
Subtotal		32,774	1,428
Decrease/(increase) in inventory	38	(23,749)	(57,831)
Decrease/(increase) in trade and other receivables and prepayments	38	(18,307)	1,353
Increase/(decrease) in trade and other payables and accrued expenses	38	6,690	12,951
Increase/(decrease) in provisions	32	(30)	(6,119)
Increase/(decrease) in advances received		(18,899)	43,044
Subtotal		(21,521)	(5,174)
Interest paid		(18,068)	(14,628)
Interest received		3,295	4,581
Income tax received/(paid)		63	324
Net cash from/(used in) operating activities		(36,231)	(14,897)
Cash flows from/(used in) investing activities			
Acquisition of property and equipment	16	(692)	(1,202)
Acquisition of / additions to investment property	17	-	(509)
Investment in other current financial assets	23	-	(39,452)
Proceeds from sales of other current financial assets	23	-	40,002
Acquisition of subsidiary, net of cash acquired	5	-	(1,341)
Short-term bank deposits – collateralized		(432)	(927)
Loans granted to related parties		(7,488)	-
Loans granted to third parties		-	(5,635)
Proceeds from sale of property and equipment		779	20
Net cash from/(used in) investing activities		(7,833)	(9,044)
Cash flows from/(used in) financing activities			
Proceeds from bank loans		36,750	1,946
Bank charges		(1,426)	(631)
Proceeds from bond loans, net of issue costs		-	85,775
Repayment of loans received from third parties		-	(2,317)
Loans received from third parties		7,488	-
Repayment of loans received from related parties		-	(52,948)
Repayment of bank loans		(48,442)	(8,150)
Net cash from/(used in) financing activities		(5,630)	23,675
Net change in cash and cash equivalents		(49,694)	(266)
Cash and cash equivalents at beginning of the year		94,622	94,888
Cash and cash equivalents at end of the year	25	44,928	94,622

The notes on pages 42 to 90 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 2012, 32.1% of the outstanding shares are controlled by I.T.R. 2012 B.V., 32.1% of the outstanding shares are controlled by I.T.R. Dori B.V. (cooperating in ITRD Partnership), whereas 15.3% of the outstanding shares are held by GE Real Estate CE Residential B.V. ('GE Real Estate') and the remaining 20.5% 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 held or indirectly by the Company as at 31 December 2012, are presented below and on the following page.

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.

Entity name	Year of incorporation	Share of ownership & voting rights at the end of	
		31 December 2012	31 December 2011
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%

(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.

Consolidated Financial Statements for the year ended 31 December 2012

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 2012	31 December 2011
a. held directly by the Company (cont'd):			
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. (previously Ronson Development Nautica 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%	n.a.
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. (previously Ronson Development sp. z o.o.- Community 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. (previously Ronson Development Sp. z o.o.- Landscape 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. (previously Ronson Development Sp. z o.o. - Eclipse Sp.k.)	2009	100.0%	100.0%
47. Ronson Development Sp. z o.o.-Apartments 2011 Sp.k. (previously Ronson Development Sp. z o.o.- Magellan Sp.k.)	2009	100.0%	100.0%
48. Ronson Development Sp. z o.o.-Idea Sp.k. (previously Ronson Development Sp. z o.o. - Monet Sp.k.)	2009	100.0%	100.0%
49. Ronson Development Sp. z o.o.-Destiny 2011 Sp.k. (previously Ronson Development Sp. z o.o.-Orion Sp.k.)	2009	100.0%	100.0%
50. Ronson Development Partner 2 Sp. z o.o. - Enterprise 2011 Sp.k. (previously Ronson Development Sp. z o.o. - Osiedle Hrabskie Sp.k.)	2009	100.0%	100.0%
51. Ronson Development Partner 2 Sp. z o.o. - Retreat 2011 Sp.k. (previously Ronson Development Sp. z o.o. - Plejada Sp.k. and Ronson Development Sp. z o.o. - Retreat 2011 Sp.k.)	2009	100.0%	100.0%
52. Ronson Development Sp. z o.o.-Wrocław 2011 Sp.k.(previously Ronson Development Sp. z o.o.-Renoir Sp.k.)	2009	100.0%	100.0%
53. Ronson Development Sp. z o.o. - 2011 Sp.k. (previously Ronson Development Sp. z o.o.- Renaissance Sp.k.)	2009	100.0%	100.0%
54. Ronson Development Sp. z o.o. - Gemini 2 Sp.k. (previously Ronson Development Sp. z o.o. - Tamka Sp.k.)	2009	100.0%	100.0%
55. Ronson Development Sp. z o.o.- Verdis Sp.k. (previously Ronson Development Sp. z o.o.- Copernicus Sp.k.)	2009	100.0%	100.0%
56. Ronson Espresso Sp. z o.o. (previously Landex Sp. z o.o.)	2006	68.4%	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. (previous name Ronson Development Gemini Sp. z o.o. and Ronson Development Invest p. zo.o.)	2010	50.0%	100.0%
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.(previously Ronson Development 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.	2012	50.0%	n.a.

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

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 2012, 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 of the Company 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 2013.

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 33.

(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 17 – investment property
- Note 20 – utilization of tax losses
- Note 21 – inventory
- Note 22 – trade and other receivables and prepayments
- Note 32 – provisions
- Note 34 – 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)

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

The Company is not recognizing deferred tax asset in relation to temporary difference between tax value and book value of the contributions.

(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.

(e) 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 2012:

- Amendment to IFRS 7 *Financial Instruments – Disclosures: Transfer of Financial Assets* – effective for financial years beginning on or after 1 July 2011.

The adoption of these amendments did not have impact on the financial position or performance of the Group.

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.

(ii) Revenue on finance leases

Finance lease income is recognized based on the annuity method under which total finance lease interest income and the excess of scheduled lease payments over the cost of the related assets is deferred and amortized as income over the lease term by employing the effective interest rate that provides a constant periodic rate of return on the net investment in the lease.

(iii) Revenue on operating leases

Payments received under operating leases are recognized in the statement of comprehensive income on a straight-line basis over the term of the lease.

Notes to the Consolidated Financial Statements

3. Significant accounting policies (cont'd)

(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, 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.

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
	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 3 to 7 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

(i) 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)

(e) Leases (cont'd)

(ii) Operating leases – lessor accounting

The Group is the lessor of a property to a third party under a operating lease agreement. The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at inception date: whether fulfillment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset.

Leases where the Group does not transfer substantially all the risks and benefits of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognized over the lease term on the same bases as rental income. Contingent rents are recognized as revenue in the period in which they are earned.

(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 subcontractors for the construction of residential units,
- 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 in 2011 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

The Group operates a share-based incentive plan. 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.

(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

4. Standards issued but not yet effective

The following new standards, amendments to standards and interpretations have been issued but are not effective for 2012 and have not been adopted early:

- The first phase of IFRS 9 *Financial Instruments: Classification and Measurement* – effective for financial years beginning on or after 1 January 2015 – not endorsed by EU till the date of approval of these financial statements. In subsequent phases, the IASB will address hedge accounting and impairment. The application of the first phase of IFRS 9 will have impact on classification and measurement of the financial assets of the Group. The Group will quantify the effect in conjunction with the other phases, when issued, to present a comprehensive picture,
- Amendments to IAS 19 *Employee Benefits* - effective for financial years beginning on or after 1 January 2013,
- Amendments to IAS 1 *Presentation of Financial Statements: Presentation of Items of Other Comprehensive Income* - effective for financial years beginning on or after 1 July 2012,
- Amendments to IAS 12 *Income Taxes: Deferred Tax: Recovery of Underlying Assets* – effective for financial years beginning on or after 1 January 2012 – in EU effective at the latest for financial years beginning on or after 1 January 2013,
- Amendments to IFRS 1 *First-time Adoption of International Financial Reporting Standards: Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters* – effective for financial years beginning on or after 1 July 2011 – in EU effective at the latest for financial years beginning on or after 1 January 2013,
- 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,
- 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,
- 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,
- Amendments to IFRS 10, IFRS 11 and IFRS 12 *Transition Guidance* - effective for financial years beginning on or after 1 January 2013 – not endorsed by EU till the date of approval of these financial statements,
- IFRS 13 *Fair Value Measurement* - effective for financial years beginning on or after 1 January 2013,
- 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,
- 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,
- IFRIC 20 *Stripping Costs in the Production Phase of a Surface Mine* - effective for financial years beginning on or after 1 January 2013,
- Amendments to IFRS 7 *Financial Instruments – Disclosures: Offsetting Financial Assets and Financial Liabilities* - effective for financial years beginning on or after 1 January 2013,
- 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 1 *First-time Adoption of International Financial Reporting Standards: Government Loans* – effective for financial years beginning on or after 1 January 2013 – not endorsed by EU till the date of approval of these financial statements,
- *Improvements to IFRSs* (issued in May 2012) – effective for financial years beginning on or after 1 January 2013 – not endorsed by EU till the date of approval of these financial statements,
- 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 – not endorsed by EU till the date of approval of these financial statements.

Notes to the Consolidated Financial Statements

5. Acquisition of a controlling interest (in 2011)

On 23 December 2010, the Group had acquired 57.8% of the equity of Ronson Espresso Sp. z o.o. ('Espresso', previously known as Landex Sp. z o.o.) whereby a contractual arrangement existed according to which joint control over the economic activities of the entity was established. As a result, the Group recognized its interest in the joint venture using the proportionate consolidation method.

On 6 June 2011, the Group acquired an additional 10.6% of the equity of Espresso for PLN 1,450 thousand in cash, thereby increasing its ownership to 68.4% and gaining control over this entity. Simultaneously, the Group acquired a loan receivable amounting to PLN 1,816 thousand. The purchase price for the loan receivable was equal to its book value. The transaction was accounted for as an asset deal and not as a business combination. Therefore the requirements of IFRS 3 Business Combination were not applicable.

The net identifiable assets of Espresso as at the date of acquisition and the net amount transferred as part of the transaction were as follows:

	As at transaction date (6 June 2011)
<i>In thousands of Polish Zlotys (PLN)</i>	
Cash and cash equivalents	259
Inventory	30,759
Other current assets	1,015
Non-current assets	193
Current liabilities	(745)
Non-current liabilities	(18,500)
Total net identifiable assets (100%)	12,981
Less: interest already acquired in prior year (57.8%)	(7,208)
Non-controlling interest (31.6%)	(4,323)
Portion of net identifiable assets acquired (10.6%)	1,450
Less: cash and cash equivalents in interest acquired (42.2%)	(109)
Purchase of shares in newly consolidated entity, net of cash acquired	1,341

The acquisition of additional (10.6%) shares in Espresso as well as the acquisition of loan receivable were concluded on an arms' length terms whereby the prices are reflecting the fair value of these transactions.

Notes to the Consolidated Financial Statements

6. 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 one particular entity 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 items comprise head office expenses and income tax assets and liabilities and unallocated cash and cash equivalents.

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

*In thousands of Polish Zlotys
(PLN)*

As at 31 December 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

*In thousands of Polish Zlotys
(PLN)*

As at 31 December 2011

	Warsaw			Poznań		Wrocław		Szczecin		Unallocated	Total
	Apartments	Houses	Rental	^Apartments	Houses	^Apartments	Houses	^Apartments	Houses		
Segment assets	347,600	63,405	9,195	94,050	-	90,068	3,606	63,582	7,373	-	678,879
Unallocated assets	-	-	-	-	-	-	-	-	-	87,082	87,082
Total assets	347,600	63,405	9,195	94,050	-	90,068	3,606	63,582	7,373	87,082	765,961
Segment liabilities	181,636	14,844	-	31,714	-	5,912	-	17,279	-	-	251,385
Unallocated liabilities	-	-	-	-	-	-	-	-	-	86,119	86,119
Total liabilities	181,636	14,844	-	31,714	-	5,912	-	17,279	-	86,119	337,504

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6. Segment reporting (cont'd)

In thousands of Polish Zlotys
(PLN)

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

In thousands of Polish Zlotys
(PLN)

For the year ended 31 December 2011

	Warsaw			Poznań		Wrocław		Szczecin		Unallocated	Total
	Apartments	Houses	Rental	Apartments	Houses	Apartments	Houses	Apartments	Houses		
Revenue	50,594	28,341	649	17,090	-	-	-	-	-	-	96,674
Segment result	12,262	(945)	317	5,141	-	(496)	(5)	(389)	(5)	-	15,880
Unallocated result	-	-	-	-	-	-	-	-	-	(15,056)	(15,056)
Result from operating activities	12,262	(945)	317	5,141	-	(496)	(5)	(389)	(5)	(15,056)	824
Net finance income	216	45	-	149	-	(4)	(1)	16	-	4,186	4,607
Profit before tax	12,478	(900)	317	5,290	-	(500)	(6)	(373)	(5)	(10,870)	5,431
Income tax benefit	-	-	-	-	-	-	-	-	-	-	1,326
Profit for the year											6,757
Capital expenditure	-	-	-	-	-	-	-	-	-	1,202	1,202

Notes to the Consolidated Financial Statements

7. Revenue

For the year ended 31 December	2012	2011
<i>In thousands of Polish Zlotys (PLN)</i>		
Gemini II	68,655	-
Verdis I	29,166	-
Sakura I	42,853	-
Impressio I	17,689	-
Constans	8,106	16,037
Naturalis I	1,535	-
Naturalis II	7,630	-
Imaginarium II	749	2,092
Imaginarium III	7,413	31,831
Panoramika I	6,375	-
Chilli I	4,221	-
Nautica I	588	7,466
Nautica II	1,074	3,761
Galileo	896	17,090
Gardenia	683	12,304
Imaginarium I	-	639
Gemini I	-	4,526
Other	1,126	928
Total revenue	198,759	96,674

8. Cost of sales

For the year ended 31 December	2012	2011
<i>In thousands of Polish Zlotys (PLN)</i>		
Gemini II	40,155	-
Verdis I	18,707	-
Sakura I	32,725	-
Impressio I	16,739	-
Constans	8,106	15,450
Naturalis I	1,326	-
Naturalis II	6,544	-
Imaginarium II	573	1,468
Imaginarium III	5,516	21,157
Panoramika I	6,124	-
Chilli I	3,871	-
Nautica I	520	5,759
Nautica II	928	2,186
Galileo	591	11,445
Gardenia	680	12,224
Imaginarium I	-	362
Gemini I	-	3,410
Write-down of inventory	4,957	-
Other	290	525
Total cost of sales	148,352	73,986

Notes to the Consolidated Financial Statements

9. Selling and marketing expenses

For the year ended 31 December	2012	2011
<i>In thousands of Polish Zlotys (PLN)</i>		
Advertising	5,265	4,181
Brokerage fees	417	368
Other	518	509
Total selling and marketing expenses	6,200	5,058

10. Administrative expenses

For the year ended 31 December	<i>Note</i>	2012	2011
<i>In thousands of Polish Zlotys (PLN)</i>			
Personnel expenses	<i>11</i>	11,053	9,431
External services		2,610	3,284
Materials and energy		612	680
Depreciation		745	622
Taxes and charges		178	429
Other		774	715
Total administrative expenses		15,972	15,161

11. Personnel expenses

For the year ended 31 December	<i>Note</i>	2012	2011
<i>In thousands of Polish Zlotys (PLN)</i>			
Wages and salaries		9,687	8,233
Social security and other benefits		1,366	1,198
Total personal expenses		11,053	9,431
Average number of personnel employed^(*)		60	55

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

Notes to the Consolidated Financial Statements

12. Other expenses

For the year ended 31 December	2012	2011
<i>In thousands of Polish Zlotys (PLN)</i>		
Maintenance expense of unsold units	702	831
Cost of repairs and defects	623	75
Expense for contractual penalties and compensation	223	605
Civil activity taxes on contributions	109	705
Impairment of trade receivables ⁽¹⁾	10	237
Cost of research and due diligence of new projects	138	229
Other expense	148	181
Total other expense	1,953	2,863

(1) For additional information see note 22.

13. Other income

For the year ended 31 December	2012	2011
<i>In thousands of Polish Zlotys (PLN)</i>		
Revenues from contractual penalties and compensation	179	521
Rental income from inventory	554	422
Net profit on sale of property and equipment	177	18
Other income	57	257
Total other income	967	1,218

Notes to the Consolidated Financial Statements

14. Finance income and expense

For the year ended 31 December 2012			
<i>In thousands of Polish Zlotys (PLN)</i>	Total amount	Amount capitalized	Recognized in the 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 measured at amortized cost	(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
For the year ended 31 December 2011			
<i>In thousands of Polish Zlotys (PLN)</i>	Total amount	Amount capitalized	Recognized in the statement of comprehensive income
Interest on granted loans	244	-	244
Interest income on bank deposits	4,219	166	4,053
Foreign exchange gain	72	-	72
Income from other current financial assets (see Note 23)	550	-	550
Other Finance income	290	-	290
Finance income	5,375	166	5,209
Interest expense on financial liabilities measured at amortized cost	(16,036)	(15,901)	(135)
Foreign exchange loss	(114)	-	(114)
Commissions and fees	(1,133)	(947)	(186)
Other finance expense	(167)	-	(167)
Finance expense	(17,450)	(16,848)	(602)
Net finance income/(expense)	(12,075)	(16,682)	4,607

Notes to the Consolidated Financial Statements

15. Income tax

For the year ended 31 December	2012	2011
<i>In thousands of Polish Zlotys (PLN)</i>		
Current tax		
Current period	63	139
Taxation in respect of previous periods	(2,369)	(125)
Total current tax (benefit)/expense	(2,306)	14
Deferred tax		
Origination and reversal of temporary differences	5,825	5,249
Benefit of tax losses recognized	(6,559)	(6,589)
Total deferred tax benefit	(734)	(1,340)
Total income tax benefit	(3,040)	(1,326)
Reconciliation of effective tax rate		
<i>In thousands of Polish Zlotys (PLN)</i>		
For the year ended 31 December		
Profit for the period	31,311	6,757
Total income tax expense	(3,040)	(1,326)
Profit excluding income tax	28,271	5,431
<i>Expected income tax using the Polish tax rate (19%)</i>	5,371	1,032
Tax effect of:		
Netherlands tax rates	186	(222)
Taxes in respect of previous periods	(2,369)	(125)
Non-deductible expenses, net	29	23
Movement in unrecognized deferred tax assets	7,448	(232)
Adjustment for reduced tax rate in foreign currency	151	(153)
Recognition and utilization of the deferred tax asset in connection with the organizational restructuring of the Group.	(14,655)	(863)
Other differences	799	(786)
Tax benefit for the period	(3,040)	(1,326)
Effective tax rate	-10.75%	-24.42%

Notes to the Consolidated Financial Statements

16. Property and equipment

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
For the year ended 31 December 2011				
	Vehicles	Equipment	Building	Total
<i>In thousands of Polish Zlotys (PLN)</i>				
Cost or deemed cost				
Balance at 1 January	932	843	8,482	10,257
Additions	185	924	93	1,202
Disposals	(20)	-	-	(20)
Closing balance	1,097	1,767	8,575	11,439
Depreciation and impairment losses				
Balance at 1 January	585	507	794	1,886
Depreciation for the period	166	276	180	622
Disposals	(18)	-	-	(18)
Closing balance	733	783	974	2,490
Carrying amounts				
At 1 January	347	336	7,688	8,371
Closing balance	364	984	7,601	8,949

Impairment loss

In the years ended 31 December 2012 and 31 December 2011, the Group did not recognize any impairment loss with respect to Property and equipment.

Notes to the Consolidated Financial Statements

17. Investment property

For the year ended 31 December	2012	2011
<i>In thousands of Polish Zlotys (PLN)</i>		
Balance at 1 January	9,249	8,740
Acquisitions and investments	-	509
Change in fair value during the year	(970)	-
Balance as at 31 December, including:	8,279	9,249
<i>Cost</i>	<i>3,647</i>	<i>3,647</i>
<i>Fair value adjustments</i>	<i>4,632</i>	<i>5,602</i>

As at 31 December 2012, the investment property included property held for long-term rental yields and capital appreciation, and were not occupied by the Group. The investment property consists of a plot of land in Warsaw (71, Gwiaździsta Street) and an office building with an aggregate usable floor space of 1,318 m² located on this plot that leased to third parties under lease agreements with an indefinite term subject to a three-month notice period for termination.

Investment property is valued at fair value determined 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, however the Managements results were more conservative. Investment property was valued based on the discounted cash flow approach, including the assumption as to an annual discount rate of 9.0% (during a 6 year forecast period), a capitalization exit yield of 7.0%, a monthly rate of PLN 38/m² and a long term vacancy rate of 10%. The assumptions as at the end of 2011 included: an annual discount rate of 10%, a monthly rent of 43/m² and a vacancy rate of 8%,

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 2012, had been 100 basis points higher than was the case at that time, the value of the investments would have been 12% lower. In this situation, the Company's shareholders' equity would have been 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.

18. Loans granted to third parties

The loans are granted to one of the shareholders of Ronson Espresso Sp. z o.o. (previously known as Landex Sp. z o.o.). The loans mature in 2014 and bear an interest rate of 13.5% since the date of granting the loan and until 13th of April 2013 and interest rate of 15% for the remaining period. As at 31 December 2012, the balance of the loans granted to third parties included an amount of PLN 850 thousand as nominal loan amount and an amount of PLN 193 thousand as accrued interest. 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.

Notes to the Consolidated Financial Statements

19. Loans granted to related parties

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 and bear an interest calculated at the beginning of each calendar year based on the latest interest rate as charged on the construction credit/loan granted by the banks to the Group and increased by 2%. As at 31 December 2012, the balance of the loans granted to related parties included an amount of PLN 7,488 thousand as nominal loan amount and an amount of PLN 216 thousand as accrued interest.

20. 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 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 15)		(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

Notes to the Consolidated Financial Statements

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

The tax losses carried forward expire in the following years:

<i>In thousands of Polish Zlotys (PLN)</i>	As at 31 December 2012
2013	2,767
2014	4,259
2015	7,199
2016	5,456
2017	1,932
After 2017	-
Total deferred tax asset in respect of tax losses carried forward	21,613

<i>In thousands of Polish Zlotys (PLN)</i>	Opening balance 1 January 2011	Recognized in the statement of comprehensive income	Acquisition of newly consolidated subsidiaries	Closing balance 31 December 2011
Deferred tax assets				
Tax loss carry forward	8,385	6,589	80	15,054
Accrued interest	80	604	56	740
Accrued expense	386	(106)	-	280
Other	720	(266)	-	454
Total deferred tax assets	9,571	6,821	136	16,528
Deferred tax liabilities				
Difference between tax base and carrying value of inventory	10,394	4,596	55	15,045
Accrued interest	-	300	-	300
Fair value gain on investment property	1,064	-	-	1,064
Other	-	585	-	585
Total deferred tax liabilities	11,458	5,481	55	16,994
Total deferred tax benefit (see Note 15)		(1,340)		
Deferred tax assets	9,571			16,528
Deferred tax liabilities	11,458			16,994
Offset of deferred tax assets and liabilities for individual companies	(6,127)			(10,685)
Deferred tax assets reported in the statement of financial position	3,444			5,843
Deferred tax liabilities reported in the statement of financial position	5,331			6,309

Notes to the Consolidated Financial Statements

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

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 is not recognizing deferred tax asset on consolidation level resulting from contributions as the recoverability of such assets is uncertain.

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 132,489 thousand. Taxable profit realized by the Group companies amounted to PLN 9,319 thousand for the year ended 31 December 2012. 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 2011	Tax losses expired	Additions/ (Realizations)	Balance 31 December 2011	Tax losses expired	Additions/ (Realizations)	Balance 31 December 2012
Tax losses	4,107	(588)	(1,156)	2,363	(3,083)	8,223	7,503
Total	4,107	(588)	(1,156)	2,363	(3,083)	8,223	7,503

Unrecognized deferred tax assets in the Netherlands

<i>In thousands of Polish Zlotys</i>	Balance 01 January 2011		Realizations		Balance 31 December 2011		Realizations		Balance 31 December 2012	
	PLN	EUR	PLN	EUR	PLN	EUR	PLN	EUR	PLN	EUR
Tax losses	1,743	440	924	164	2,667	604	(775)	(141)	1,892	463
Total	1,743	440	924	164	2,667	604	(775)	(141)	1,892	463

Notes to the Consolidated Financial Statements

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

Tax losses carry forward

Tax losses carried forward in Poland

As at 31 December	2012			2011		
	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 2007 carried forward	-	-	-	-	4,426	4,426
Tax loss 2008 carried forward	14,563	388	14,951	11,839	6,438	18,277
Tax loss 2009 carried forward	11,715	11,605	23,320	20,893	146	21,039
Tax loss 2010 carried forward	37,129	16,538	53,667	12,369	355	12,724
Tax loss 2011 carried forward	32,450	8,030	40,480	34,133	1,071	35,204
Tax loss 2012 carried forward	17,893	2,930	20,823	-	-	-
Total tax losses carried forward	113,750	39,491	153,241	79,234	12,436	91,670

Basing on the court verdict issued in during 2012 the Group recognized and utilized additional tax losses.

Tax losses carried forward in the Netherlands

As at 31 December	2012			2011		
	Recognized tax losses	Unrecognized tax losses	Total tax losses	Recognized tax losses	Unrecognized tax losses	Total tax losses
<i>In thousands of EUR</i>						
Tax loss 2007 carried forward	-	361	361	-	925	925
Tax loss 2008 carried forward	-	835	835	-	835	835
Tax loss 2011 carried forward	-	655	655	-	655	655
Total tax losses carried forward	-	1,851	1,851	-	2,415	2,415

As at 31 December	2012			2011		
	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 2007 carried forward	-	1,476	1,476	-	4,086	4,086
Tax loss 2008 carried forward	-	3,413	3,413	-	3,688	3,688
Tax loss 2011 carried forward	-	2,678	2,678	-	2,893	2,893
Total tax losses carried forward	-	7,567	7,567	-	10,667	10,667

Notes to the Consolidated Financial Statements

21. 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 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.

Consolidated Financial Statements for the year ended 31 December 2012

Notes to the Consolidated Financial Statements

21. Inventory (cont'd)

For the year ended 31 December 2011:

<i>In thousands of Polish Zlotys (PLN)</i>	Opening balance 01 January 2011	Share in work in progress of a joint venture	Transferred to finished goods	Additions	Closing balance 31 December 2011
Land and related expense	380,257	12,711	(11,033)	17,208	399,143
Construction costs	23,069	85	(25,570)	107,255	104,839
Planning and permits	17,845	230	(1,055)	4,852	21,872
Borrowing costs ⁽¹⁾	47,419	211	(2,874)	16,682	61,438
Other	2,216	38	(563)	1,936	3,627
Work in progress	470,806	13,275	(41,095)	147,933	590,919

<i>In thousands of Polish Zlotys (PLN)</i>	Opening balance 01 January 2011	Transferred from work in progress	Recognized in the statement of comprehensive income	Closing balance 31 December 2011
Finished goods	74,610	41,095	(75,208)	40,497

<i>In thousands of Polish Zlotys (PLN)</i>	Opening balance 01 January 2011	Revaluation write down recognized in statement of comprehensive income		Closing balance 31 December 2011
		Increase	Utilization	
Write-down	(1,887)	-	1,788	(99)
Total inventories at the lower of cost or net realizable value	543,529			631,317

(1) Borrowing costs are capitalized to the value of inventory with 8.1% 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 2012 and 2011 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 2012 and 31 December 2011, the Group made a write-down adjustment of PLN 4,957 thousand and a write-down adjustment in the total amount of nil, 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	2012	2011
<i>In thousands of Polish Zlotys (PLN)</i>		
Valued at cost	652,768	630,637
Valued at net realizable value	15,312	680
Total inventory	668,080	631,317

Notes to the Consolidated Financial Statements

21. Inventory (cont'd)

Balance sheet value of inventory used to secure loans received from banks (mortgage):

As at 31 December	2012	2011
<i>In thousands of Polish Zlotys (PLN)</i>		
Balance sheet value of inventory	338,837	366,156
Amount of secured bank loans	105,212	117,711

For information about future commitments to the general contractor for construction services related to inventory construction, see Note 34.

22. Trade and other receivables and prepayments

As at 31 December	2012	2011
<i>In thousands of Polish Zlotys (PLN)</i>		
Value added tax (VAT) receivables	4,774	9,474
Trade and other receivables	2,884	1,686
Prepayments	1,464	1,194
Advances for land purchase	21,539	-
Total trade and other receivables and prepayments	30,661	12,354

As at 31 December 2012 and 31 December 2011, the Group had no allowance for doubtful debts. During the year ended 31 December 2012 and 31 December 2011, the Group wrote down an amount of PLN 10 thousand and PLN 237 thousand, respectively as irrecoverable debts included in trade and other receivables.

23. Other current financial assets

During the year ended 31 December 2011, the Group acquired shares in the open end investment fund Idea Premium SFIO managed by Idea Towarzystwo Funduszy Inwestycyjnych S.A., which investment was presented in the Statement of Financial Positions as other current financial assets. The investment was disposed of also during the year ended 31 December 2011, having generated a net return and a net positive cash flow of PLN 550 thousand during the financial year 2011, which amount is included as finance income in the Consolidated Statement of Comprehensive Income (see Note 14).

24. Short-term bank deposits – collateralized

As at 31 December	2012	2011
<i>In thousands of Polish Zlotys (PLN)</i>		
Deposits collateral for securing the repayment of interest related to the credit facilities provided to the Group	2,097	2,185
Deposits collateral for construction loans	847	327
Total short-term bank deposits – collateralized	2,944	2,512

Notes to the Consolidated Financial Statements

24. Short-term bank deposits – collateralized (cont'd)

The interest rates earned on these deposits vary from 2% to 4.5% on an annual basis.

For information about the fair value of short-term bank deposits - collateralized see note 33.

For information about the pledge over short term bank deposits see Note 29.

25. 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	2012	2011
<i>In thousands of Polish Zlotys (PLN)</i>		
Cash at bank and in hand	16,429	16,918
Short-term deposit	28,499	77,704
Total cash and cash equivalents	44,928	94,622

Cash at bank earns interest at floating rates based on daily bank deposit rates. As at 31 December 2012 and 31 December 2011 the Group held overnight deposits and in saving accounts amounting to PLN 12,588 thousand and PLN 14,002 thousand, respectively. As at 31 December 2012 and 31 December 2011 the overnight deposits and in saving accounts that earn interest rates varying between 2% - 4.3% and 2% - 4.5%, 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 2012 and 31 December 2011, they earn interest at the respective short-term deposit rates varying between 4% - 4.4% and 5% - 5.5%, respectively.

For information about the fair value of cash and cash equivalents see Note 33.

For information about the pledge over cash and cash equivalents see Note 29.

26. Shareholders' equity

A. 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 2012 and as at 31 December 2011 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.

B. Share-based payments

During the fourth quarter of 2007, a long-term incentive plan (the 'Plan') was implemented. The persons eligible for participation in the Plan are the employees of the Group, including the members of the Management Board. Under the Plan, share options are granted to members of the Management Board and selected employees. The exercise price of the granted options is determined by the Supervisory Board on the date of granting the share options and shall not be less than the fair market value at the time of the grant of the options. Options are conditional on the employee being employed or Board members at the time the options are exercisable (vesting period) and can only be settled in shares. Options granted shall vest over three and five years, one third and one fifth in each year after one year from the date of grant, respectively.

Notes to the Consolidated Financial Statements

26. Shareholders' equity (cont'd)

B. Share-based payments (cont'd)

On 5 November 2007, a total of 1,900,000 options with an exercise price of PLN 5.75 per share were granted to selected employees of the Company. Of the above total, 700,000 options will vest over a three year period and the remaining 1,200,000 options will vest over five years, while having an optional term of five and seven years, respectively. The latter options were granted to Mr Dror Kerem, former President of the Management Board and former Chief Executive Officer of the Company.

During the year ended 31 December 2012, employees that joined the option programme (granted in 2007) had not exercised any of their options. Following the resignation of key management employees during 2008 and 2010, a total of 1,260,667 options ceased to exist. The details regarding the number of the options outstanding as of 31 December 2012 are provided below:

Vesting dates	Number of options			
	Granted	Expired	Cancelled	Outstanding
5 November 2008	473,333	(183,333)	(50,000)	240,000
5 November 2009	473,333	(60,000)	(317,333)	96,000
5 November 2010	473,334	(60,000)	(413,334)	-
5 November 2011	240,000	-	(240,000)	-
5 November 2012	240,000	-	(240,000)	-
Total	1,900,000	(303,333)	(1,260,667)	336,000

The weighted average fair value of options granted in 2007 using the Black-Scholes valuation model was approximately PLN 2.75 per option. The significant inputs into the model were a weighted average share price of PLN 5.75 at the grant date, the exercise price mentioned above, volatility of 50%, dividend yield of 0%, an option life of five years and seven years, an annual risk free rate of 6% and estimation that 70% from the employed will implement the options.

There was no impact of the share-based payment on the financial statements of the Company during the year ended 31 December 2012 and 31 December 2011.

27. Non-controlling interests

Movements in non-controlling interests during the year ended 31 December 2012 and 31 December 2011 are as follows:

As at 31 December	2012	2011
<i>In thousands of Polish Zlotys (PLN)</i>		
Opening balance	4,254	-
Non-controlling interest Ronson Espresso Sp. z o.o. at transaction date (6 June 2011) ⁽¹⁾	-	4,323
Comprehensive income (loss) attributable to non-controlling interests	(344)	(69)
Closing balance	3,910	4,254

(1) For additional information see Note 5.

Notes to the Consolidated Financial Statements

28. 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, as 31 December 2012 all the 336,000 outstanding option were out-side the money (see note 26) there for the impact on the diluted earnings per share was nil.

Weighted average number of ordinary shares (basic):

For the year ended 31 December	2012	2011
Net profit attributable to equity holders of the parent company (PLN thousands)	31,655	6,826
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	0.116	0.025

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

Notes to the Consolidated Financial Statements

29. Loans and borrowings

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 36.

As at 31 December	2012	2011
<i>In thousands of Polish Zlotys (PLN)</i>		
Non-current loans and borrowings		
Floating rate bonds	86,756	86,180
Secured bank loans	39,893	21,746
Loans from third parties	13,932	5,726
Total non-current loans and borrowings	140,581	113,652
Current loans and borrowings		
Floating rate bonds	1,657	1,667
Secured bank loans	65,319	95,965
Total current loans and borrowings	66,976	97,632
Total loans and borrowings	207,557	211,284

Floating rate bonds:

On 18 April 2011, the Company issued 5,134 series A bonds with an aggregate nominal value of PLN 51,340 thousand and 3,616 series B bonds with an aggregate nominal value of PLN 36,160 thousand. The nominal value of one bond amounts to PLN 10 thousand and is equal to its issue price. The bonds shall be redeemed on 18 April 2014 at nominal value, whereby the Company has the right to early redeem any number of the series B bonds which early redemption is to be effected either on 18 April 2013 or 18 October 2013. Interest is payable semi-annually in April and October 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 18 April 2014, 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. As 31 December 2012 all covenants were met.

The bonds are not secured.

Covenants on secured bank loans:

As at 31 December 2012 and 2011, 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.

Notes to the Consolidated Financial Statements

29. Loans and borrowings (cont'd)

Terms and debt repayment schedule

Terms and conditions of outstanding loans are as follows:

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 subsidiaries	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.

For the bank loans the following collateral was given:

- Ordinary and floating mortgages on Inventory (of real estate units), see Note 21.
- 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 10,147 thousand and PLN 3,308 thousand as at 31 December 2012 and 31 December 2011, respectively.
- Deposits guarantee for interests on credits, see Note 24.
- Assignment of receivables arising from insurance agreement and from the agreements concluded with clients.
- Subordination agreement on loans from related parties.
- Blank promissory note drawn by particular subsidiary companies with a promissory note declaration up to the amount of the loan plus interest.
- Advance payments of dividends by the borrowers until full repayment of loans are not allowed.

Consolidated Financial Statements for the year ended 31 December 2012

Notes to the Consolidated Financial Statements

29. Loans and borrowings (cont'd)

Loans as at 31 December 2011:

<i>In thousands of Polish Zlotys (PLN)</i>	Currency	Nominal interest rate	Year of maturity	Capital	Accrued interest	Charges and fees	Carrying value
		Wibor 6M + 4.25%					
Floating rate bonds series A	PLN		2014	51,340	948	(775)	51,513
Floating rate bonds series B	PLN	Wibor 6M + 4.95%	2014	36,160	719	(545)	36,334
Subtotal (floating rate bonds)				87,500	1,667	(1,320)	87,847
Bank Loans	PLN	Wibor 1M + Bank's margin	2012	40,362	230	(45)	40,547
Bank Loans	PLN	Wibor 3M + Bank's margin	2012	55,407	42	-	55,449
Bank Loans	PLN	Wibor 3M + Bank's margin	2013	21,988	23	(296)	21,715
Subtotal (bank)				117,757	295	(341)	117,711
Loans from non-controlling interest granted to consolidated subsidiaries (Espresso)	PLN	9.3% ⁽¹⁾	2016	5,245	481	-	5,726
Subtotal (third parties)				5,245	481	-	5,726
Total				210,502	2,443	(1,661)	211,284

(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 quarter.

30. Trade and other payables and accrued expenses

As at 31 December	2012	2011
<i>In thousands of Polish Zlotys (PLN)</i>		
Trade payables	18,305	21,659
Guarantees for construction work ⁽¹⁾	4,603	2,774
Accrued expenses	12,222	4,866
Value added tax (VAT) and other tax payables	1,503	822
Non-trade payables	1,457	1,711
Total trade and other payables and accrued expenses	38,090	31,832

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

31. 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	2012	2011
<i>In thousands of Polish Zlotys (PLN)</i>		
Gemini II	27,401	42,967
Verdis I	13,335	11,335
Sakura II	9,273	-
Espresso I	9,081	587
Naturalis I	2,542	1,130
Verdis II	2,044	-
Naturalis III	1,346	-
Panoramika I	1,000	1,110
Sakura I	601	17,366
Chilli I	558	572
Młody Grunwald I	550	
Naturalis II	323	2,330
Constans	203	129
Impressio I	101	4,688
Nautica I	27	145
Chilli II	35	-
Imaginarium III	5	4,448
Galileo	-	356
Nautica II	-	93
Gemini I	-	71
Gardenia	-	9
Other	67	55
Total	68,492	87,391

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

32. Provisions

For the year ended 31 December	2012	2011
<i>In thousands of Polish Zlotys (PLN)</i>		
Balance at the beginning of the year	261	6,504
Increase/(decrease)	(30)	(6,243)
Balance at the end of the year	231	261

As at 31 December 2012, the provision included expected necessary costs of guarantees for construction works amounting to PLN 231 thousand, whereas as at 31 December 2011, the provision included expected necessary costs of guarantees for construction works amounting to PLN 261 thousand.

Notes to the Consolidated Financial Statements

33. Fair value estimation

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>	<i>As at</i>	
			<i>31 December 2012</i>	
			Carrying amount	Fair value
Assets:				
Trade and other receivables	<i>Loans and receivables</i>	22	24,423	24,423
Short-term bank deposits – collateralized	<i>Loans and receivables</i>	24	2,944	2,928
Loans granted to third parties	<i>Loans and receivables</i>	18	1,043	1,072
Loans granted to related parties	<i>Loans and receivables</i>	19	7,704	7,364
Cash and cash equivalents	<i>Held for trading</i>	25	44,928	44,928
Liabilities:				
Secured bank loans	<i>Other financial liabilities</i>	29	105,212	105,051
Floating rate bonds	<i>Other financial liabilities</i>	29	88,413	89,177
Loans from third parties	<i>Other financial liabilities</i>	29	13,932	13,152
Trade and other payables and accrued expenses	<i>Other financial liabilities</i>	30	36,587	36,587
Unrecognized gain				(150)

<i>In thousands of Polish Zlotys (PLN)</i>	<i>Category</i>	<i>Note</i>	<i>As at</i>	
			<i>31 December 2011</i>	
			Carrying amount	Fair value
Assets:				
Trade and other receivables	<i>Loans and receivables</i>	22	1,686	1,686
Short-term bank deposits – collateralized	<i>Loans and receivables</i>	24	2,512	2,491
Loans granted to third parties	<i>Loans and receivables</i>	18	928	964
Cash and cash equivalents	<i>Held for trading</i>	25	94,622	94,622
Liabilities:				
Secured bank loans	<i>Other financial liabilities</i>	29	117,711	115,185
Floating rate bonds	<i>Other financial liabilities</i>	29	87,847	87,595
Loans from third parties	<i>Other financial liabilities</i>	29	5,726	5,726
Trade and other payables and accrued expenses	<i>Other financial liabilities</i>	30	31,010	31,010
Unrecognized gain				2,793

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 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 at rates currently 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 at rates currently offered to the Group for similar instruments of comparable maturities by the Group's bankers.

Notes to the Consolidated Financial Statements

33. Fair value estimation (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 2012 and 31 December 2011 and are as follows:

As at 31 December	2012	2011
Loans and borrowings	7.03%-9.04%	8.49%-9.95%
Short-term bank deposits – collateralized	4.13%	4.50%

34. Commitments and contingencies

Investment commitments:

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

For the year ended 31 December	2012	2011
<i>In thousands of Polish Zlotys (PLN)</i>		
Espresso I	25,514	-
Młody Grunwald I	24,995	-
Verdis II	13,889	-
Sakura II	4,206	26,188
Naturalis III	2,972	11,917
Chilli II	2,201	-
Gemini II	1,916	33,141
Verdis I	1,668	20,103
Panoramika I	1,388	9,973
Naturalis I	491	5,972
Naturalis II	-	2,779
Sakura I	-	5,303
Chilli I	-	3,673
Impressio I	-	622
Constans	-	184
Imaginarium III	-	178
Total	79,240	120,033

Other commitments:

According to the conditions of the termination agreement concluded with Mr Kerem on 3 September 2008, the consulting agreement between him and the Company and its subsidiary expired as of end of March 2009 ('Expiration Date'). As at the Expiration Date of the consulting agreement, 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 of 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 of the Expiration Date.

Contingent liabilities:

As at 31 December 2012, the Group did not have any contingents liabilities.

Notes to the Consolidated Financial Statements

34. Commitments and contingencies (cont'd)

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.

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 2012 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	2012	2011
<i>In thousands of Polish Zlotys (PLN)</i>		
Espresso I	16,950	5,540
Gemini II	8,616	41,100
Sakura II	8,333	-
Verdis I	6,215	15,020
Młody Grunwald I	5,868	-
Verdis II	5,428	-
Sakura I	3,669	9,981
Naturalis III	2,221	-
Panoramika I	1,864	1,611
Constans	1,831	1,165
Impressio I	1,458	5,446
Naturalis I	1,002	1,877
Chilli I	846	2,699
Chilli II	584	-
Gemini I	47	36
Naturalis II	34	2,145
Nautica II	-	1,528
Imaginarium III	-	1,095
Nautica I	-	565
Gardenia	-	675
Galileo	-	946
Total	64,966	91,429

35. Related parties

Parent company

The Company enters into various transactions with its shareholders, subsidiaries and with its directors and executive officers. The Company's immediate shareholders are I.T.R. 2012 B.V., I.T.R. Dori B.V., GE Real Estate CE Residential 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 2012. For a list of subsidiaries reference is made to Note 1(b).

The main related parties' transactions arise on:

- loans received,
- transactions with key management personnel,
- loans granted to the joint venture,
- other.

Notes to the Consolidated Financial Statements

35. Related parties (cont'd)

Outstanding balances with related parties as at 31 December 2012 and as at 31 December 2011 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.

Loans received

During the year ended 31 December 2011, the Group repaid 100% of the loans received from related parties including accrued interest amounting to PLN 54.5 million, and did not receive any loans from related parties in this period.

Transactions with key management personnel

As at 31 December 2012, 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

Loans to directors

As at 31 December 2012 and 31 December 2011, there were no loans granted to directors.

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 2012 and 31 December 2011. Key management personnel compensation can be presented as follows:

As at 31 December	2012	2011
<i>In thousands of Polish Zlotys (PLN)</i>		
<i>Mr Shraga Weisman, Chief Executive Officer</i>		
Salary and other short term employee benefits	1,562	1,539
Management bonus	935	182
<i>Subtotal - Mr Shraga Weisman</i>	2,497	1,721
<i>Mr Tomasz Łapiński, Chief Financial Officer</i>		
Salary and other short term employee benefits	522	522
Management bonus	211	40
<i>Subtotal - Mr Tomasz Łapiński</i>	733	562
<i>Mr Andrzej Gutowski, Sales and Marketing Director</i>		
Salary and other short term employee benefits	311	311
Management bonus	144	197
<i>Subtotal - Mr Andrzej Gutowski</i>	455	508
Total	3,685	2,791

Notes to the Consolidated Financial Statements

35. Related parties (cont'd)

Supervisory Board remuneration

The Supervisory Board of the Company consists of 6 members; 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). 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 2012 is PLN 242 thousand (EUR 58 thousand; 2011: PLN 221 thousand (EUR 54 thousand)).

Loans granted to the joint venture

The loans are granted to the joint venture, Ronson IS sp. z o.o. Sp.k.. For additional information see note 19.

Other

As a result of requirements (indirectly) pertaining to I.T.R. Dori B.V., one of the Company's larger shareholders, whose ultimate parent company is 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 the ultimate parent company of I.T.R. Dori B.V. 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.

36. Financial risk management, objectives and policies

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, price risk and interest rate risk), credit risk and liquidity risk. The Group's overall risk management 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 2012 and 2011, 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. The Group has various other financial instruments such as financial lease receivables, trade debtors and trade creditors, which arise directly from its 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 2012	As at 31 December 2011
Trade and other receivables	4,348	2,880
Short-term bank deposits - collateralized	2,944	2,512
Cash and cash equivalents	44,928	94,622
Total	52,220	100,014

Notes to the Consolidated Financial Statements

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

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:

	As at 31 December 2012	As at 31 December 2011
<i>In thousands of Polish Zloty (PLN)</i>		
Rating		
AAA	13	11
AA	-	1,764
A	26,076	76,715
BBB	17,521	15,620
CCC	-	512
No available information	1,318	-
Total cash at banks and short-term bank deposits	44,928	94,622

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, loans from related parties, 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 2012 and 2011, trade receivables 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 2012 and 2011.

(iii) Interest rate risk

The Group's fixed-rate borrowings are exposed to a risk of change in their fair value due to changes in interest rates. 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. The Company repaid all its fixed-rate borrowings (shareholder loans) during 2011.

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 shareholders loans.

Consolidated Financial Statements for the year ended 31 December 2012

Notes to the Consolidated Financial Statements

36. 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 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	25	0.05%-0.3%	3,841	3,841	-	-	-	-
Loans granted to third parties	18	13.50%	1,043	-	-	1,043	-	-
Short-term bank deposits - collateralized	24	2.5%-4.5%	2,944	2,944	-	-	-	-
Variable rate instruments								
Loans granted to related parties	19	9.2% ⁽¹⁾	7,704	-	-	-	7,704	-
Cash and cash equivalents	25	WIBOR + 0.1% - 0.5%	41,087	41,087	-	-	-	-
Secured bank loans	29	WIBOR + Bank's margin	105,212	137	65,182	22,434	17,459	-
Loans from others	29	9.3% ⁽²⁾	13,932	-	-	-	13,932	-
Floating rate bonds	29	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 quarter.

As at 31 December 2011								
<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	25	0.05%-0.3%	2,917	2,917	-	-	-	-
Loans granted to third parties	19	13.50%	928	-	-	928	-	-
Short-term bank deposits - collateralized	24	2%-3%	2,512	2,512	-	-	-	-
Variable rate instruments								
Cash and cash equivalents	25	WIBOR + 0.1%-0.5%	91,705	91,705	-	-	-	-
Secured bank loans	29	WIBOR + bank's margin	117,711	11,284	84,681	21,746	-	-
Loans from others	29	9.3% ⁽¹⁾	5,726	-	-	-	5,726	-
Floating rate bonds	29	WIBOR 6M + 4.25%-4.95%	87,847	1,667	-	-	86,180	-

⁽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 every quarter.

Notes to the Consolidated Financial Statements

36. 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 2012		As at 31 December 2011	
	Increase by 1%	Decrease by 1%	Increase by 1%	Decrease by 1%
Statement of comprehensive income				
Variable interest rate assets	162	(162)	306	(306)
Variable interest rate liabilities *	(688)	688	(702)	702
Total	(526)	526	(396)	396
Net assets				
Variable interest rate assets	162	(162)	306	(306)
Variable interest rate liabilities *	(688)	688	(702)	702
Total	(526)	526	(396)	396

* 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 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	-
<i>In thousands of Polish Zlotys (PLN)</i>	As at 31 December 2011			
	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Loans and borrowings	112,082	32,083	98,202	-
Trade and other payables	31,010	-	-	-
Total	143,092	32,083	98,202	-

Notes to the Consolidated Financial Statements

36. 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

37. Capital management

When managing capital, it is the Group's objective to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure, the Group may adjust the profit appropriation, return capital to shareholders, issue new shares or sell assets to reduce debt. Consistent with others in the industry, the Group monitors capital on the basis of the gearing ratio and leverage. The Group's policy is to keep the gearing ratio of the Group lower than 65%, 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 the total liabilities shall not exceed 75% of total assets (total balance sum) of the Company. 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 2012 and 31 December 2011 were as follows:

As at 31 December	2012	2011
<i>In thousands of Polish Zlotys (PLN)</i>		
Loan and borrowings, including current portion	207,557	211,284
Less: cash and cash equivalents	(44,928)	(94,622)
Net debt	162,629	116,662
Total equity	459,768	428,457
Total capital employed	622,397	545,119
Gearing ratio	35.4%	27.2%
Leverage	26.1%	21.4%

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 covenants, nor did it default on any other of its obligations under its loan agreements.

As at 31 December 2012 the Groups' market capitalization was below the value of net assets. The Management took appropriate steps to review the accounts in respect if there is any additional impairment required and found no basis for it. The Management verified that the forecasted margin on inventory significantly exceed the negative value between the market capitalization and the net assets.

Notes to the Consolidated Financial Statements

38. Cash flow reconciliation

Inventory

For the year ended 31 December	2012	2011
<i>In thousands of Polish Zlotys (PLN)</i>		
Balance sheet change in inventory	(36,763)	(87,788)
Finance expense, net capitalized into inventories	18,337	16,682
Investment in newly consolidated subsidiaries	-	13,275
Write-down of inventory	(4,957)	
Inventory transferred into fixed assets	(366)	-
Change in inventory in the consolidated statement of cash flows	(23,749)	(57,831)

Trade and other receivables and prepayments

For the year ended 31 December	2012	2011
<i>In thousands of Polish Zlotys (PLN)</i>		
Balance sheet change in trade and other receivables and prepayments	(18,307)	926
Investment in joint venture	-	427
Change in trade and other receivables and prepayments in the consolidated statement of cash flows	(18,307)	1,353

Trade and other payables and accrued expenses

For the year ended 31 December	2012	2011
<i>In thousands of Polish Zlotys (PLN)</i>		
Balance sheet change in trade and other payables and accrued expenses	6,690	13,263
Investment in joint venture	-	(312)
Change in trade and other payables and accrued expenses in the consolidated statement of cash flows	6,690	12,951

Notes to the Consolidated Financial Statements

39. Events during the financial year

Land purchase

In March 2012, the Group acquired a parcel of land with an area of 2,600 m² located in Wrocław, Krzyki District, at Jutrzenki Street ("Land 2"). Land 2 is located nearby a plot of land with an area of 14,900 m² which the Group had purchased in the past ("Land 1"). In combination, Land 1 and Land 2 shall allow the Group to build multifamily buildings that will comprise 300 units with an aggregate floor space of 16,100 m². The purchase price paid is presented in the Consolidated Financial Statements under Inventory.

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. It is assumed that the project planned in this plot shall comprise nearly 650 units with the total aggregate floor space of 50,000 m²; for additional information see the current report no. 5/2012 (dated 7 June 2012). The advance paid is presented in the Consolidated Financial Statements under Trade and other receivables and prepayments.

In August 2012, the Group through a joint venture entity (Ronson IS Sp. z o.o. sp.sk.), in which the Group holds a 50% interest ("JV"), signed the final purchase agreement for a plot of land with an area of 8,900 m² located in Warsaw, district Wola at Skierniewicka and Wolska Streets. It is assumed that the project planned in this plot shall comprise nearly 550 units with the total aggregate floor space of 24,500 m². The purchase price paid is presented in the Consolidated Financial Statements under Inventory.

Bank loans

In January 2012, the Company entered into annexes to loan facilities with Millennium Bank for financing land acquisitions for a total amount of PLN 11.0 million. The repayment dates were extended to 30 July 2012. In July 2012, the Company entered into further annexes to loan facilities with Millennium Bank and the repayment dates have been extended to 29 July 2013, however the Company is obliged to repay PLN 2.2 million before final repayment date in monthly installments of PLN 0.2 million.

In April 2012, the Company entered into a loan agreement with Alior Bank S.A. for financing the construction costs of the first stage of the Espresso project (Warsaw, Jana Kazimierza Street) for a total amount of PLN 41.0 million. The repayment date of this loan is 31 March 2015.

In May 2012, the Company entered into an annex to the loan agreement with Bank Pekao S.A. with respect to the financing of the Sakura project (Warsaw, Kłobucka Street). Based on the annex to the loan agreement, the bank extended its financing also to the second stage of Sakura project (up to a total amount of PLN 33.5 million). The repayment date of the tranche available for the second stage of this project is 30 September 2014. Based on the signed annex, the repayment date of 50% of the loan granted in the past for financing the land purchase in this project (PLN 10.0 million) was extended also to 30 September 2014.

In July 2012, the Company entered into annexes to loan facilities with Bank BZWBK with an aggregate value of PLN 55.4 million granted in the past with respect to financing land purchases. The annexes provided that the respective final repayment dates specified in the Loan Agreements were postponed from 1 July 2012 until 31 August 2012.

In August 2012, the Company entered into further annexes to Loan Agreements with Bank BZWBK, based on which the respective final repayment dates were postponed until 30 September 2012.

In September 2012, the Company and Bank BZWBK entered into the new construction facility agreement related to development of the first stage of project Młody Grunwald in Poznań, for total amount of PLN 24.6 million and final repayment date 2 January 2015. Moreover the Company and the Bank BZWBK entered into new annexes postponing final repayment dates specified in the abovementioned Loan Agreements from 31 August 2012 until 1 July 2013 (in the amount of PLN 40.9 million) and until 2 January 2015 (in the amount of PLN 12.3 million related to project Młody Grunwald). In addition, the Company repaid PLN 2.2 million which decreased the total balance of the loans granted to the Company by BZWBK for financing land acquisitions from PLN 55.4 million to PLN 53.2 million.

Notes to the Consolidated Financial Statements

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

Completions of projects

In April 2012, the Group completed the construction of the Sakura I project comprising 120 units with a total area of 8,100 m².

In June 2012, the Group completed the construction of the Impressio I project comprising 70 units with a total area of 4,400 m².

In July 2012, the Group completed the construction of the Chilli I project comprising 30 units with a total area of 2,100 m².

In August 2012, the Group completed the construction of the Naturalis II project comprising 60 units with a total area of 3,400 m².

In October 2012, the Group completed the construction of the Panoramika I project comprising 90 units with a total area of 5,300 m².

In December 2012, the Group completed the construction of the Naturalis I project comprising 52 units with a total area of 2,900 m².

In December 2012, the Group completed the construction of the Verdis I project comprising 139 units with a total area of 9,400 m².

In December 2012, the Group completed the construction of the Gemini II project comprising 182 units with a total area of 13,900 m².

Commencements of new projects

In February and May 2012, the Company commenced sales of the Verdis II project. In total the Verdis II project will comprise 78 units with an aggregate floor space of 4,900 m².

In March 2012, the Group commenced the construction of the Espresso I project (the sales process commenced earlier) comprising 210 units with an aggregate floor space of 9,500 m².

In April 2012, the Company commenced sales of new projects Młody Grunwald and Bełchatowska 28 as well as the next stages of currently run projects Chilli.

In May 2012, the Group commenced the construction of the Chilli II project (the sales process commenced earlier) comprising 20 units with an aggregate floor space of 1,600 m².

In August 2012, the Group commenced the construction of the Verdis II project (the sales process commenced earlier) comprising 78 units with an aggregate floor space of 4,900 m².

In September 2012, the Group commenced the construction of the Młody Grunwald I project (the sales process commenced earlier) comprising 148 units with an aggregate floor space of 8,500 m².

40. Subsequent events

No subsequent events.

Company Financial Statements for the year ended 31 December 2012

Company Income Statement

For the year ended 31 December		2012	2011
<i>In thousands of Polish Zlotys (PLN)</i>	<i>Note</i>		
Revenues from consulting services		3,729	3,488
General and administrative expense	3	(3,942)	(3,130)
Operating profit/(loss)		(213)	358
Finance income	5	9,945	6,806
Finance expense	5	(8,867)	(6,435)
Net finance income		1,078	371
Profit before taxation		865	729
Income tax	6	-	-
Profit before result from subsidiaries		865	729
Result from subsidiaries after taxation	8	30,790	6,097
Profit for the year		31,655	6,826

The notes on pages 95 to 101 are an integral part of these Company financial statements.

Company Statement of Financial Position

After profit appropriation

As at 31 December		2012	2011
<i>In thousands of Polish Zlotys (PLN)</i>	<i>Note</i>		
Assets			
Investment in subsidiaries	8	439,196	403,503
Loan granted to subsidiaries	9	96,553	101,419
Total non-current assets		535,749	504,922
Trade and other receivables and prepayments		456	269
Receivable from subsidiaries		1,127	3,994
Loan granted to subsidiaries	9	10,479	1,756
Cash and cash equivalents		1,293	5,104
Total current assets		13,355	11,123
Total assets		549,104	516,045
Equity			
Shareholders' equity	10		
Share capital		20,762	20,762
Share premium reserve		282,873	282,873
Revaluation reserve		3,474	4,173
Retained earnings		148,749	116,395
Total shareholders' equity		455,858	424,203
Liabilities			
Long-term liabilities			
Floating rate bond loans	11	86,756	86,180
Total long-term liabilities		86,756	86,180
Current liabilities			
Floating rate bond loans	11	1,657	1,667
Accrued interest on loans from subsidiaries		3,310	3,310
Trade and other payables and accrued expenses		1,523	685
Total current liabilities		6,490	5,662
Total liabilities		93,246	91,842
Total shareholders' equity and liabilities		549,104	516,045

The notes on pages 95 to 101 are an integral part of these Company financial statements.

Company Financial Statements for the year ended 31 December 2012

Company Statement of Changes in Equity

For the years ended 31 December 2012 and 31 December 2011:

<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 2011	20,762	282,873	4,173	109,569	417,377
Net profit for the year ended 31 December 2011	-	-	-	6,826	6,826
Balance at 31 December 2011	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

The notes on pages 95 to 101 are an integral part of these Company financial statements.

Company Statement of Cash Flows

For the year ended 31 December	2012	2011
<i>In thousands of Polish Zlotys (PLN)</i>	<i>Note</i>	
Cash flows from operating activities		
Profit for the year	31,655	6,826
<i>Adjustments to reconcile profit for the period to net cash (used in)/from operating activities:</i>		
Net finance income, net	5 (1,078)	(371)
Net results subsidiaries during the year	8 (30,790)	(6,097)
Subtotal	(213)	358
Decrease/(increase) in trade and other receivables and prepayments	(187)	(200)
Decrease/(increase) in receivable from subsidiaries	2,867	265
Increase/(decrease) in trade and other payable and accrued expense	838	(390)
Subtotal	3,305	33
Interest paid, net	(8,203)	9,565
Net cash used in operating activities	(4,898)	9,598
Cash flows from investing activities		
Loans granted to subsidiaries, net of issue cost	-	(98,250)
Repayment of loans granted to subsidiaries	5,990	7,100
Dividend from subsidiary	8 6,100	13,932
Investment in subsidiaries	8 (11,003)	(28,451)
Net cash used in investing activities	1,087	(105,669)
Cash flows from financing activities		
Repayment of loans received from subsidiaries	-	(13,932)
Proceeds from bond loans, net of issue costs	-	85,775
Net cash from financing activities	-	71,843
Net change in cash and cash equivalents	(3,811)	(24,228)
Cash and cash equivalents at 1 January	5,104	29,332
Cash and cash equivalents at 31 December	1,293	5,104

The notes on pages 95 to 101 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 2012, 32.1% of the outstanding shares are held by I.T.R. 2012 B.V., 32.1% of the outstanding shares are held by ITR Dori B.V. (both cooperating in ITRD Partnership), whereas 15.3% of the outstanding shares are held by GE Real Estate CE Residential B.V. ('GE Real Estate') and the remaining 20.5% of the outstanding shares are held by the public.

The Company holds and owns (directly and indirectly) 72 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 36 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 the consulting services are fees charged from holding to subsidiaries and is it eliminated upon consolidation.

3. General and administrative expense

For the year ended 31 December	2012	2011
<i>In thousands of Polish Zlotys (PLN)</i>		
External services	909	990
Remuneration fees	2,869	2,051
Other	164	89
Total	3,942	3,130

Notes to the Company Financial Statements

4. Directors' remuneration

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 2012 and 31 December 2011. Key Management Board personnel compensation can be presented as follows:

As at 31 December	2012	2011
<i>In thousands of Polish Zlotys (PLN)</i>		
<i>Mr Shraga Weisman, Chief Executive Officer</i>		
Salary and other short term employee benefits	1,562	1,539
Management bonus	935	182
Subtotal - Mr Shraga Weisman	2,497	1,721
<i>Mr Tomasz Łapiński, Chief Financial Officer</i>		
Salary and other short term employee benefits	522	522
Management bonus	211	40
Subtotal - Mr Tomasz Łapiński	733	562
<i>Mr Andrzej Gutowski, Sales and Marketing Director</i>		
Salary and other short term employee benefits	311	311
Management bonus	144	197
Subtotal - Mr Andrzej Gutowski	455	508
Total	3,685	2,791

Mr Dror Kerem, former President of the Management Board and former Chief Executive Officer of the Company is in title to receive remuneration for additional information see Note 34 to the Consolidated Financial Statements.

Supervisory Board remuneration

The Supervisory Board of the Company consists of 6 members; 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). 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 2012 is PLN 242 thousand (EUR 58 thousand; 2011: PLN 221 thousand (EUR 54 thousand)) and can be presented as follows:

As at 31 December	2012	2011
<i>In thousands of Polish Zlotys (PLN)</i>		
<i>Mr Mark Segall</i>	65	71
<i>Mr Yair Shilhav</i>	65	68
<i>Mr Reuven Sharoni</i>	65	61
<i>Mr Przemyslaw Kowalczyk</i>	47	21
Total	242	221

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

Share and options on shares

During the years ended 31 December 2012 and 31 December 2011, the members of the Management Board and the members of the Supervisory Board did not receive rights to shares or options on shares. The rights to shares that issued to Mr Andrzej Gutowski during 2007 expired during 2012.

Notes to the Company Financial Statements

5. Net finance income and expense

For the year ended 31 December	2012	2011
<i>In thousands of Polish Zlotys (PLN)</i>		
Interests and fees on granted loans to subsidiaries	9,847	5,258
Interest income on bank deposits	98	1,483
Foreign exchange gain	-	65
Finance income	9,945	6,806
Interest expense on bonds measured at amortized cost	(8,262)	(5,633)
Interests on loans received from subsidiaries	-	(378)
Foreign exchange loss	(9)	-
Commissions and fees	(596)	(424)
Finance expense	(8,867)	(6,435)
Net finance income	1,078	371

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 accumulated tax losses available for carry forward as per 31 December 2012 are estimated to be EUR 1,851 thousand (2011: EUR 1,893 thousand) and expire as follows:

	As at 31 December 2012
<i>In thousands of Euros (EUR)</i>	
2013	-
2014	-
2015	-
2016	361
2017	835
After 2017	655
Total tax losses carry forward	1,851

Notes to the Company Financial Statements

7. Personnel

The Company did not employ any personnel during the financial years ended 31 December 2012 and 31 December 2011. 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	2012	2011
<i>In thousands of Polish Zlotys (PLN)</i>		
Balance at beginning of the year	403,503	382,887
Investments in subsidiaries	11,003	28,451
Net result subsidiaries during the year	30,790	6,097
Dividends received during the year	(6,100)	(13,932)
Balance at end of the year	439,196	403,503

Company Financial Statements for the year ended 31 December 2012

Notes to the Company Financial Statements

9. Loan granted to subsidiaries

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
	PLN	6% (*) Wibor 6M +	2013	7,360	2,502	-	9,862
	PLN	4.75% Wibor 6M +	2014	51,340	5,970	(465)	56,845
	PLN	5.45%	2014	36,160	4,510	(345)	40,325
Total loans granted to subsidiaries				94,860	12,982	(810)	107,032

Loans as at 31 December 2011:

<i>In thousands of Polish Zlotys (PLN)</i>	Currency	Nominal interest rate	Year of maturity	Capital	Accrued interest	Charges and fees	Carrying value
	PLN	6% (*) Wibor 6M +	2013	7,350	1,768	-	9,118
	PLN	4.75% Wibor 6M +	2014	51,340	1,000	(825)	51,515
	PLN	5.45%	2014	36,160	755	(610)	36,305
	PLN	6% (*)	2016	6,000	237	-	6,237
Total loans granted to subsidiaries				100,850	3,760	(1,435)	103,175

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

The loans are not secured.

Notes to the Company Financial Statements

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 2012 amounted to 272,360,000 (as at 31 December 2011: 272,360,000 shares).

According to Dutch Law, the Company has an amount (net of tax) of PLN 3,474 thousand (2011: PLN 4,173 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.

11. Floating rate bond loans

As at 31 December 2012, the floating rate bonds loan comprise a loan principal amount of PLN 87,500 thousand plus accrued interest of PLN 1,657 thousand minus costs directly attributed to the bond issuance (which are amortized based on the effective interest method) amounting to PLN 744 thousand. As 31 December 2012 all covenants were met.

For additional information see Note 29 to the Consolidated Financial Statements.

12. Commitments and contingencies

As at 31 December 2012, the Company had no commitments and contingencies other than the contingent commitment in relation to the termination agreement with its former Managing Director, Mr Kerem, as disclosed in Note 34 to the Consolidated Financial Statements.

13. Related party transactions

During the financial years ended 31 December 2012 and 31 December 2011, 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 36 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	2012	2011
<i>In thousands of Polish Zlotys (PLN)</i>		
Audit remuneration ⁽¹⁾	562	651
Reimbursed audit review costs ⁽²⁾	(101)	-
Total audit remuneration for the expense of the Company	461	651

⁽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 170 thousand (EUR 41 thousand) for 2012 and PLN 199 thousand (EUR 46 thousand) for 2011.

⁽²⁾ Costs in respect of the audit review of the Company's third quarter report have been reimbursed by one of the Company's shareholders. For an explanation reference is made to Note 35 to the Consolidated Financial Statements (under 'Other').

16. Subsequent events

For a description of the Company's subsequent events, reference is made to Note 40 to the Consolidated Financial Statements.

**Rotterdam,
5 March 2013**

The Management Board

Shraga Weisman
Chief Executive Officer

Tomasz Łapiński
Chief Financial Officer

Andrzej Gutowski
Sales and Marketing Director

Israel Greidinger

Ronen Ashkenazi

The Supervisory Board

Arie Mientkavich

Frank Roseen

Mark Segall

Yair Shilhav

Reuven Sharoni

Przemysław Kowalczyk

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 2012, Management proposes to allocate the net profit for the year 2012 amounting to PLN 31,655 thousand to retained earnings. This proposal has been reflected in the Company's Statement of Financial Position per 31 December 2012.

Subsequent events – other information

Refer to note 40 of the consolidated financial statements (page 90).

Auditor's report

The auditor's report is set up on pages 35 and 36.